NEXEN ETTRICK U.K. LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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COMPANIES HOUSE

A Company Registered in England and Wales, No. 03976014
Registered Office: Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU

NEXEN ETTRICK U.K. LIMITED

Annual report and financial statements 2016

Contents **Page**

NEXEN ETTRICK U.K. LIMITED

Officers and professional advisors

DIRECTORS:	B.C. Tilford I.M. Smale (Non-executive director) J.D. Doyle R.C. J. Riddoch Z. Fang
COMPANY SECRETARY:	J.D. Doyle
REGISTERED OFFICE:	Prospect House 97 Oxford Road Uxbridge UB8 1LU
BANKER:	Bank of America 5 Canada Square London UE14 5AQ
SOLICITOR:	Norton Rose Fulbright LLP 3 More London Riverside London SE1 2AQ
AUDITOR:	Deloitte LLP Chartered Accountants and Statutory Auditor London, United Kingdom

NEXEN ETTRICK U.K. LIMITED

Strategic Report

The Directors of Nexen Ettrick U.K. Limited (the Company or "Nexen") present the strategic report on the affairs of the Company for the year ended 31 December 2016.

Business review

The Company made a loss of US$3 million for the year ended 31 December 2016 (2015: income of US$18 million) after generating revenue of US$6 million (2015: US$22 million). The operating lease generated revenue of US$ Nil (2015: US$93 million).

United Kingdom - North Sea

Nexen's primary assets include a 15.46% working interest in the Ettrick field and a 17.57% working interest in the Blackbird field.

Ettrick was discovered in 1981 and brought on stream in 2009. The fields ceased production in 2016 with an approved Oil and Gas Authority (OGA) decommissioning strategy in compliance with the legislative decommissioning process. The main decommissioning activities are planned to commence in 2018.

Key Performance Indicators (KPIs)

The following KPIs are used to assess the performance of the business.

	2016	2015
Production (boe/d)	287	1,019
Reserves - proved and probable (million boe)	-	0.3
Realised oil price (US$/bbl)	44.99	51.32
Realised gas price (US$/mcf)	3.51	5.96

Principal risks and uncertainties

The exploration and production activities in the oil and gas industry involve a high degree of risk. The Directors monitor and manage these 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.

Health, Safety and Environment (HSE): The Company is exposed to blowout, fire and spillage risks arising from exploration, development, production and decommissioning operations. Any accident which may lead to casualties, property damage and environmental pollution may have an impact on the Company's operational and financial conditions.

Joint Venture: Operations in the oil and gas industry are conducted in a joint venture environment. There is a risk that co-venturers either do not have the financial capacity or are not aligned in their objectives and this may lead to additional costs, inefficiencies and delays.

Credit risk: The carrying amounts of the Company's cash and cash equivalents and trade and other receivables except for prepayments represent the Company's maximum exposure to credit risk in relation to its financial assets.

Currency risk: Our operations are sensitive to fluctuations in foreign currency exchange rates, particularly between the US dollar and the British Pound. A portion of our activities are transacted in, or referenced to, British Pounds, including decommissioning costs and operating expenses.

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

R.C.J. Riddoch
Director
02 May 2017

B.C. Tilford
Director
02 May 2017

NEXEN ETTRICK U.K. LIMITED

Directors' Report

The Directors of the Company present their annual report together with the audited financial statements for the year ended 31 December 2016.

Future prospects

Looking forward into 2017, the company will continue activities on the United Kingdom Continental Shelf (UKCS).

In addition, the Company will consider opportunities to acquire additional exploration and production acreage in the UKCS through acquisition and possible participation in future UK Licensing Rounds. As part of the ongoing decommissioning campaign, the Company plans to remove Buoy and subsea infrastructure.

Dividends

No dividends were paid during the year (2015: US$1.73609 per ordinary share, or US$350 million).

Going concern

The Directors have, at the time of approving these financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 2 to the financial statements.

Directors

The Directors of the Company during the year and since the year end were as listed below:

Directors	Date of Appointment	Date of resignation
B.C. Tilford	25 Jan 2017	
G.A. Barber	01 May 2015	31 Oct 2016
I.M. Smale*	21 Jan 2014	
J.D. Doyle	16 Oct 2014	
R.C.J. Riddoch	09 June 2015	
Z. Fang	17 Feb 2014	

* Non-executive director

Political donations

No political donations were made during the year ended 31 December 2016 (2015: US$ Nil).

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.

Financial risk management objectives and policies

For details of the Company's financial risk management objectives and policies see the strategic report.

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.

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

R. C. J. Riddoch
Director
02 May 2017

B.C. Tilford
Director
02 May 2017

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 "Reduced Disclosure Framework". 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, the directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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 U.K. Limited for the year ended 31 December 2016 which comprise of the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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 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.

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 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other 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 the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

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.

David Paterson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
02 May 2017

NEXEN ETTRICK U.K. LIMITED
Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	Note	2016	2015
		US$'000	US$'000
Revenues and other income			
Oil and gas sales	4	5,540	21,618
Other income	5	2,035	93,674
		7,575	115,292
Expenses			
Operating expenses		8,721	22,432
Depreciation, depletion, amortisation and impairment		(323)	84,602
Decommissioning credit	10	(4,688)	-
General and administrative expenses		489	671
Exploration expense		-	43
Finance costs	6	2,117	8,573
		6,316	116,321
Income / (loss) from operations before provision for income taxes		1,259	(1,029)
Provision for / (recovery of) income taxes			
Current	9	654	(5,865)
Deferred	9	3,486	(13,269)
		4,140	(19,134)
Total comprehensive (loss) / income for the year		(2,881)	18,105

Items dealt with in the above statement of comprehensive income relate to continuing operations. All gains and losses are recorded in the income statement. As such, there is no requirement to prepare a separate statement of comprehensive income.

See accompanying notes to the financial statements.

NEXEN ETTRICK U.K. LIMITED
Statement of financial position
at 31 December 2016

	Note	2016	2015
		US$'000	US$'000
Assets			
Non-current assets			
Property, plant and equipment	10	89	1,075
Deferred tax assets	9	14,030	17,516
Total non-current assets		14,119	18,591
Current assets			
Inventories		-	696
Trade and other receivables	11	737	8,240
Cash and cash equivalents	18	161,775	374,654
		162,512	383,590
Asset classified as held for sale	12	664	-
Total current assets		163,176	383,590
Total assets		177,295	402,181
Equity and liabilities			
Equity			
Issued capital	13	84,236	84,236
Retained earnings		53,998	56,879
Total equity		138,234	141,115
Non-current liabilities			
Decommissioning provision	15	32,804	31,978
Other non-current liabilities		-	3,491
Total non-current liabilities		32,804	35,469
Current liabilities			
Accounts payable, accrued and other liabilities	16	6,257	225,597
Total current liabilities		6,257	225,597
Total liabilities		39,061	261,066
Total equity and liabilities		177,295	402,181

See accompanying notes to the financial statements.

The financial statements of Nexen Ettrick U.K. Limited, registration 03976014 were approved on behalf of the Board of Directors and authorised for issue on 02 May 2017. They were signed on its behalf by:

R. C. J. Riddoch
Director

B.C. Tilford
Director

NEXEN ETTRICK U.K. LIMITED
Statement of changes in equity
for the year ended 31 December 2016

	Note	Issued capital	Retained earnings	Total equity
		US$'000	US$'000	US$'000
At 1 January 2015		84,236	388,774	473,010
Total comprehensive income		-	18,105	18,105
Dividend		-	(350,000)	(350,000)
At 31 December 2015		84,236	56,879	141,115
Total comprehensive loss		-	(2,881)	(2,881)
At 31 December 2016		84,236	53,998	138,234

See accompanying notes to the financial statements.

NEXEN ETTRICK U.K. LIMITED
Notes to the financial statements for the year ended 31 December 2016

1. CORPORATE INFORMATION

The financial statements of Nexen Ettrick U.K. Limited (the Company) for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 02 May 2017. The Company is a limited company incorporated in England and Wales and domiciled in the United Kingdom. The registered office is located at Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU.

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. BASIS OF PREPARATION

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC). The Company is consolidated in the accounts of CNOOC Limited, whose consolidated financial statements that comply with International Financial Reporting Standards (IFRS) have been produced for public use, and may be obtained from www.cnoocltd.com. Accordingly, in the year ended 31 December 2016, the Company has undergone transition from reporting under IFRS adopted by the European Union to FRS 101 'Reduced Disclosure Framework'. The financial statements have therefore been prepared in accordance with FRS 101. This transition is not considered to have had a material effect on the financial statements.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of cash flow statement, standards not yet effective, presentation of comparative information in respect of certain assets, related party transactions, financial instruments and capital management.

These financial statements for the year ended 31 December 2016 have been prepared under the historical cost convention, except as otherwise noted. The financial statements are presented in US dollars, and all values are rounded to the nearest thousands (US$'000) except when otherwise indicated.

Going Concern

At 31 December 2016, the Company has sufficient funds to repay its maturing obligations and to meet its liabilities as they fall due for the next twelve months from the date these financial statements are signed. Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3. ACCOUNTING POLICIES

The accounting policies set out below are used to prepare the financial statements at 31 December 2016 and have been applied consistently for all periods presented in these financial statements.

(A). JOINT ARRANGEMENTS

Certain of the Company's activities are conducted through joint arrangements, which are arrangements where two or more parties have joint control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement. We have assessed that all of our joint arrangements are joint operations as parties to the contract are responsible for the assets and obligations in proportion to their respective interest. Joint operations are accounted for by recording the Company's relevant share of assets, liabilities, revenues and expenses.

(B). USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with FRS 101 requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In the process of applying the Company's accounting policies, the Directors have made the following judgments, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements.

Reserve base

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to proved developed reserves as described in note 3(E). The level of estimated proved and probable reserves is also a key determinant in assessing whether the carrying value of any of the Company's oil and gas properties has been impaired. Reserve estimates are determined using estimates of oil in place, recovery factors and future oil prices. Pursuant to the oil and gas reserve estimation requirements under US Securities and Exchange Commission's rules, the Company uses the average, first-day-of-the-month oil price during the 12-month period before the ending date of the period covered by the financial statements to estimate its proved oil and gas reserves.

Carrying value of oil and gas properties

The calculation of the unit-of-production rate for oil and gas properties depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves. These factors could include changes in proved/proved developed reserves, the effect on proved/proved developed reserves of differences between actual commodity prices and commodity price assumptions and unforeseen operational issues.

Impairment indicators

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in use and fair value less costs of disposal. These calculations require the use of estimates and assumptions, including future commodity prices, future operating and development costs, reserves and discount rates. It is reasonably possible that these assumptions may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of oil and gas assets. The Company monitors internal and external indicators of impairment relating to its oil and gas assets.

Decommissioning provision

Decommissioning costs will be incurred by the Company at the end of the operating life of certain of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Estimation and judgement is required to determine the value of the deferred tax asset, based upon the timing and level of future taxable cash flows.

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.

(C). CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

(D). INVENTORIES

Inventories 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 location and existing condition.

(E). PROPERTY, PLANT AND EQUIPMENT (PP&E)

Property, plant and equipment comprise oil and gas properties, office equipment and others.

Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Company capitalises the initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement and charged to profit and loss as exploration expenses. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development expenditures on construction, installation or completion of infrastructure facilities such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Company carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

Producing oil and gas properties are depreciated on a unit-of-production basis over the proved developed reserves. Common facilities that are built specifically to service production directly attributed to designated oil and gas properties are depreciated based on the proved developed reserves of the respective oil and gas properties on a pro-rata basis. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Capitalised acquisition costs of proved properties are depreciated on a unit-of-production method over the total proved reserves of the relevant oil and gas properties.

Any gains and losses on disposals of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in profit or loss.

Major maintenance and repairs

Expenditures on major maintenance, refits or repairs of our producing assets comprises include the cost of replacement assets or parts of assets, and overhaul costs. Where an asset, or part of an asset that was separately depreciated, is replaced and it is probable that future economic benefits associated with the item will flow to the company, the replacement expenditure is capitalized and the carrying amount of the replaced item is derecognised. Where part of the assets was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other maintenance costs are expensed as incurred.

Impairment

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future post-tax 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset. An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

(F). BORROWING COSTS

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly relating to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are captitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they are incurred.

(G). FINANCIAL INSTRUMENTS

All financial assets and liabilities are recognised 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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases or sales) are recognised on the trade date, that is, the date that the company commits to purchase or sell the asset.

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 recognised in net income in the period 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 amortised cost includes our trade receivables, accounts payable and accrued liabilities, and long-term debt. The transaction costs are included with the initial fair value, and the instruments are carried at amortised cost using the effective interest rate method. Gains and losses on financial assets and liabilities carried at cost or amortised cost are recognised in net income when these assets and liabilities settle.

(H). PROVISIONS

General

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in profit or loss.

A contingent liability is disclosed when the existence of an obligation will only be confirmed by future events or when the amount of the obligation cannot be measured reliably.

A contingent asset is not recognised in the financial statements, but is disclosed when an inflow of economic benefits is probable.

Decommissioning provision

Decommissioning provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that a future outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its present value using a current pre-tax rate that reflects where appropriate, the specific risk to the liability. Changes in the estimated timing of decommissioning or decommissioning costs are accounted for prospectively by recording an adjustment to the provision, and a corresponding adjustment to related property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

(I). REVENUE RECOGNITION

Oil and gas sales

Oil and gas sales represent the value of sales of oil and gas attributable to the interests of the Company, net of other mineral interest owners. Revenue from the sale of oil and gas is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. Revenue from the production of oil and gas in which the Company has a joint interest with other producers is recognised based on the Company's working interest.

Oil and gas lifted and sold by the Company above or below the Company's participating interest results in overlifts and underlifts. We record overlifts as liabilities at fair value and underlifts as assets at cost. We settle these over time as liftings are equalized or in cash when production ends.

Interest income

Interest income is recognised as it accrues using the effective interest rate method.

Lease revenue

Revenue from leases is accounted for under accounting policy 3(K) below.

Other income

Other income mainly represents disposals of oil and gas properties which are recognised when the properties have been disposed of and reimbursement of insurance claims which are recognised when the compensation becomes receivable.

(J). FOREIGN CURRENCY TRANSLATION

The Company's financial statements are presented in US dollars, 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 net income. 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.

(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 statement of profit or loss and other comprehensive income.

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 over the minimum lease term. 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

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income, either as an expense as it relates to operating activities or as a component of the applicable categories of other comprehensive income or loss.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date.

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit and taxable temporary differences will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit and taxable temporary differences will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(M). CHANGES IN ACCOUNTING POLICIES

In the current year, the Company has adopted the following amendments to IFRS that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations- In May 2014, the IASB issued an amendment to IFRS 11 Joint Arrangements. The amendment requires that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

- IAS 1 Disclosure Initiative – Amendments to IAS 1 – in December 2014, the IASB issued amendments to clarify existing IAS 1 requirements. The amendments clarify the materiality requirements in IAS 1, that specific items in the statement of profit and loss and OCI and the statement of financial position may be disaggregated, that entities have flexibility as to the order in which they present the notes to financial statements and how the share of OCI of associates and joint ventures accounted for using the equity method must be presented.

4. OIL AND GAS SALES

Revenue comprises sales of hydrocarbons from production in the United Kingdom.

	2016 US$'000	2015 US$'000
Revenue from sale of – oil	5,476	21,072
– gas	64	546
	5,540	21,618

5. OTHER INCOME, NET

	2016 US$'000	2015 US$'000
Operating lease rentals	-	92,687
Finance income	542	36
Other income	1,214	951
Foreign exchange gains	279	-
	2,035	93,674

6. FINANCE COSTS

	2016 US$'000	2015 US$'000
Long - term debt interest expense	-	5,101
Unwinding of discount related to decommissioning provision (note 15)	2,115	1,777
Foreign exchange losses	-	1,686
Other interest expense	2	9
	2,117	8,573

7. STAFF COSTS & DIRECTORS' REMUNERATION

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. AUDITOR'S REMUNERATION

Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements amounts to US$78 thousand (2015: US$89 thousand). No fees were paid during the year to the Company's auditor for non-audit services (2015: US$ Nil).

9. INCOME TAX

(A) PROVISION FOR / (RECOVERY OF) INCOME TAXES

	2016	2015
	US$'000	US$'000
Current tax		
Charge / (credit) for the year @ 40% (2015: 50%)	238	(1,643)
Prior period adjustments	416	(4,222)
	654	(5,865)
Deferred tax		
Temporary differences in the current year	3,570	(13,225)
Prior period adjustments	(84)	(44)
	3,486	(13,269)
Total income tax expense / (credit) recognised in net income	4,140	(19,134)

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

(B) DEFERRED INCOME TAX

	Statement of profit or loss and other comprehensive income		Statement of financial position	
	2016	2015	2016	2015
	US$'000	US$'000	US$'000	US$'000
Property, plant & equipment	3,486	(11,960)	(14,030)	(17,516)
Other temporary differences	-	(1,309)	-	-
Net deferred income tax	3,486	(13,269)	(14,030)	(17,516)

	2016	2015
Net deferred income tax asset	US$'000	US$'000
Analysis of movements during the year		
Asset at the beginning of the year	(17,516)	(4,247)
Annual provision / (recovery) in net income	3,486	(13,269)
Balance at the end of the year	(14,030)	(17,516)

At the balance sheet date there were deferred tax assets of US$14 million (2015: US$17.5 million) due to activities in the prior periods and it is anticipated that these will be recovered as we abandon the Ettrick and Blackbird fields.

9. INCOME TAX (continued)

(C) RECONCILIATION OF EFFECTIVE TAX RATE TO THE UK CORPORATION TAX RATE

	2016	2015
	US$'000	US$'000
Income / (loss) from operations before provision for income taxes	1,259	(1,029)
Provision for / (recovery of) income taxes computed at the UK Corporation tax rate of 40% (2015: 50%)	504	(515)
Deduct the tax effect of:		
Items taxed at the non-ring fence rate of 20% (2015: 20.25%)	-	(41,851)
Prior period adjustments	332	(4,266)
Impact of change in tax rates	3,520	(3,328)
Non-taxable income expenses and others	(216)	30,826
	4,140	(19,134)

On 15 September 2016, the UK government enacted a reduction in the combined income tax rate on North Sea oil and gas activities from 50% to 40% effective 1 January 2016. This tax rate reduction gave rise to a one-time deferred tax expense which decreased the Company's deferred tax asset in 2016.

On 26 March 2015, the UK government enacted a reduction in the combined income tax rate on North Sea oil and gas activities from 62% to 50% effective 1 January 2015. This tax rate reduction gave rise to a one-time deferred tax recovery which increased the Company's deferred tax asset in 2015.

10. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties US$'000
Cost	
At 1 January 2016	239,767
Change in decommissioning estimates	1,832
Transfer to asset classified as held for sale	(664)
Disposals	(889)
Derecognition[(1)]	(233,390)
Exchange differences	(6,449)
At 31 December 2016	207
Depletion and impairment	
At 1 January 2016	238,692
Decommissioning credit[(2)]	(4,688)
Credit for the year	(141)
Disposal	(355)
Derecognition[1]	(233,390)
At 31 December 2016	118
Net book value	
At 1 January 2016	1,075
At 31 December 2016	89

[(1)] Amount derecognised relates to the Ettrick and Blackbird fields which ceased production during the year.

[(2)] Credit relates to downward revisions to decommissioning provision that were greater than the remaining property, plant and equipment balance.

The net book value at 31 December 2016 relates to equipment that will be used during decommissioning activities commencing 2018.

11. TRADE AND OTHER RECEIVABLES

	2016	2015
	US$'000	US$'000
Trade receivables	-	3,600
Amounts owed by affiliated undertakings	50	4,607
Prepayments, accrued income and others	687	33
	737	8,240

As at 31 December 2016 none of the trade and other receivables, at initial value, were materially impaired and substantially all receivables were aged within 30 days.

12. ASSETS CLASSIFIED AS HELD FOR SALE

The Ettrick field owners have agreed to sell the Ettrick Pipeline End Manifold ("PLEM") to the owners of the Golden Eagle field. The carried value of PLEM represents the consideration due to the Company. The transaction was completed on 2 March 2017.

13. ISSUED CAPITAL

Ordinary shares of £0.21 each, issued and fully paid	Shares	US$'000
At 31 December 2016 and 31 December 2015	216,602,741	84,236

14. DIVIDENDS PAID AND PROPOSED

	2016	2015
	US$'000	US$'000
Dividends on ordinary share		
Interim dividend - paid	-	130,000
- declared	-	220,000
Total dividends for the year	-	350,000
	US$	US$
Dividend per ordinary share	-	1.61586

15. DECOMMISSIONING PROVISION

	2016 US$'000	2015 US$'000
At 1 January	35,781	44,529
Changes in estimates[1]	9,032	(7,498)
Utilised	(4,281)	(611)
Unwinding of discount[2]	2,115	1,777
Exchange differences	(6,964)	(2,416)
At 31 December[3]	35,683	35,781
Current portion of decommissioning provision included in accounts payable, accrued and other liabilities	(2,879)	(3,803)
At 31 December	32,804	31,978

[1]The change includes the Company's share of a joint venture partner which is in default. Nexen's share of changes is included within the change in decommissioning provision of oil and gas properties (note 10).

[2]The discount rate used for calculating the amount of unwinding of discount is a credit-adjusted weighted-average rate of 5% (2015: 5%).

[3] We expect that our decommissioning provision will be settled within five years from the balance sheet date.

16. ACCOUNTS PAYABLE, ACCRUED AND OTHER LIABILITIES

	2016 US$'000	2015 US$'000
Decommissioning provision (note 15)	2,879	3,803
Amounts due to affiliated undertakings	2,871	31
Dividend payable	-	220,000
Joint venture creditors	430	866
Accruals and other liabilities	77	897
	6,257	225,597

17. CAPITAL COMMITMENTS AND OTHER CONTINGENCIES

Operating lease commitment – company as lessee

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

	2016 US$'000	2015 US$'000
Operating leases which expire:		
Within one year	-	3,106

In 2016, the amount charged to the profit and loss account was US$1.3 million (2015: US$8 million) relating to operating leases for the Ettrick field.

18. RELATED PARTY

Ultimate and immediate parent company

At 31 December 2016, the ultimate controlling party and the largest group of undertakings for which group accounts are drawn up, and of which the Company is a member was China National Offshore Oil Corporation (CNOOC), a company established in the People's Republic of China (PRC). The consolidated accounts of CNOOC are available to the public and may be obtained from www.cnooc.com.cn.

The smallest group of undertakings for which group accounts are drawn up, and of which the Company is a member is CNOOC Limited. The consolidated accounts of CNOOC Limited are available to the public and may be obtained from www.cnoocltd.com.

The immediate parent company for the Company is Nexen Petroleum U.K. Limited, Prospect House, 97 Oxford Road, Uxbridge, UB8 1LU.

Year end balances with related parties

Amounts owed by and amounts due to affiliated undertakings are disclosed in notes 11 and 16 respectively.

Facilities with an affiliated undertaking

The Company has a short term deposit facility with CNOOC UK Limited (CNUK), into which the Company can deposit surplus funds up to a limit of US$500 million (2015: US$500 million). The balance held by CNUK at 31 December 2016 was US$162 million (2015: US$375 million). This balance is repayable on demand and is considered a cash equivalent.

The Company also has a loan facility of US$50 million (2015: US$50 million) with an interest rate of 6 month US$ LIBOR plus 3.75% (2015: 6 month US$ LIBOR plus 3.75%) with CNUK. The balance drawn at 31 December 2016 and 2015 was US$ Nil.

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 2016, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2015: US$ 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.

19. FINANCIAL INSTRUMENTS

Financial instruments carried at fair value include cash and cash equivalents. Other financial instruments, including trade receivables, accounts payable and accrued liabilities, are carried at cost or amortized cost. The carrying value of current and non-current receivables and payables approximates fair value.