NEXEN ETTRICK U.K. LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

A Company Registered in England and Wales, No. 3976014
Registered Office: Charter Place, Vine Street, Uxbridge, Middlesex UB8 1JG

NEXEN ETTRICK U.K. LIMITED

Report and financial statements 2011

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NEXEN ETTRICK U.K. LIMITED

Officers and professional advisors

DIRECTORS:	R N Fennell L T Harvey I A D Macaulay M J Schonberner A W Kennedy B Spaargaren
COMPANY SECRETARY:	S Kaul
REGISTERED OFFICE:	Charter Place Vine Street Uxbridge Middlesex UB8 1JG
BANKERS:	Bank of America 5 Canada Square London UE14 5AQ
SOLICITORS:	Norton Rose LLP 3 More London Riverside London SE1 2AQ
AUDITOR:	Deloitte LLP Chartered Accountants London, England

NEXEN ETTRICK U.K. LIMITED

Directors' Report

The Directors of Nexen Ettrick U K Limited (the "Company") present their report on the affairs of the Company together with the financial statements for the year ended 31 December 2011

Principal activity and future prospects

The principal activity of the Company is the exploration for and production of crude oil, natural gas and natural gas liquids on the UK Continental Shelf (UKCS)

Looking forward into 2012, the Company intends to continue to explore for and produce hydrocarbons on the UKCS

In addition, the Company will actively assess opportunities to acquire additional exploration and production acreage in the UKCS through acquisition and possible participation in future U K Licensing Rounds, to support exploration and production activity in ensuing years

Results, business review and dividends

The profit for the year amounts to $30 9 million (2010 loss of $10 1 million) The Ettrick/Blackbird field averaged 2,702 barrels of oil equivalent per day (boe/d) for the year and generated revenue of $105 6 million (2010 $80 1 million) The operating lease generated revenue of $154 2 million (2010 $194 9 million) The Directors have not recommended a payment of a dividend for the current year (2010 nil)

Key Performance Indicators (KPIs)

The following KPI's are used to assess the performance of the business

	2011	2010
Production (boe/d)	2,702	2,810
Sales (boe/d)	2,705	2,787
Reserves - proved and probable (million boe)	3 3	3 9
Realised oil price per barrel (bbl) ($)	113 67	81 90
Realised gas price (mcf) ($)	8 19	6 41

Ettrick/Blackbird

During the year, Nexen Petroleum U K Limited transferred to the Company a 17 57270% interest in the Blackbird field at a cost of $43million At 31 December 2011 the Company held a 15 46398% interest in the Ettrick field and 17 57270% in the Blackbird field

Ettrick is a producing field originally discovered in 1981 and brought on stream in 2009 Oil and gas is produced from the fields through seven subsea wells tied back to a leased FPSO The FPSO is designed to handle 30,000 bbls/d of oil and 35 mmcf/d of gas and to re-inject 55,000 bbls/d of water The produced oil is offloaded from the FPSO onto tankers and typically delivered to ports in the North Sea Production from the nearby Blackbird field came on stream late in 2011 and is produced through the Ettrick FPSO Nexen group share of production from Ettrick/Blackbird in 2011 was 14,000 boe/d We expect to drill two development wells in 2012, one in each field

Exploration

The Company has interests in one exploration license P273 block 20/3a in the U K central North Sea which is approximately 18 1 gross acres (approximately 11 2 net acres) with an interest of 61 8559%.

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Directors' Report (continued)

Finance lease

Durıng 2008, the Company entered ınto a lease and leaseback transactıon wıth ıts ımmedıate parent company, Nexen Petroleum U K Lımıted (the Parent), ın respect of plant and machınery assets ın use at the Buzzard producıng facılıty The parent leased these assets to the Company under a finance lease for theır remaınıng economıc lıfe and the Company ıs leasıng back the assets to ıts parent under a 7 ½ year operatıng lease

Prıncıpal risks and uncertaıntıes

For detaıls of the Company's financıal rısk management polıcy see Note 21

Goıng concern

After makıng enquırıes, the Dırectors have a reasonable expectatıon that the Company has adequate resources to contınue ın operatıonal exıstence for the foreseeable future based on the financıal resources held by the Company and a financıal support letter from ıts ımmedıate parent Company, Nexen Petroleum U K Lımıted Accordıngly, the Dırectors contınue to adopt the goıng concern basıs ın preparıng the annual report and financıal statements Further detaıls regardıng the adoptıon of the goıng concern basıs can be found ın the statement of accountıng polıcıes ın Note 2 to the financıal statements

Fırst tıme adoption of IFRS

The financıal statements of the Company have been prepared ın accordance wıth Internatıonal Fınancıal Reportıng Standards (IFRS) as adopted by the European Unıon These are the Company's first accounts prepared ın accordance wıth IFRS as adopted by the European Unıon for the year ended 31 December 2011

For all perıods up to and ıncludıng the year ended 31 December 2010, the Company prepared ıts financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (UK GAAP)

The accountıng polıcıes on pages 11 to 19 have been applıed ın preparıng the accounts for the year ended 31 December 2010 and 2011and the preparatıon of an openıng IFRS balance sheet at 1 January 2010 (the Company's date of transıtıon)

In preparıng ıts openıng IFRS balance sheet and accounts for the year ended 31 December 2010, the Company had adjustments to the amounts reported prevıously ın accounts prepared ın accordance wıth UK GAAP as descrıbed ın Note 23

Dırectors

The Dırectors of the Company durıng the year and sınce the year end were as lısted below

Dırectors	Date of Appoıntment	Date of Resignatıon
P D Addy	30 September 2007	27 July 2011
R N Fennell	01 October 2010	
L T Harvey	30 May 2008	
I A D Macaulay	20 January 2011	
A O'Brıen	08 March 2005	20 January 2011
P Oldham	12 February 2004	31 January 2012
M J Schonberner	28 August 2008	
A W Kennedy	01 February 2012	
B Spaargaren	01 January 2012	

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Directors' Report (continued)

Political and charitable donations

No political or charitable donations were made during the year ended 31 December 2011 (2010 Nil)

Post Balance Sheet events

On 27 February 2012 an application was made to the Cayman Islands Stock Exchange (the Exchange) for $510,131,398 outstanding of a $850,219,000 Promissory Note (the Note) issued by the Company to be listed on the Exchange, which was approved by the Exchange on the same date

Director's indemnities

The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association This provision, which is a qualifying third-party indemnity provision as defined by Section 236 of the Companies Act 2006, was in force throughout the financial year and is currently in force

Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that he/she ought to have taken as Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting

By Order of the Board

L Harvey

Director

M J Schonberner

Director

Date 30 April 2012

NEXEN ETTRICK U.K. LIMITED

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

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

Independent auditor's report to the members of Nexen Ettrick U.K. Limited

We have audited the financial statements of Nexen Ettrick UK Limited for the year ended 31 December 2011 which comprises of the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the related notes 1 to 23 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union

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

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' Responsibilities Statement, 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) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Bevan Whitehead (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

30 April 2012

NEXEN ETTRICK U.K. LIMITED
Statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011	2010
		US$'000	US$'000
Revenue	3	259,842	275,025
Cost of sales		(157,227)	(233,391)
Gross profit		102,615	41,634
Exploration costs written off		(295)	(240)
General and administrative expenses		(52)	(11)
Operating profit	4	102,268	41,383
Finance income	5	4,416	467
Finance costs	6	(28,625)	(35,173)
Profit before tax		78,059	6,677
Income tax expense	8	(47,166)	(16,782)
Profit/(loss) for the year		30,893	(10,105)
Total comprehensive income/(loss) for the year		30,893	(10,105)

Items dealt with in the above statement of comprehensive income relate to continuing operations

The accompanying notes 1 to 23 are an integral part of these financial statements

NEXEN ETTRICK U.K. LIMITED
Statement of financial position at 31 December 2011

	Notes	2011	2010	At 1 January 2010
		US$'000	US$'000	US$'000
Assets				
Non-current assets				
Property, plant and equipment - oil and gas properties	9	52,392	30,201	93,094
Other property, plant and equipment	10	812,990	913,408	1,046,813
Other receivables	11	539	879	1,219
Deferred tax assets	8	8,372	-	-
Total non-current assets		874,293	944,488	1,141,126
Current assets				
Inventories	12	1,372	1,575	525
Trade and other receivables	13	154,534	201,801	41,358
Cash and cash equivalents	14	4,067	8,925	28,680
Total current assets		159,973	212,301	70,563
Total assets		1,034,266	1,156,789	1,211,689
Equity and liabilities				
Equity				
Issued capital	15	401,126	401,126	401,126
Retained earnings		(26,224)	(57,117)	(47,012)
Total equity		374,902	344,009	354,114
Non-current liabilities				
Decommissioning provision	16	22,328	11,830	6,344
Other non-current liabilities	17	400,090	509,523	621,132
Deferred tax liabilities	8	-	9,093	43,251
Total non-current liabilities		422,418	530,446	670,727
Current liabilities				
Accounts payable, accrued and other liabilities	18	236,946	282,334	186,848
Total liabilities		659,364	812,780	857,575
Total equity and liabilities		1,034,266	1,156,789	1,211,689

The accompanying notes 1 to 23 are an integral part of these financial statements

The financial statements of Nexen Ettrick U K Limited, registration 3976014 were approved on behalf of the Board of Directors and authorised for issue on 30 April 2012 They were signed on its behalf by

L T Harvey
Director

M J Schonberner
Director

NEXEN ETTRICK U.K. LIMITED
Statement of changes in equity for the year ended 31 December 2011

	Notes	Share capital	Retained earnings	Total equity
		US$'000	US$'000	US$'000
As at 1 January 2010		401,126	(47,012)	354,114
Loss for the year		-	(10,105)	(10,105)
As at 31 December 2010		401,126	(57,117)	344,009
Profit for the year		-	30,893	30,893
As at 31 December 2011		401,126	(26,224)	374,902

The accompanying notes 1 to 23 are an integral part of these financial statements

NEXEN ETTRICK U.K. LIMITED
Cash flow statement
For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Operating activities			
Profit before tax		78,059	6,677
Depreciation, depletion and amortisation		133,834	214,650
Exploration costs written off		295	240
Unwinding of discount on abandonment and decommissioning provision		356	271
Finance income		(1,328)	(467)
Finance cost		28,269	34,902
Amortisation of prepayments and accrued income		340	340
Movement in working capital		(5,630)	(100,481)
Net cash flow from operating activities		234,195	156,132
Investing activities			
Purchase of oil and gas properties		(44,752)	(12,914)
Loan to Group undertakings		(79,000)	(50,000)
Net cash used in investing activities		(123,752)	(62,914)
Financing activities			
Repayment of borrowings		(115,301)	(112,973)
Net cash used in financing activities		(115,301)	(112,973)
Net increase in cash and cash equivalents		(4,858)	(19,755)
Cash and cash equivalents at 1 January		8,925	28,680
Cash and cash equivalents at 31 December	14	4,067	8,925

The accompanying notes 1 to 23 are an integral part of these financial statements

NEXEN ETTRICK U.K. LIMITED
Notes to the financial statements for the year ended 31 December 2011

1. Corporate information

The financial statements of Nexen Ettrick UK Limited for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 30 April 2012 The Company is a limited Company incorporated and domiciled in United Kingdom The registered office is located at Charter Place, Vine Street, Uxbridge, Middlesex, UB8 1JG

The principal activity of the Company is the exploration for and production of crude oil, natural gas and natural gas liquids on the UK Continental Shelf (UKCS)

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis The financial statements are presented in US dollar, and all values are rounded to the nearest thousand (US$'000) except when otherwise indicated

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as issued by International Accounting Standards Board ("IASB") IFRS includes the standards and interpretations approved by the IASB including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") The financial statements have been prepared under the historical cost convention The preparation of financial statements in conformity with IFRS 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 2 3

This is the Company's first financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied In accordance with IFRS 1 – First-time Adoption of International Financial Reporting Standards the Company presents three statements of financial position in its first IFRS financial statements

The Company's business activities, together with the factors likely to affect its future development are set out in the Directors' Report The financial position of the Company, its borrowings and available facilities are presented in the financial statements and supporting notes In addition, the Directors' Report addresses the Company's policy in managing liquidity risk and its exposure The Company obtains insurance cover to reduce the potential risks associated with the exploration and production activities In addition business interruption cover is purchased for a proportion of the cash flow from producing fields

Going Concern

The operating lease income from the Buzzard facility and hydrocarbon revenue from Ettrick and Blackbird fields provides the Company with financial resources to repay its maturing obligations Further, Nexen Petroleum U K Limited, the immediate parent company has confirmed it will make available sufficient funds to allow the Company to meet its liabilities as they fall due for the next twelve months Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements

2.2 Changes in accounting policy and disclosures

First time adoption of IFRS

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union These are the Company's first accounts prepared in accordance with IFRS as adopted by the European Union for the year ended 31 December 2011

For all periods up to and including the year ended 31 December 2010, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP)

2.2 Changes in accounting policy and disclosures (continued)

First time adoption of IFRS (continued)

The accounting policies on pages 11 to 19 have been applied in preparing the accounts for the year ended 31 December 2010 and 2011and the preparation of an opening IFRS balance sheet at 1 January 2010 (the Company's date of transition)

In preparing its opening IFRS balance sheet and accounts for the year ended 31 December 2010, the Company had made adjustments to the amounts reported previously in accounts prepared in accordance with UK GAAP as described in Note 23

Exemptions applied

IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain IFRS effective for December 2011 year-ends

Elected Exemptions from Full Retrospective Application:

- **Full Cost Exemption IFRS 1 Exemption (split Full Cost pool reserves or resources not under UK GAAP)**
  The Company has elected to adopt the 'Full Cost Exemption' on transition to IFRS, whereby the full cost pool is split into Exploration and Evaluation assets and Development and Production assets at the amount determined under UK GAAP Capitalised costs associated with Development or Production phase projects are then split into the underlying assets pro-rata using reserves volumes as at the year-end date The assets are then tested for impairment using IFRS 6 and IAS 36 principles

- **Decommissioning provision**
  The Company applied the exemption from full retrospective application of our decommissioning provision as permitted for first-time adoption of IFRS As such, we re-measured decommissioning provisions as at 1 January 2010 We estimated the amount to be included in the related asset by discounting the liability to the date when the obligation first arose using our best estimates of the historical risk-free discount rates applicable during the intervening period

Mandatory Exemptions from Full Retrospective Application

- **Estimates**
  Hindsight was not used to create or revise estimates and accordingly, our estimates previously made under UK GAAP are consistent with their application under IFRS

IFRS Pronouncements

As part of our transition to IFRS, we adopted IFRS accounting standards in effect on January 1, 2011

The following standards and interpretations have not been adopted as they apply to future periods They may result in future changes to our existing accounting policies and other note disclosures We are evaluating the impacts that these standards may have on our results of operations, financial position and disclosure, except where indicated

- IFRS 7 *Financial Instruments Disclosures* - in December 2011, the International Accounting Standards Board (IASB) issued final amendments to the disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013
- IFRS 9 *Financial Instruments* - in November 2009, the IASB issue IFRS 9 to address classification and measurement of financial assets In October 2010, the IASB revised the standard to include financial liabilities The standard is required to be adopted for periods beginning January 1, 2015 Portions of the standard remain in development and the full impact of the standard will not be known until the project is complete
- IFRS 10 *Consolidated Financial Statements* – in May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated The guidance applies to all investees, including special purpose entities The standard is required to be adopted for periods beginning January 1, 2013 We do not expect the adoption of this standard to impact our results of operations or financial position

2.2 Changes in accounting policy and disclosures (continued)

IFRS Pronouncements (continued)

- IFRS 11 *Joint Arrangements* – in May 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method The standard is required to be adopted for the periods beginning January 1, 2013
- IFRS 12 *Disclosure of Interests in Other Entities* – in May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards The standard requires companies to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities The standard is required to be adopted for periods beginning January 1, 2013 We expect this standard to result in additional disclosures in our financial statements
- IFRS 13 *Fair Value Measurement* – in May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used The standard provides guidance on determining fair value and requires disclosures about those measurements The standard is required to be adopted for periods beginning January 1, 2013 We do not expect a material impact on our results of operations and financial position
- IAS 1 *Presentation of Items of Other Comprehensive Income*- in June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to separate items of other comprehensive income (OCI) between those that are reclassed to income and those that do not The standard is required to be adopted for the periods beginning on or after July 1, 2012 We do not expect a significant change to our presentation of items of other comprehensive income

The following new standards and interpretations, which are not yet effective and which are not expected to impact the Company's financial position or performance, have been issued by the IASB

- IAS 19 *Employee Benefits*- in June 2011, the IASB issued amendments to IAS 19 to revise certain aspects of the accounting for pensions plans and other benefits The amendments eliminate the corridor method of accounting for defined benefit plans, change the recognition pattern of gains and losses and require additional disclosures The standard is required to be adopted for the periods beginning on or after January 1, 2013
- IAS 32 Financial Instruments Presentation – in December 2011, the IASB issued amendments to address inconsistencies when applying the offsetting criteria outlined in this standard These amendments clarify certain of the criteria required to be met in order to permit the offsetting of financial assets and financial liabilities The standard is required to be adopted retrospectively for periods beginning January 1, 2014

Interpretations effective but not relevant

- IFRIC 12, 'Service concession arrangements', and IFRIC 13, 'Customer loyalty programmes',
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction',
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving issuance of equity instruments,
- revised guidance on implementing IFRS 4, 'Insurance contracts',
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies', and
- IFRIC 9, Re-assessment of embedded derivatives'

The Directors anticipate the adoption of these interpretations in future periods will have no material impact on the financial position of the Company

2.3 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses Judgments, estimates and underlying assumptions are reviewed on a continuous basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

In preparing our financial statements, we make judgments regarding the application of our accounting policies Significant judgments relate to the capitalization and depletion of oil and gas exploration and development costs, determination of functional currency for subsidiaries and the identification of cash-generating units

The financial statement areas that require significant estimates and assumptions are set out in the following paragraphs

Oil and Gas Accounting – Reserves Determination

The process of estimating reserves is complex It requires significant estimates based on available geological, geophysical, engineering and economic data To estimate the economically recoverable crude oil and natural gas reserves and related future net cash flows, we incorporate many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies Reserves are used to calculate the depletion of the capitalized oil and gas costs and for impairment purposes as described in Note 2 4(d)

Property, Plant and Equipment and Intangible Exploration and Evaluation Assets

We evaluate our property, plant and equipment and intangible exploration and evaluation assets for impairment if indications exist Cash flow estimates for our impairment assessments require assumptions and estimates about the following primary elements—future prices, future operating and development costs, remaining recoverable reserves and discount rates In assessing the carrying values of our unproved properties, we make assumptions about our future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment

Decommissioning provision

In estimating our future decommissioning provision, we make assumptions about activities that occur many years into the future including the cost and timing of such activities The ultimate financial impact is not clearly known as asset removal and remediation techniques and costs are constantly changing, as are legal, regulatory, environmental, political, safety and other such considerations In arriving at amounts recorded, numerous assumptions and estimates are made on ultimate settlement amounts, inflation factors, discount rates, timing and expected changes in legal, regulatory, environmental, political and safety environments

Contingencies

By their nature, contingencies will only be resolved when one or more future events transpire The assessment of contingencies inherently involves estimating the outcome of future events

2.4 Summary of significant accounting policies

The accounting policies set out below were used to prepare the opening IFRS balance sheet at January 1, 2010 for the purposes of transitioning to IFRS, and have been applied consistently for all periods presented in these Financial Statements

(a) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments that mature within three months of their purchase

2.4 Summary of significant accounting policies

(b) Trade Receivable

Accounts receivable are recorded based on our revenue recognition policy (see Note 2 4(i)) Our allowance for doubtful accounts provides for specific doubtful receivables, as well as general counterparty credit risk evaluated using observable market information and internal assessments

(c) Inventories and supplies

Inventories and supplies are stated at the lower of cost and net realizable value Cost is determined using the first-in, first-out method Inventory costs include expenditures and other costs, including depletion and depreciation, directly or indirectly incurred in bringing the inventory to its existing condition

(d) Intangible Exploration and Evaluation (E&E) Assets & Property, Plant and Equipment

Pre-License Expenditures

Pre-license expenditures are expensed in the period in which they are incurred

Property Acquisition Expenditures

Property acquisition expenditures are capitalized as E&E and are reviewed periodically for indications of potential impairment This review includes confirming that exploration drilling is under way, firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations, and sufficient progress is being made to establish development plans and timing If no future activity is planned, the remaining balance of the capitalized license and property acquisition costs is expensed Once proved reserves are discovered, technical feasibility and commercial viability are established and we decide to proceed with development, the remaining capitalized expenditure is transferred to either assets under construction or producing oil and gas properties

Exploration and Evaluation Expenditures

Exploration and evaluation costs, including drilling costs directly attributable to an identifiable well, are initially capitalized as an intangible asset until evaluation activities of the exploration play are completed If hydrocarbons are not found, or not found in commercial quantities, the costs are expensed If hydrocarbons are found and are likely to be capable of commercial development, the costs continue to be capitalized These costs are reviewed periodically for indications of potential impairment Capitalized costs are transferred to assets under construction or producing oil and gas properties after assessing the estimated fair value of the property and recognizing any potential impairment loss Geological and geophysical costs and annual lease rental costs are expensed as incurred

Producing Oil and Gas Properties

Producing oil and gas properties are carried at cost less accumulated depletion, depreciation, amortization, and impairment losses The cost of an asset includes the initial purchase price and directly attributable expenditures to find, develop, construct and complete the asset This includes installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells Any costs directly attributable to bringing the asset to the location and condition necessary to operate as intended by management and which result in an identifiable future benefit are also capitalized This includes the estimate of any asset retirement obligation and, for qualifying assets, capitalized interest Improvements that increase capacity or extend the useful lives of the related assets are capitalized Major spare parts and standby equipment whose useful life is expected to last longer than one year are included in capitalized costs

2.4 Summary of significant accounting policies (continued)

(d) Exploration and Evaluation (E&E) Assets & Oil and Gas Properties (continued)

Major Maintenance and Repairs

Expenditures on major maintenance of our producing assets include the cost of replacement assets or parts of assets, inspection costs or overhaul costs Where an asset, or part of an asset that was separately depreciated, is replaced and it is probable that there are future economic benefits associated with the item, the expenditure is capitalized and the carrying amount of the replaced item is derecognized Inspection costs associated with major maintenance programs and necessary for continued operation of the asset are capitalized and amortized over the period to the next inspection All other maintenance costs are expensed as incurred

Depreciation, Depletion and Amortization (DD&A)

Unproved property costs and major projects under construction or development are not depreciated or depleted until commercial production commences We review the useful lives of capitalized costs for producing oil and gas properties to determine the appropriate method of amortization We deplete oil and gas capitalized costs using the unit-of-production method Development drilling, equipping costs and other facility costs are depleted over remaining proved developed reserves and proved property acquisition costs are depleted over remaining proved reserves Other facilities, plant and equipment which have significantly different useful lives than the associated proved reserves are depreciated in accordance with the asset's future use Depletion is considered a cost of inventory when the oil and gas is produced When the inventory is sold the depletion is charged to DD&A expense

Depreciation methods, useful lives and residual values are reviewed annually, with any amendments considered to be a change in estimate and accounted for prospectively

Other property, plant and equipment are depreciated on a straight line basis designed to write off costs, less residual values, over their estimated useful lives as follows

Fixtures, fittings and equipment	3 years
Leasehold improvements	over the life of the lease

Impairment

Each reporting date, we assess whether there is an indication that an asset may be impaired If any indication exists, we estimate the asset's recoverable amount An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less any costs to sell or value-in-use Where an asset does not generate separately identifiable cash flows, we perform an impairment test on CGUs which are the smallest grouping of assets that generate independent, identifiable cash inflows Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset In determining fair value less costs to sell, an appropriate valuation model is used These calculations are corroborated by external valuation metrics or other available fair value indicators wherever possible

In assessing the carrying values of our unproved properties, we take into account future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment

For assets excluding goodwill, an assessment is made each reporting date as to whether there is an indication that previously recognized impairment losses no longer exist or has decreased If such indication exists, an estimate of the asset's or CGU's recoverable amount is reviewed A previously recognized impairment loss is reversed to the extent that the events or circumstances that triggered the original impairment have changed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of DD&A, had no impairment loss been recognized for the asset in prior years

2.4 Summary of significant accounting policies (continued)

(e) Capitalized Borrowing Costs

We capitalize interest on major development projects until construction is complete using the weighted-average interest rate on all of our borrowings Capitalized interest cannot exceed the actual interest incurred

(f) Financial Instruments

All financial assets and liabilities are recognized on the balance sheet initially at fair value when we become a party to the contractual provisions of the instrument Subsequent measurement of the financial instruments is based on their classification We classify each financial instrument into one of the following categories financial assets and liabilities at fair value through profit or loss, loans or receivables, financial assets held to maturity, financial assets available for sale and other financial liabilities The classification depends on the characteristics and the purpose for which the financial instruments were acquired Except in limited circumstances, the classification of financial instruments is not subsequently changed

Financial instruments carried at fair value on our balance sheet include cash and cash equivalents Realized and unrealized gains and losses from financial assets and liabilities carried at fair value are recognized in net income in the periods such gains and losses arise Transaction costs related to these financial assets and liabilities are included in net income when incurred

Financial instruments carried at cost or amortized cost include our accounts receivable, accounts payable and accrued liabilities, accrued interest payable, dividends payable, short-term borrowings and long-term debt Transaction costs are included in net income when incurred for these types of financial instruments except long-term debt These transaction costs are included with the initial fair value, and the instrument is carried at amortized cost using the effective interest rate method Gains and losses on financial assets and liabilities carried at cost or amortized costs are recognized in net income when these assets or liabilities settle

(g) Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities When the Company purchases its own equity share capital, the consideration paid is deducted from equity attributable to the Company's equity shareholders until the shares are cancelled or reissued

Share capital is determined using the nominal value of shares that have been issued

The profit and loss account includes all current and prior period results as disclosed in the income statement

(h) Provisions and Contingencies

Provisions are recognized when we have a present obligation (legal or constructive) as a result of a past event, 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 Where appropriate, the future cash flow estimates are adjusted to reflect the risks specific to the liability

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money Where discounting is used, the accretion of the provision due to the passage of time is recognized within finance costs

Contingent liabilities are possible obligations which will be confirmed by future events that are not necessarily within our control, or are present obligations where the obligation cannot be measured reliably or it is not probable that settlement will be required Contingent liabilities are disclosed only if the possibility of settlement is greater than remote Contingent liabilities are not recorded in the financial statements

2.4 Summary of significant accounting policies (continued)

(h) Provisions and Contingencies (continued)

Decommissioning provision

We provide for decommissioning provision on our resource properties, facilities, production platforms, pipelines and other facilities based on estimates established by current legislation and industry practices Decommissioning provision is initially measured at fair value and capitalized to PP&E as an asset retirement cost The liability is estimated by discounting expected future cash flows required to settle the liability using a risk-free rate The estimated future asset retirement costs may be adjusted for risks such as project, physical, regulatory and timing The estimates are reviewed periodically Changes in the provision as a result of changes in the estimated future costs or discount rates are added to or deducted from the cost of the PP&E in the period of the change The liability accretes for the effect of time value of money until it is expected to settle The asset retirement cost is amortized through DD&A over the life of the related asset Actual asset retirement expenditures are recorded against the obligation when incurred Any difference between the accrued liability and the actual expenditures incurred is recorded as a gain or loss in the settlement period

Liabilities for environmental costs are recognized when a clean-up is probable and the associated costs can be reliably estimated Environmental expenditures that relate to current or future revenues are expensed or capitalized as appropriate

(i) Revenue Recognition

Revenue from sale of hydrocarbons

Revenue from the production of oil and gas is recognized when title passes to the customer This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism When we sell more or less crude oil than we produce, production overlifts and underlifts occur We record overlifts as liabilities at fair value and underlifts as assets We settle these over time as liftings are equalized or in cash when production ends

Revenue represents the Company's share and is recorded net of royalty obligations to government and other mineral interest owners

Interest income

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability Interest income is included in finance income in the income statement

Lease revenue

Revenue from leases is accounted for under accounting policy 2 4(n) below

(j) Foreign Currency Translation

The Company's financial statements are presented in US dollar, which is also the Company's functional currency

Monetary balance sheet amounts denominated in a currency other than a functional currency are translated into the functional currency using exchange rates at the balance sheet dates Gains and losses arising from this translation are included in finance costs Non–monetary balance sheet amounts denominated in a currency other than a functional currency are translated using historical exchange rates at the time of the transaction

2.4 Summary of significant accounting policies (continued)

(k) Leases

Company as a lessee

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

Leased assets are depreciated over the useful life of the asset However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term even if the payments are not made on such a basis

Rentals paid for operating leases in respect of producing assets are recognised on a UOP basis as it has been determined that this is a better method of allocation of the cost

Company as a lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases Rental income is recognised as revenue on a UOP basis Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income

(l) Income Taxes

The provision for income taxes comprises current amounts payable and deferred tax provisions The provision for income taxes is recognized in net income except to the extent that it relates to items recognized directly in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years Current tax assets and liabilities are offset to the extent the entity has the legal right to settle on a net basis

Deferred tax assets and liabilities are recognized for temporary differences between reported amounts for financial statement and tax purposes Deferred tax is not recognized for the following temporary differences i) initial recognition of tax assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, ii) differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future, and iii) the initial recognition of goodwill Deferred tax assets are only recognized for temporary differences, unused tax losses and unused tax credits if it is probable that future tax amounts will arise to utilize those amounts

Deferred tax assets and liabilities are measured at tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates and laws that have been enacted or substantively enacted by the reporting date Deferred tax assets and tax liabilities are offset to the extent there is a legal right to settle on a net basis

Production taxes

In addition to corporate income taxes, the Company's financial statements also include and disclose as taxes on income typical taxes on net income, however determined from oil and gas production

2.4 Summary of significant accounting policies (continued)

(m) Jointly Controlled Assets

Exploration activities are conducted as co-licensee in unincorporated joint ventures with other companies These arrangements take the form of jointly controlled assets

A jointly controlled asset involves joint control and offers joint ownership by the Company and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity The Company accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture and any expenses it incurs in relation to its interest in the joint venture

3. Revenue

Revenue is comprised of sales of hydrocarbons from production in the United Kingdom and operating lease rentals relating to the Buzzard facility

	2011 US$'000	2010 US$'000
Revenue from sale of – oil	102,300	77,348
– gas	3,317	2,798
	105,617	80,146
Operating lease rentals	154,225	194,879
	259,842	275,025

4. Operating profit

Operating profit is stated after charging/(crediting)

	2011 US$'000	2010 US$'000
Depletion and depreciation charge - oil and gas properties	33,416	81,245
- other property, plant and equipment	100,418	133,405
Exploration costs written off	295	240
The analysis of auditor's remuneration is as follows		
Fees payable to the Company's auditor for the audit for the Company's annual accounts	39	38

All profits and losses in the current and preceding year were derived from continuing operations

5. Finance income

	2011 US$'000	2010 US$'000
Interest receivable on loans to Group undertaking	1,261	-
Interest receivable - joint venture partners	62	36
Net gain on movement in foreign exchange	3,088	-
Interest receivable – bank	5	431
	4,416	467

6. Finance costs

	2011 US$'000	2010 US$'000
Interest payable on loans from Group undertaking	28,254	34,827
Interest payable - joint venture partners	15	15
Unwinding of discount on abandonment and decommissioning provision	356	271
Other interest payable	-	60
	28,625	35,173

7. Staff costs

The Company did not employ any staff during the current or prior year The directors received no remuneration from the company, or in respect of their services to the company

8. Income tax

The major components of income tax expense for the years ended 31 December 2011 and 2010 are

	2011 US$'000	2010 US$'000
Current tax		
UK Corporation tax at 59 3% (2010 50%)	64,631	50,940
Deferred tax		
Origination and reversal of temporary differences	(17,465)	(34,158)
Total income tax expense recognised in the income statement	47,166	16,782

There was no deferred tax related to items directly charged or credited within equity

8. Income tax (continued)

A reconciliation between tax expense and the product of accounting profit multiplied by the average rate of the UK corporation tax for the years ended 31 December 2011 and 2010 is as follows

	2011 US$'000	2010 US$'000
Profit before income tax	78,059	6,677
Tax on profit on ordinary activities at the average UK corporation tax rate of 59 3% (2010 50%)	46,289	3,339
Effects of		
Exclusion of finance items from supplemental corporation tax	7,908	6,958
Impact of change in tax rates	1,332	-
Non-deductible expenses and other	(8,363)	6,485
	47,166	16,782

Effective 24 March 2011, the UK government substantively enacted an increase to the supplementary charge tax rate on North Sea oil and gas activities of 12% which increased the statutory oil and gas income tax rate to 62%

Deferred tax has been calculated at 62% (2010 50%) and relates to the following

	Statement of comprehensive income		Statement of financial position	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Property, plant & equipment and other	17,013	34,158	7,920	(9,093)
Tax losses and credits	452	-	452	-
Net deferred tax assets/(liabilities)	17,465	34,158	8,372	(9,093)

Reconciliation of deferred tax assets/ (liabilities)

	2011 US$'000	2010 US$'000
Analysis of movements during the year		
Balance at beginning of year	(9,093)	(43,251)
Annual provision in net income	18,792	34,158
Impact of change in tax rates	(1,327)	-
Balance at end of year	8,372	(9,093)

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

There are no income tax consequences attached to the payment of dividends in either 2011 or 2010 by the Company to its shareholders

9. Property, plant and equipment – oil and gas properties

	US$'000
Cost	
At 1 January 2010	93,094
Additions	12,914
Change in decommissioning provision	5,438
At 31 December 2010	111,446
Additions	44,752
Change in decommissioning provision	10,855
At 31 December 2011	167,053
Depletion and impairment	
At 1 January 2010	-
Charge for the year	(81,245)
At 31 December 2010	(81,245)
Charge for the year	(33,416)
At 31 December 2011	(114,661)
Net book value	
At 1 January 2010	93,094
At 31 December 2010	30,201
At 31 December 2011	52,392

Additions during the year include $43m relating to the transfer of 17 5727% interest in the Blackbird field to the Company by its immediate parent company, Nexen Petroleum U K Limited

Refer to Note 2 4(d) for the details on impairment testing of oil and gas properties

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10. Other property, plant and equipment

	Finance Lease
	US$'000
Cost	
At 1 January 2010 / 31 December 2010 and 2011	1,225,000
Accumulated depreciation	
At 1 January 2010	(178,187)
Charge for the year	(133,405)
At 31 December 2010	(311,592)
Charge for the year	(100,418)
At 31 December 2011	(412,010)
Net book value	
At 1 January 2010	1,046,813
At 31 December 2010	913,408
At 31 December 2011	812,990

11. Other non-current receivables

	2011	2010	At 1 January 2010
	US$'000	**US$'000**	**US$'000**
Prepayments and accrued income	539	879	1,219
	539	879	1,219

As at 31 December 2011, none of the other non-current receivables at initial value were individually impaired or collectively impaired

12. Inventories

	2011	2010	At 1 January 2010
	US$'000	**US$'000**	**US$'000**
Crude oil	1,372	1,575	525
	1,372	1,575	525

13. Trade and other receivables

	2011 US$'000	2010 US$'000	At 1 January 2010 US$'000
Trade receivables	746	554	251
Loans to Group undertaking	129,000	50,000	-
Amounts owed by Group undertaking	24,448	150,903	40,767
Prepayments and accrued income	340	340	340
Other receivables	-	4	-
	154,534	201,801	41,358

Trade receivables are non-interest bearing and are generally on 30-90 days terms

As at 31 December 2011, none of the trade and other receivables at initial value were individually impaired or collectively impaired

14. Cash and cash equivalents

	2011 US$'000	2010 US$'000	At 1 January 2010 US$'000
Cash at banks	4,067	925	680
Short-term deposits	-	8,000	28,000
	4,067	8,925	28,680

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates The Company only deposits cash surpluses with major institutions with of high quality credit standing

15. Issued capital

	2011 shares	2010 shares	At 1 January 2010 shares
Authorised shares			
ordinary shares of £1 each	400,000,000	400,000,000	400,000,000

Ordinary shares issued and fully paid	shares	US$'000
At 1 January 2010 / 31 December 2010 and 2011	216,602,741	401,126

16. Decommissioning provision

	2011	2010
	US$'000	US$'000
At 1 January	11,830	6,344
Incurred with development activities	10,508	5,438
Effects of changes in foreign exchange rates	(366)	(223)
Unwinding of discount	356	271
At 31 December 2011	22,328	11,830

The decommissioning provision represents the present value of estimated remediation and reclamation costs associated with the Company's oil and gas properties The Company has discounted the decommissioning provision using a weighted-average risk-free rate of 2 6% (2010 3 3%) While the provision for decommissioning is based on the best estimates of future costs and the economic lives of the assets involved, there is uncertainty regarding both the amount and timing of incurring these costs The Company expects to fund decommissioning expenditure from future cash flows from its operations

17. Other non-current liabilities

	2011	2010	At 1 January 2010
	US$'000	US$'000	US$'000
Accruals	871	512	155
Interest-bearing loans and borrowings			
Obligations under finance leases and hire purchase contracts (Note 19)	2,450	3,267	4,083
Loans from Group undertaking	396,769	505,744	616,894
	400,090	509,523	621,132

17. Other non-current liabilities (continued)

	2011	2010	At 1 January 2010
	US$'000	US$'000	US$'000
Loans are repayable as follows			
Between one year and two years	113,363	111,600	111,150
Between two years and five years	283,406	340,088	279,469
In more than five years	-	54,056	226,275
	396,769	505,744	616,894
On demand or within one year	113,363	118,872	119,879
	510,132	624,616	736,773

Loans from Group undertaking

During 2008, a loan facility of $900 million was put in place with a non-UK Nexen Group finance Company The loan is repayable every six months and bears interest at the six months USD LIBOR rate plus 4 1%

18. Accounts payable, accrued and other liabilities

	2011	2010	At 1 January 2010
	US$'000	US$'000	US$'000
Amounts due to Group undertakings	116,261	160,815	65,020
Loans from Group undertaking	113,363	118,872	119,879
Joint venture creditors	6,506	1,830	1,132
Obligations under finance leases and hire purchase contracts (Note 19)	817	817	817
	236,947	282,334	186,848

19. Capital commitments and other contingencies

Operating lease commitment – company as lessee

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows

	2011	2010
	US$'000	US$'000
Operating leases which expire		
Within one year	10,084	11,089
After one year but not more than five years	15,386	26,652
	25,470	37,741

In 2011, the amount charged to the income statement was $6 2 million (2010 $13 8 million) relating to amounts committed under operating lease of the Bluewater FPSO for extraction of oil from the Ettrick field

Operating lease commitments – company as lessor

During 2008, the Company entered into a lease and leaseback transaction with its immediate parent company, Nexen Petroleum U K Limited (the Parent), in respect of plant and machinery assets in use at the Buzzard producing facility The parent leased these assets to the Company under a finance lease for their remaining economic life and the Company is leasing back the assets to its parent under a 7 ½ year operating lease

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows

	2011	2010
	US$'000	US$'000
Within one year	192,716	206,708
After one year but not more than five years	492,798	685,514
	685,514	892,222

Finance lease and hire purchase commitments

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows

	Minimum payments		Present value of payments	
	2011	2010	2011	2010
	US$'000	US$'000	US$'000	US$'000
Within one year	817	817	817	817
Between one and five years	2,450	3,267	2,066	2,650
Total minimum lease payments	3,267	4,084	2,883	3,467
Less amount representing finance charges	(384)	(617)	-	-
Present value of minimum lease payments	2,883	3,467	5,766	6,934

19. Capital commitments and other contingencies (continued)

Capital commitments

	2011	2010
	US$'000	US$'000
Contracted capital expenditure oil and gas exploration	-	100

20. Related party transactions

Ultimate and immediate parent Company

The ultimate controlling party and parent company of the largest company of undertakings for which Company accounts are drawn up, and of which the Company is a member, is Nexen Inc a Company incorporated in Canada The consolidated accounts of Nexen Inc are available to the public and may be obtained from 801-7th Avenue S W Calgary, Alberta, Canada, T2P 3P7

The largest company to consolidate the Company's financial statements is Nexen Inc 801, 7th Avenue SW, Calgary, Alberta, Canada T2P 3P7

The smallest company to consolidate the Company's financial statements is Nexen Energy Holdings International Limited, St James House, New St James Place, Jersey, JE2 4QL, Channel Islands

The immediate parent company for the Company is Nexen Petroleum U K Limited, Charter Place, Vine Street, Uxbridge, Middlesex, UB8 1JG

Transactions with related parties	2011	2010
	US$'000	US$'000
Revenue - Operating lease rentals (Note 3)	154,255	194,879
Interest payable on loans from Group undertaking (Note 6)	(28,254)	(34,827)
Interest receivable on loans to Group undertaking (Note 5)	1,261	-

Terms and conditions of transactions with related parties

The services to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash There have been no guarantees provided or received for any related party receivables or payables For the year ended 31 December 2011, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2010 nil) This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates

21. Financial instruments

Categories of financial instruments

Financial assets	2011 US$'000	2010 US$'000	At 1 January 2010 US$'000
Loans and receivables			
Trade receivables	746	554	251
Loan to Group undertakings	129,000	50,000	-
Amounts owed by Group undertaking	24,448	150,903	40,767
Other receivables	-	4	-
	154,194	201,461	41,018
Cash and cash equivalents	4,067	8,925	28,680

Financial liabilities	2011 US$'000	2010 US$'000	At 1 January 2010 US$'000
Loans and payables			
Amounts due to Group undertaking	116,261	160,815	65,020
Loans from Group undertaking	510,132	624,616	736,773
Joint venture creditors	6,506	1,830	1,132
Obligations under finance leases and hire purchase	3,267	4,084	4,900
	636,166	791,345	807,825

Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and increase shareholder value

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010

The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits

	2011 US$'000	2010 US$'000
Interest bearing loans and borrowings	510,132	624,616
Accounts payable, accrued and other liabilities	126,905	167,241
Less cash and cash equivalents	(4,067)	(8,925)
Net debt	632,970	782,932
Equity	374,902	344,009
Capital and net debt	**1,007,872**	**1,126,941**
Gearing ratio	63%	69%

21. Financial instruments (continued)

Financial risk management objectives and policies

The Directors monitor and manage the financial risks relating to the operations of the Company in conjunction with those of the Group of which it is part and steps are taken where necessary to ensure these risks are appropriately managed These financial risks include market risk (including currency and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk

The Company does not presently hedge against these risks except in relation to generally short to medium term positions

Commodity price risk

The Company is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas products it produces, but the Company does not use derivatives and thus had no financial instruments that were affected by commodity price risk

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax through the impact on floating rate borrowings and cash and cash equivalents

Increase/decrease in interest rate	Effect on profit before tax for the year ended 31 December 2011	Effect on profit before tax for the year ended 31 December 2010
	US$'000	US$'000
+0 50%	2,868	3,443
-0 50%	(2,868)	(3,443)

Foreign currency risk

Majority of the income and receipts of the Company are in functional currency i e United States Dollars ("USD" "US Dollars" "$") therefore the Company is not exposed to significant foreign currency risk

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due We require liquidity specifically to fund capital requirement, satisfy financial obligations as they became due. We generally rely on operating cash flows to provide liquidity, at 31 December 2011 we had $4 1 million of cash and cash equivalents available

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2011 based on contractual undiscounted payments

21. Financial instrument (continued)

Liquidity risk (continued)

Year ended 31 December 2011	On demand US$'000	less than 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	> 5 years US$'000	Total US$'000
Loans from Group undertaking	-	135,376	129,988	300,640	-	566,004
Amounts due to Group undertaking	116,789	-	-	-	-	116,789
Joint venture creditors	6,506	-	-	-	-	6,506
Obligations under finance leases and hire purchase	-	817	817	1,633	-	3,267
	123,295	136,193	130,805	302,273	-	692,566

Year ended 31 December 2010	On demand US$'000	less than 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	> 5 years US$'000	Total US$'000
Loans from Group undertaking	-	145,144	133,613	373,283	54,719	706,759
Amounts due to Group undertaking	160,815	-	-	-	-	160,815
Joint venture creditors	1,830	-	-	-	-	1,830
Obligations under finance leases and hire purchase	-	817	817	2,450	-	4,084
	162,645	145,961	134,430	375,733	54,719	873,488

Year ended 1 January 2010	On demand US$'000	less than 1 year US$'000	1 to 2 years US$'000	2 to 5 years US$'000	> 5 years US$'000	Total US$'000
Loans from Group undertaking	-	151,513	137,422	301,482	259,470	849,887
Amounts due to Group undertaking	65,020	-	-	-	-	65,020
Joint venture creditors	1,132	-	-	-	-	1,132
Obligations under finance leases and hire purchase	-	817	817	2,450	816	4,900
	66,152	152,330	138,239	303,932	260,286	920,939

22. Events after the reporting period

On 27 February 2012 an application was made to the Cayman Islands Stock Exchange (the Exchange) for $510,131,398 outstanding of a $850,219,000 Promissory Note (the Note) issued by the Company to be listed on the Exchange, which was approved by the Exchange on the same date

23. First time adoption of IFRS

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union These are the Company's first accounts prepared in accordance with IFRS as adopted by the European Union for the year ended 31 December 2011

For all periods up to and including the year ended 31 December 2010, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP)

The accounting policies on pages 11 to 19 have been applied in preparing the accounts for the year ended 31 December 2010 and 2011and the preparation of an opening IFRS balance sheet at 1 January 2010 (the Company's date of transition)

In preparing its opening IFRS balance sheet and accounts for the year ended 31 December 2010, the Company had adjustments to the amounts reported previously in accounts prepared in accordance with UK GAAP as detailed in this note

NEXEN ETTRICK U.K. LIMITED
Notes to the financial statements
for the year ended 31 December 2011

23. First time adoption of IFRS (continued)

Reconciliation of equity as at 1 January 2010

	Notes	UK GAAP	Remeasurements	IFRS
		US$'000	US$'000	US$'000
Assets				
Non-current assets				
Property, plant and equipment - oil and gas properties	A,B,C,F	97,524	(4,430)	93,094
Other property, plant and equipment	A,B,C	1,048,488	(1,675)	1,046,813
Other non-current receivables		1,219	-	1,219
Total non-current assets		1,147,231	(6,105)	1,141,126
Current assets				
Inventories	F	1,378	(853)	525
Trade and other receivables		41,358	-	41,358
Cash and cash equivalents		28,680	-	28,680
Total current assets		71,416	(853)	70,563
Total assets		1,218,647	(6,958)	1,211,689
Equity and liabilities				
Equity				
Issued capital		401,126	-	401,126
Retained Earnings		(22,483)	(24,529)	(47,012)
Total equity		378,643	(24,529)	354,114
Non-current liabilities				
Decommissioning provision	D	5,194	1,150	6,344
Other non-current liabilities		621,132	-	621,132
Deferred tax liabilities	E	26,830	16,421	43,251
Total non-current liabilities		653,156	17,571	670,727
Current liabilities				
Accounts payable, accrued and other liabilities		186,848	-	186,848
Total liabilities		840,004	17,571	857,575
Total equity and liabilities		1,218,647	(6,958)	1,211,689

NEXEN ETTRICK U.K. LIMITED
Notes to the financial statements
for the year ended 31 December 2011

23. First time adoption of IFRS (continued)

Reconciliation of equity as at 31 December 2010

	Notes	UK GAAP	Remeasurements	IFRS
		US$'000	US$'000	US$'000
Assets				
Non-current assets				
Property, plant and equipment - oil and gas properties	B,C,F	2,775	27,426	30,201
Other property, plant and equipment	B,C	975,867	(62,459)	913,408
Other non-current receivables		879	-	879
Total non-current assets		979,521	(35,033)	944,488
Current assets				
Inventories	F	2,305	(730)	1,575
Trade and other receivables		201,801	-	201,801
Cash and cash equivalents		8,925	-	8,925
Total current assets		213,031	(730)	212,301
Total assets		1,192,552	(35,763)	1,156,789
Equity and liabilities				
Equity				
Issued capital		401,126	-	401,126
Retained Earnings		(38,041)	(19,076)	(57,117)
Total equity		363,085	(19,076)	344,009
Non-current liabilities				
Decommissioning provision	D	9,951	1,879	11,830
Other non-current liabilities		509,523	-	509,523
Deferred tax liabilities	E	27,659	(18,566)	9,093
Total non-current liabilities		547,133	(16,687)	530,446
Current liabilities				
Accounts payable, accrued and other liabilities		282,334	-	282,334
Total liabilities		829,467	(16,687)	812,780
Total equity and liabilities		1,192,552	(35,763)	1,156,789

23. First time adoption of IFRS (continued)

Reconciliation of income for the year ended 31 December 2010

	Notes	UK GAAP	Remeasurements	IFRS
		US$'000	US$'000	US$'000
Revenue		275,025	-	275,025
Cost of sales	B,C	(203,973)	(29,418)	(233,391)
Gross profit		71,052	(29,418)	41,634
General and administrative expenses		(11)	-	(11)
Exploration costs written off	A	8	(248)	(240)
Operating profit		71,049	(29,666)	41,383
Finance income		467	-	467
Finance costs		(35,304)	131	(35,173)
Profit/(loss) before tax		36,212	(29,535)	6,677
Income tax expense/(credit)		(51,770)	34,988	(16,782)
(Loss)/profit for the year		(15,558)	5,453	(10,105)

Notes to the reconciliation of equity as at 1 January 2010 and 31 December 2010

A. Intangible exploration and evaluation assets

Under UK GAAP, intangible exploration and evaluation assets are not separately identified as they form part of the full cost geographical pool, however, under IFRS they are required to be separately identified and disclosed At the date of transition to IFRS, the intangible exploration and evaluation assets of $2 5million (31 December 2010 $0 25million) determined to have no commercial value and were written off This amount has been recognised against retained earnings

B. Impairment of Property, plant and equipment

At the date of transition to IFRS, the Company determined that the recoverable amount of its oil and gas properties is less than its carrying amount The recoverable amount was based on oil and gas properties value in use, which was assessed in accordance with accounting policy 2 4(d) above This resulted in an impairment loss of $4 4million recognised as at 1 January 2010 (31 December 2010 reversal of impairment loss of $19 8million) This amount has been recognised against retained earnings

C. Depreciation of Property, plant and equipment

Under UK GAAP, the total carrying value of the full costs pool, including field development costs and directly attributable overhead and interest, is depreciated using a unit of production method Under IFRS, as explained in Note 2 4(d) above, depreciation is calculated on field by field basis using proved reserves, rather than on a pool wide basis and using proven and probable reserves As a result, the carrying value as at 31 December 2010 of property, plant and equipment was decreased by $49 2million This amount has been recognised against retained earnings

D. Decommissioning provision

We have applied the IFRS 1 exemption for decommissioning provision and re-measured provision for decommissioning as at 1 January 2010 as described above in Note 2 2

NEXEN ETTRICK U.K. LIMITED
Notes to the financial statements
for the year ended 31 December 2011

23. First time adoption of IFRS (continued)

Notes to the reconciliation of equity as at 1 January 2010 and 31 December 2010 (continued)

E. Deferred tax liability

The various transitional adjustments lead to different temporary differences According to the accounting policies in Note 2 3, the Company has to account for such differences In order to calculate the deferred tax amount a tax rate of 50% has been applied

F. Reclassifications

At the date of transition to IFRS, inventories amounting to $0 9million (31 December 2010 $0 7million) were reclassified to property, plant and equipment