



# **Report and Financial Statements**

## **Endeavour Energy UK Limited**

**31 December 2016**



# Endeavour Energy UK Limited

## Financial Statements

31 December 2016

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*Quantities of natural gas are expressed in these Financial Statements in terms of thousand cubic feet ("mcf") or million cubic feet ("mmcf"). Oil, which includes natural gas liquids, is quantified in terms of barrels ("bbl") or thousand barrels ("mbbl"). Natural gas and oil are compared in terms of barrels of oil equivalent ("boe"). Daily volumes are expressed as barrels of oil equivalent per day ("boed"). One barrel of oil is the approximate energy equivalent of six mcf of natural gas. This is a physical correlation and does not reflect a value or price relationship between the commodities.*

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### Strategic Report

Unless the context otherwise requires, references to “Endeavour,” the “Company,” “we”, “us” or “our” mean Endeavour Energy UK Limited (“EEUK”).

### Principal activities

As an independent oil and gas company, our principal activities are the exploration, development and production of crude oil, natural gas and natural gas liquids in the U.K. North Sea.

### Business Review

At 31 December 2016, we had net liabilities of \$979.3 million (2015: \$772.7 million). For the year ended 31 December 2016, we incurred pre-tax losses of \$183.1 million (2015: \$185.8 million) and generated a retained loss of \$206.5 million (2015: \$200.9 million).

### Primary Producing Fields

During 2016, the Company had three primary producing fields in the U.K. North Sea – Alba, Bacchus and Rochelle. Each of these fields is discussed below.

#### **Alba**

We have a 25.68% working interest in Alba, a mature oil field, which began first production in 1994. As a mature field, Alba’s operations are primarily focused on conducting infill drilling and operational activities. The field has 25 producing wells, supported by six water injection wells, with the production sold through oil tanker liftings.

#### **Bacchus**

At 31 December 2016, we held a 30% working interest in the Bacchus field. The Bacchus field is an oil field that began production in April 2012. Bacchus has two producing wells that utilize subsea tiebacks to offtake its production and utilizes gas lift from the Forties Alpha Platform.

#### **Rochelle**

Rochelle has one well that produces via a subsea tieback. During 2016, Rochelle experienced unplanned downtime and a field decline rate that was faster than anticipated. During the first quarter of 2017, production was switched from high pressure to low pressure operations to enhance production. The switch to low pressure operations was successfully completed on 2 April 2017 and production was restarted with a realized increase in rate of 40%.

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### **Results and dividends and KPIs**

For the year 31 December 2016:

- Revenue was \$116.4 million (2015: \$209.1 million);
- Loss before taxation was \$183.1 million (2015: \$185.8 million); and
- Comprehensive loss was \$206.5 million (2015: \$200.9 million).

Revenue decreased approximately \$92.7 million from the year ended 31 December 2015 to the year ended 31 December 2016, a decrease of 44%. The primary reason for the decrease was a decrease in realized oil pricing related to Alba during 2016 and a decrease in production from Rochelle.

Loss before taxation decreased \$2.7 million from the year ended 31 December 2015 to the year ended 31 December 2016, a decrease of 1%. The primary reason for the decrease was declining revenue due to lower oil prices and production and partially offset by lower depreciation and impairment of oil and gas properties.

For the year ended 31 December 2016 and through to the date of this Strategic Report, no dividend was declared by the Directors.

### **Principal Risks and Uncertainties**

#### **Risks and Uncertainties**

Our operations and our ability to execute our business strategy will be subject to risks and uncertainties. These risks include but are not limited to:

- our ability to depend on financing from parent companies to fund our development projects and operations;
- our ability to continue as a going concern;
- our ability to obtain and maintain normal payment and other terms with customers, vendors and service providers;
- our ability to maintain licenses, leases and other contracts that are critical to our operations;
- our ability to attract, motivate and retain key employees;
- our ability to retain key vendors or secure alternative supply sources; and
- our ability to fund and execute our business plan, operations and financial commitments.

#### **Competitive Risks**

We encounter competition from other oil and gas companies in all areas of our operations, including the acquisition of producing properties and undeveloped acreage. Our competitors include major integrated oil and gas companies, numerous independent oil and gas companies and individuals. Many of our competitors are large, well-established companies with

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substantially larger operating staffs and greater capital resources and have been engaged in the oil and gas business for a much longer time than our company.

Petroleum and natural gas producers also compete with other suppliers of energy and fuel to industrial, commercial and individual customers. Competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the governments and/or agencies thereof and other factors out of our control including, international political conditions, overall levels of supply and demand for oil and gas, and the markets for synthetic fuels and alternative energy sources.

### **Legislative Risks**

Oil and gas exploration, development and production are subject to various types of regulation by governmental authorities. Regulations and laws affecting the oil and gas industry are comprehensive and under constant review for amendment and expansion. These regulations and laws carry substantial penalties for failure to comply. The regulatory burden on the oil and gas industry increases our cost of doing business and therefore could adversely affect its profitability.

### **Environmental Risks**

Our operations are subject to a variety of laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Failure to comply with the law and regulations can result in the imposition of substantial fines and penalties as well as potential orders suspending or terminating our operation rights. Also, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances.

### **Decommissioning Costs**

We expect to incur obligations to abandon and decommission certain structures associated with our producing properties. We are required to post collateral as security over certain of our decommissioning liabilities in the North Sea. If actual decommissioning or abandonment costs exceed our estimates or reserves to satisfy such obligations, or if we are required to provide a significant amount of collateral in cash or other security for these future costs, our financial condition, results of operations and prospects could be materially adversely affected. Moreover, applicable governmental authorities may increase the amount of collateral required as security for our North Sea operations. We cannot guarantee that we will be able to post sufficient collateral to secure such costs in the event of an increase in offshore collateral security requirements.

### **Market Risk**

Our revenue and profit and loss depend substantially upon the prices and demand for oil and gas. The markets for these commodities are volatile, and even relatively modest drops in prices can significantly affect our financial results and impede our growth. In addition, oil prices declined severely during the fourth quarter of 2014. Brent crude oil declined from \$110 per bbl at December 31, 2013 to \$57 per bbl at December 31, 2014 and then to \$37 per bbl at December 31, 2015. During 2016, Brent crude prices reached as low as \$26 per bbl

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before recovering to \$55 per bbl at year-end. We were severely impacted by these significant declines in oil and gas prices.

Our production is sold at prevailing market prices, which may be volatile and subject to numerous factors which are outside of our control. Further, the current tightly balanced supply and demand market means a small variation in supply or demand can significantly impact the market prices for these commodities.

### Financing and Liquidity Risks

Our development and exploration operations require substantial capital, and we may be unable to generate sufficient cash flow from operations or obtain needed capital or financing on satisfactory terms, which could lead to a loss of properties and a decline in our oil and gas reserves.

The oil and gas industry is capital intensive. We make and expect to continue to make substantial capital expenditures in our business and operations for the exploration, development, production and acquisition of oil and gas reserves. In the past, we have utilized cash flow from operations and our parent company's access to the debt and equity markets to fund our capital requirements.

Our cash flow from operations and access to capital is subject to a number of variables, including:

- the level of natural gas and crude oil we are able to produce from existing wells and through infrastructure owned by others;
- our oil and gas reserves;
- uncertainties related to drilling and production operations;
- the prices at which natural gas and crude oil are sold;
- the timing and amount of capital expenditures;
- our ability to control the development efforts, costs and timing of our operations; and
- our ability to acquire, locate and produce new reserves.

If our revenues decrease as a result of lower oil and gas prices, operating difficulties, declines in reserves or for any other reason or our capital expenditures increase as a result of operating difficulties, higher drillings costs or for any other reason, we may have limited ability to generate sufficient cash flow from operations or obtain the capital necessary to sustain our operations at current levels or to further develop and exploit our current properties, or for exploratory activity. In order to fund our capital expenditures, we may need to seek additional financing. Any future indebtedness we incur may contain covenants restricting our ability to incur additional indebtedness without the consent of the lenders.

In December 2015, Endeavour International Holding B.V. ("EIHBV") notified the lenders under the Amended Term Loan Facility of its intention not to pay the \$12 million of interest due on 31 December 2015 under the Amended Term Loan Facility. EIHBV did not make the interest payment, or any subsequent payments, within the allowed grace period and the lenders accelerated the indebtedness owed under the Credit Facility. Our assets secure

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payment of EIHBV's Amended Term Loan Facility and the maturity of the EIHBV Intercompany Loan coincides with the Amended Term Loan Facility.

On 23 December 2015, EIHBV entered into a forbearance agreement with the lenders under the Amended Term Loan Facility (the "Forbearance") whereby the lenders agreed to forbear from exercising certain of their enforcement rights and remedies under the Amended Term Loan Facility until 7 February 2016. The Forbearance Agreement has been amended multiple times and currently is extended to 30 September 2017.

Aspire is currently evaluating various alternatives with respect to the Amended Term Loan Facility, including a sale of some or all of our assets, but there is no certainty that Aspire will be able to implement any alternatives or otherwise resolve its covenant issues. If the lenders under the Amended Term Loan Facility pursue repayment of the loan after the Forbearance period, Aspire would not have sufficient liquidity to repay all of our outstanding indebtedness without new financing. As our assets secure payment of the Amended Term Loan Facility and our EIHBV Intercompany Loan's payment terms are linked to the Amended Term Loan Facility, demand for payment of this magnitude would likely result in a reorganization, other restructuring or liquidation.

Furthermore, we may not be able to obtain debt or equity financing in the future on terms favorable to us, or at all. The failure to obtain additional financing could result in a curtailment of our operations relating to exploration and development of our prospects, which in turn could lead to a possible loss of properties and a decline in our natural gas, crude oil and natural gas liquids reserves.

### Future Prospects

Notwithstanding the current activities of Aspire's directors (see *Business Review* above), the Company's directors consider that the Company is in a position to take advantage of opportunities which may arise in the future, and plan to continue in the exploration, development and production of crude oil, natural gas and natural gas liquids.

By order of the board



Director  
Catherine Stubbs

40 Queens Road, Aberdeen, AB154YE  
28 September 2017



# Endeavour Energy UK Limited

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### Directors' Report

(registered number: 05030838)

The directors present their report and the audited financial statements for the year 1 January 2016 to 31 December 2016.

### Going Concern

Our business activities, together with the factors likely to affect our future development and performance, are set out in the principal activities, business review and future developments and principal risks and uncertainties sections on pages 1 to 5. This includes considering risks and uncertainties to the Company related to competitive risks, legislative risks, environmental risks, decommissioning costs, market risk and financing and liquidity risks.

On the basis of this assessment, it is the belief of the directors that the Company will remain in operational existence for the foreseeable future. Thus it continues to apply the going concern basis of accounting in preparing the annual financial statements, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the twelve month period following the date of these financial statements.

However, as a result of the maturity of the EIHBV Intercompany Loan on 2 January 2017 and other matters described herein, including the uncertainties related to the outcome of potential asset sales that could result from our U.K. marketing, there are material uncertainties which may cast significant doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on many factors, including, among other things, EIHBV's ability to restructure the Amended Term Loan Facility. The accompanying financial statements do not include any adjustments that might be necessary if EIHBV's actions to address these factors are not successful.

### Directors

The directors who held office during the year or subsequent to year end were as follows:

C. L. Stubbs (Appointed 2 March 2012)  
J. Brecker (Appointed 21 October 2015, Resigned 6 January 2016)  
A. Crutchfield (Appointed 21 October 2015, Resigned 6 January 2016)  
G. C. Hanna (Appointed 21 October 2015)  
J. J. LaChance (Appointed 21 October 2015)  
J. L. McInnis (Appointed 21 October 2015)  
S. Pully (Appointed 21 October 2015)  
G. F. Sandison (Appointed 21 October 2015)

Ms. Stubbs is an employee of a parent company. All other directors are non-employee directors of Aspire.

The Directors benefited from qualifying third party indemnity provisions in place during the year ended 31 December 2016 and at the date of this report. The Company provided

# Endeavour Energy UK Limited

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qualifying third party indemnity provisions to directors of associated companies during the year ended 31 December 2016 and at the date of this report.

### Post Balance Sheet Events

Payment of interest has been deferred since 31 December 2015 in accordance with the deferral of interest payments under the Forbearance. See discussion of the Forbearance in *Note 25 – Capital Management*.

### Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

Pursuant to S487 of the Companies Act of 2006, the auditors will be deemed to be re-appointed and Ernst & Young LLP will therefore continue in office.

By order of the board



Director  
Catherine Stubbs

40 Queens Road, Aberdeen, AB154YE  
28 September 2017

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### **Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Reports and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by EU, effective 31 December 2016, and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by EU 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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **Independent Auditor's Report to the Members of Endeavour Energy UK Limited**

We have audited the financial statements of Endeavour Energy UK Limited for the year ended 31 December 2016 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statements of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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 set out on page 8, 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 Report and Financial Statements 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 IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of Matter – Going Concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Company's ability to continue as a going concern. The conditions explained in note 2 to the financial statements, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

### **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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.

*Ernst & Young LLP*

*Moirra Ann Lawrence (Senior statutory auditor)*

*for and on behalf of Ernst & Young LLP, Statutory Auditor  
Aberdeen*

*29 September 2017*

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### Statement of Comprehensive Income

*for the year 1 January 2016 through 31 December 2016*

(Amounts in US \$000)		Year Ended	
		31 December	
	Note	2016	2015
Revenue	4	116,394	209,092
Cost of sales		(57,548)	(96,840)
Insurance reimbursement of cost of sales	5	—	10,529
<b>Gross profit</b>		<b>58,846</b>	<b>122,781</b>
Depreciation, depletion and amortization	5	(26,963)	(69,623)
Oil and gas impairments	5	(80,400)	(123,187)
Administrative expenses		(6,444)	(12,762)
<b>Operating loss</b>	<b>5</b>	<b>(54,961)</b>	<b>(82,791)</b>
Finance costs	7	(131,623)	(113,828)
Interest income from bank accounts		40	54
Letter of credit fees		—	(181)
Revisions to decommissioning obligations for non-producing fields	18	(11,967)	7,838
Transaction costs		321	(5,358)
Net foreign currency exchange gain	5	15,153	8,519
Other expenses		(16)	(39)
<b>Loss before tax</b>		<b>(183,053)</b>	<b>(185,786)</b>
Tax expense on loss from ordinary activities	9	(23,476)	(15,155)
<b>Comprehensive loss</b>		<b>(206,529)</b>	<b>(200,941)</b>

# **Endeavour Energy UK Limited** **Financial Statements**

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## **Statement of Financial Position**

*at 31 December 2016 and 2015*

(Amounts in US \$000)		31 December	
	Note	2016	2015
<b>Non-current assets:</b>			
Intangible assets	10	28,291	27,864
Property, plant and equipment	10	123,607	182,865
Other non-current assets	12	62	62
Deferred tax asset	9	17,198	42,932
		169,158	253,723
<b>Current assets:</b>			
Inventory	13	12,966	7,785
Trade and other receivables	14	15,688	29,365
Intercompany receivables	11	17,247	15,434
Other current assets	15	1,980	2,363
Restricted cash	16	75,441	104,298
Cash		40,408	10,294
		163,730	169,539
<b>Total assets</b>		<b>332,888</b>	<b>423,262</b>

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## **Statement of Financial Position**

*at 31 December 2016 and 2015*

(Amounts in US \$000)		31 December	
	Note	2016	2015
<b>Equity:</b>			
Share capital	17	—	—
Share premium	17	342,846	342,846
Retained deficit		(1,322,115)	(1,115,586)
		(979,269)	(772,740)
<b>Non-current liabilities:</b>			
Provisions	18	196,072	198,001
Other non-current liabilities		-	2
		196,072	198,003
<b>Current liabilities:</b>			
Trade and other payables	19	16,272	24,697
Intercompany payables	21	152,761	24,357
Intercompany notes payables	20	940,000	940,933
Deferred revenue	22	5,217	2,556
Provisions	18	1,835	5,456
		1,116,085	997,999
<b>Total liabilities</b>		<b>1,312,157</b>	<b>1,196,002</b>
<b>Total shareholder equity and liabilities</b>		<b>332,888</b>	<b>423,262</b>

The notes on pages 16 to 42 form part of these financial statements.

These financial statements were approved by the Board of Directors on 28 September 2017 and were signed on its behalf by:

*Catherine Stubbs*

Catherine Stubbs  
Director  
28 September 2017



# Endeavour Energy UK Limited

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## Statement of Changes in Equity

*for the year 1 January 2016 through 31 December 2016*

(Amounts in US \$000)	Share Capital	Share Premium	Retained Deficit	Stockholder's Deficit
Balance 1 January, 2015	—	342,846	(914,645)	(571,799)
Comprehensive Loss for the year	—	—	(200,941)	(200,941)
Balance 31 December 2015	—	342,846	(1,115,586)	(772,740)
Comprehensive Loss for the year	—	—	(206,529)	(206,529)
Balance 31 December 2016	—	342,846	(1,322,115)	(979,269)

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## Statement of Cash Flows

for the year 1 January 2016 through 31 December 2016

	Year Ended 31 December	
	2016	2015
Cash Flows from Operating Activities:		
Comprehensive loss for the year	(206,529)	(200,941)
Adjustments to reconcile comprehensive loss to net cash used in operating activities:		
Depreciation, depletion and amortization	26,963	69,623
Impairment of oil and gas properties	80,400	123,187
Deferred tax expense	25,734	15,623
Accretion expense	2,390	5,147
Revisions to decommissioning obligations for non-producing fields	(4,510)	(7,522)
Cash settlement of asset retirement obligations	(1,081)	(47,834)
Restricted cash utilized to settle asset retirement obligations	16,354	—
Noncash transaction costs	—	(5,162)
Unrealized foreign currency gains on decommissioning	(33,057)	(15,691)
Other	—	2,006
Changes in operating assets and liabilities:		
Decrease in receivables	5,192	3,714
Decrease (increase) in other current assets	(4,798)	11,545
Increase (decrease) in liabilities	3,925	(23,975)
Net Cash Used in Operating Activities	(89,017)	(70,280)
Cash Flows From Investing Activities:		
Capital expenditures	(19,030)	(25,614)
Insurance proceeds	—	5,794
(Increase) decrease in restricted cash	12,504	(4,057)
Net Cash Used in Investing Activities	(6,526)	(23,877)
Cash Flows From Financing Activities:		
Intercompany financing	125,657	54,724
Net Cash Provided by Financing Activities	125,657	54,724
Net Increase (Decrease) in Cash	30,114	(39,433)
Cash, Beginning of Period	10,294	49,727
Cash, End of Period	40,408	10,294

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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### Note 1 – Corporate Information

The financial statements of Endeavour Energy UK Limited (“we,” “EEUK” or the “Company”), for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 28 September 2017. EEUK is a privately held company incorporated in England and Wales. The registered office is located at 20 Fenchurch Street, Level 24, London, United Kingdom, EC3M 3BY.

Our principal activities are the production and development of oil and gas reserves in the U.K. Information on our parent and other related party relationships is presented in *Note 26 – Parent Undertaking*.

The company is exempt from the requirement to prepare and deliver group accounts by virtue of section 402 of the Companies Act 2006 and accordingly the accounts present the information about the company as an individual undertaking and not about its group. The results of the subsidiary undertaking are not material for the purposes of giving a true and fair view.

### Note 2 – Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and as adopted by the EU, effective 31 December 2016.

The financial statements have been prepared on a historical cost basis with some exceptions, as detailed in the accounting policies set out below. These policies have been applied consistently to all periods presented in these financial statements. The financial statements are presented in US dollars, and all values are rounded to the nearest thousand (US\$ thousand), except where otherwise indicated.

### Going Concern

At 31 December 2016, we had net liabilities of \$979.3 million (2015: \$772.7 million). For the year ended 31 December 2016, we incurred a pre-tax loss of \$183.1 million (2015: \$185.8 million) and generated a retained loss of \$206.5 million (2015: \$200.9 million).

Throughout the latter half of 2014 and much of 2015, our ultimate parent company at that time, Endeavour International Corporation (“EIC”), engaged in discussions with representatives of certain holders of its various classes of indebtedness regarding the potential terms under which the terms of its outstanding debt could be restructured in order to deleverage its balance sheet. As part of that process, on 10 October 2014, EIC and certain of its wholly owned subsidiaries (collectively, the “Debtors”) filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”).

On 21 October 2015, EIC and its wholly owned subsidiary, Endeavour Operating Corporation (“EOC”), completed a series of transactions with the holders of certain of EIC’s first priority notes, the collateral agent for the holders of such notes (the “Agent”) and the

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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lenders under the Amended Term Loan Facility issued by one of EIC's subsidiaries, Endeavour International Holding B.V. ("EIHBV"). (See *Note 20 – Intercompany Notes Payables* for further discussion.) Those transactions included:

- the sale of all of the stock of EOC's wholly-owned subsidiary, EIHBV;
- the sale of an intercompany note issued to EOC by the Company (the "Intercompany Note"); and
- certain amendments to the Amended Term Loan Facility, including changes to certain covenant ratios and maturity date.

The purchaser was a newly formed entity, Aspire Holdings, LLC ("Aspire"), owned by the holders of EIC's First Priority Notes and the lenders under EIHBV's Amended Term Loan Facility. As a result of these transactions, the Company's ultimate parent company became Aspire on 21 October 2015.

Our assets secure payment of EIHBV's Amended Term Loan Facility, which originally matured in January 2017, and the maturity of the EIHBV Intercompany Loan coincides with the Amended Term Loan Facility. Additionally, the lenders under EIHBV's Amended Term Loan Facility own substantially all of the outstanding shares of Aspire.

In December 2015, EIHBV notified the lenders under the Amended Term Loan Facility of its intention not to pay the \$12 million of interest due on 31 December 2015 under the Amended Term Loan Facility. EIHBV did not make the interest payment, or any subsequent payments, within the allowed grace period and the lenders accelerated the indebtedness owed under the Credit Facility. On 23 December 2015, EIHBV entered into a forbearance agreement with the lenders under the Amended Term Loan Facility (the "Forbearance") whereby the lenders agreed to forbear from exercising certain of their enforcement rights and remedies under the Amended Term Loan Facility, including calling the debt or unpaid interest, until the termination of the forbearance period on 7 February 2016. The Forbearance Agreement has been amended multiple times and currently is extended to 30 September 2017.

Aspire is in vigorous discussions with lenders under EIHBV's Amended Term Loan Facility concerning this maturity and Aspire expects to extend, refinance or capitalize the Amended Term Loan Facility.

Our accompanying financial statements were prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the twelve month period following the approval of these financial statements. However, the following material uncertainties exist which may cast significant doubt about the Company's ability to continue as a going concern:

- the current inability to fund interest payments due from available cash flow; and
- the maturity of the existing funding arrangements without planned replacements.

The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

We believe we will be able to fund operations for the foreseeable future including our capital expenditures and other expenditure requirements based on our projections of funds generated from operations and cash available, assuming the completion of an extension, refinancing or

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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capitalization of EIHBV's Amended Term Loan Facility. Our ability to continue as a going concern is dependent on many factors, including, among other things, the group's ability to restructure the Amended Term Loan and EIHBV's ability to maintain compliance with debt covenant requirements of the Amended Term Loan Facility.

### Significant Accounting Judgements, Estimates and Assumptions

These accounting principles require management to use estimates, judgments and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported herein. While management regularly reviews its estimates, actual results could differ from those estimates. Changes in estimates are accounted for prospectively.

In particular, we have identified the following areas where significant judgements, estimates and assumptions are required:

- estimates of oil and gas reserves;
- estimates as to the expected future cash flow from proven and probable oil and gas properties;
- estimates of future decommissioning costs;
- estimates of fair values; and
- estimates of the recovery of deferred tax assets.

Further information on each of these areas and how they impact the various accounting policies are described also in the relevant notes to the financial statements.

### Oil and Gas Reserve Estimates

Oil and gas reserves are estimated quantities of oil, gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. The process requires interpretation of the available technical data and making many assumptions about future conditions, including price and other economic factors. In preparing such estimates, projection of production rates, timing of development expenditures and available geological, geophysical, production and engineering data are analyzed. This process also requires economic assumptions about matters such as oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds.

We estimate and report hydrocarbon reserves in line with the principles promulgated by the Society of Petroleum Engineers. As the economic assumptions or interpretations used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact our reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected by changes in estimated future cash flows.
- Depreciation and amortisation charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the units of production method, or where the useful life of the related assets change.

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- Provisions for decommissioning may require revision — where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities.
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

### Deferred Taxes

Judgement is required to determine whether deferred tax assets are recognised in the statement of financial position. Recognition of the benefits of the deferred tax assets requires that we generate future taxable income. Assumptions about the generation of future taxable income depend on our estimates of future cash flows, which are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure and capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, our ability to realise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which we operate could limit our ability to obtain tax deductions in future periods.

### Note 3 – Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### Joint Arrangements

We have certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. We include our share of assets, liabilities and cash flows in joint arrangements, measured in accordance with the terms of each arrangement, which are usually pro rata to our interest in the joint arrangement.

#### Reimbursement of Costs of the Operator of the Joint Arrangement

When we, acting as an operator or manager of a joint arrangement, receive reimbursement of direct capital costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss.

When we charge a management fee (based on a fixed percentage of total general and administrative costs incurred for the year) to cover other general and administrative costs incurred in carrying out the activities on behalf of the joint arrangement, the general overhead expenses and the management fee are recognised in the statement of profit or loss as an expense and income, respectively.

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### Oil and Gas Assets

Oil and gas exploration costs are accounted for under a successful efforts based method: exploration costs are recognised in income when incurred, except that exploratory drilling costs are included in property, plant and equipment pending determination of proved reserves. The application of our accounting policy for oil and gas assets requires judgement to determine whether future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

Exploration costs capitalised in respect of exploration wells that are more than 12 months old are written off unless:

- proved reserves are booked; or
- they have found commercially producible quantities of reserves and they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is underway or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of reserves and the economic and operating viability of the project.

Oil and gas assets include rights in respect of properties with proved reserves (proved properties) and with no proved reserves (unproved properties). Property, plant and equipment, including expenditure on major inspections, and intangible assets are initially recognised in the Balance Sheet at cost where it is probable that they will generate future economic benefits. This includes capitalisation of decommissioning and restoration costs associated with provisions for asset retirement (see *Note 18 - Decommissioning*).

Property, plant and equipment and intangible assets are subsequently carried at cost less accumulated depreciation, depletion and amortisation (including any impairment). Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts of assets sold and are recognised in income, within interest and other income.

### Pre-licence Costs

Pre-licence costs are expensed in the period in which they are incurred.

### Licence and Property Acquisition Costs

Exploration licence and leasehold property acquisition costs are capitalised in intangible assets. Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that work is under way to determine that the discovery is economically viable. If no future activity is planned or the licence has been relinquished or has expired, the carrying value of the licence and property acquisition costs are written off through the statement of profit or

# **Endeavour Energy UK Limited**

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loss and other comprehensive income. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

### **Development Costs**

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

### **Depreciation, Depletion and Amortisation**

Oil and gas properties are depreciated using the Unit of Production ("UOP") method over total proven and probable reserves. This results in a depreciation charge proportional to the depletion of the anticipated remaining production from the field. The life of each field is assessed at least annually. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

### **Major Maintenance, Inspection and Repairs**

Expenditure on major maintenance projects, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where a maintenance project is expected to provide future economic benefits, the expenditure is capitalised. All other day-to-day repairs and maintenance costs are expensed as incurred.

### **Other Tangible Fixed Assets**

Other tangible assets with finite lives are using the straight-line method over their estimated useful economic lives of two to five years and assessed for impairment whenever there is an indication that the tangible asset may be impaired. Changes in the expected useful life are treated as changes in accounting estimates.

### **Impairment**

We assess at each reporting date whether there is an indication that an asset (or CGU) may be impaired. If any indication exists, we estimate the field's recoverable amount, being the higher of value in use ("VIU") and fair value less costs to dispose ("FVLCD"). Where the carrying amount of a field exceeds its recoverable amount, the field is considered impaired and is written down to its recoverable amount.

In calculating VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the field. VIU does not reflect future cash flows associated with improving or enhancing an asset's performance.

The assessments of recoverable amounts require the use of estimates and assumptions regarding the expected future cash flow from proven and probable oil and gas properties, which are dependent upon various factors, such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs,



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future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

### **Financial Instruments — Receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

### **Financial Instruments — Liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Our financial liabilities include trade and other payables, loans and derivative financial liabilities.

### **Subsequent Measurement**

The measurement of financial liabilities depends on their classification, as described below:

#### **Financial Liabilities at Fair Value through Profit or Loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term, which includes derivative financial instruments that are not designated as hedging instruments in hedge relationships. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

#### **Loans and Borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised, as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

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### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

### **Cash**

Cash in the statement of financial position comprise cash at banks and on hand, which are subject to an insignificant risk of changes in value. Cash excludes restricted cash, which is not available for our use and therefore is not considered highly liquid — for example, cash set aside to cover decommissioning obligations.

### **Inventories**

Materials and supplies and oil inventories are valued at the lower of cost or net realizable value. The cost of materials is the purchase cost, determined on a first-in, first-out basis. The cost of crude oil and natural gas liquids is the purchase cost, the cost of refining, including the appropriate proportion of depreciation, depletion and amortisation and overheads based on normal operating capacity, determined on a weighted average basis. The net realisable value of crude oil and natural gas liquids is based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Leases**

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

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight line basis over the lease term.

### **Revenue**

Oil and gas revenues are recorded when production is transported by pipeline or when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred, title has transferred and collectability of the revenue is probable.

### **Deferred Revenue**

For certain of our U.K. fields, we sell production on a monthly basis; however, the production remains in the field's storage tanks. The inventory associated with these sales

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## Notes to the Financial Statements

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remains on our balance sheet and the revenue is deferred until the production is shipped out of our storage tanks.

### Decommissioning

Provision for future decommissioning costs is made where we have a present legal or constructive obligation, which generally arises when a well is drilled or equipment installed. The provision for future decommissioning is calculated before corporate tax, based on future cash flows discounted at rates to reflect risks specific to the costs. An amount equivalent to the initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit of production basis over proven and probable reserves. Changes to the provision other than unwinding of the discount are taken into account prospectively.

Unwinding of the discount of future decommissioning provisions is included in interest expense on the profit and loss statement.

We assess the decommissioning provision at each reporting date. 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, extent and amount of expenditure may also change.

Estimating decommissioning provisions requires us to make estimates and judgments regarding timing, amount and existence of a liability, as well as what constitutes adequate restoration. We use the present value of estimated cash flows related to our decommissioning provisions to determine fair value. Our liability is determined using significant assumptions, including current estimates of plugging and abandonment costs, inflation factors, the productive lives of wells and our risk-adjusted interest rate. In addition, there are other external factors which could significantly affect the ultimate settlement costs for these obligations including changes in environmental regulations and other statutory requirements, fluctuations in industry costs and advances in technology. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

### Corporate and Deferred Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognized, without discounting, in respect of all temporary differences between the treatment of items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as IFRS prohibits.

Judgement is required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that we will generate sufficient

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taxable earnings in future periods, in order to utilise recognised deferred tax assets.

Assumptions about the generation of future taxable profits depend on our estimates of future cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, our ability to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which we operate could limit our ability to obtain tax deductions in future periods.

### Foreign Currencies

The financial statements are presented in US dollars, which is also our functional and presentation currency. Transactions in other currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in other currencies are translated using the contracted rate or retranslated at the rate of exchange ruling at each balance sheet date with the gains or losses on translation included in the profit and loss account.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

### Borrowing Costs

We capitalize borrowing costs directly attributable to significant development projects while activities are in progress to bring the assets to their intended use. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Capitalized borrowing costs are calculated by multiplying our weighted-average interest rate on debt by the amount of qualifying costs and are limited to gross interest expense.

All other borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

### Post-Retirement Benefits

We operate a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year.

### Employee Share Schemes

The employee share scheme allowed employees to acquire shares of EIC, our ultimate parent company until 21 October 2015. The fair value of awards was measured at the grant date and spread over the year during which the employees become unconditionally entitled to the awards. The fair value of options granted was measured using an option pricing model, taking

# **Endeavour Energy UK Limited**

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into account the terms and conditions upon which the options were granted. The amount recognised as an expense was adjusted to reflect the actual number of share options that vest.

### **Underlift/Overlift**

Underlift or overlift of entitlement to production is valued at year end at contract prices where fixed, or otherwise at market prices prevailing. Underlift and overlift balances are split out and shown within inventory or trade creditors as appropriate.

### **Petroleum Revenue Tax**

The charge for petroleum revenue tax ("PRT") forms part of the taxation charge in the statement of profit and loss. It is calculated on a period-by-period basis with reference to the operating income of chargeable fields, PRT allowances utilised and temporary differences arising in the period. Our PRT expense is related to our interest in the Alba field.

### **Standards Not Yet Effective**

The IASB has issued several standards which have not yet been adopted by the EU, covering the following areas:

- IFRS 9 Financial Instruments – amendment regarding the requirements for classifying and measuring financial assets and liabilities and related impairments;
- IFRS 15 Revenue from Contracts with Customers – new standard regarding the accounting and disclosure for revenue recognition;
- IFRS 16 Leases – new standard regarding the accounting and disclosure for recognition of leases; and
- Statement of cash flows – Amendment requiring disclosure of changes in liabilities arising from financing activities.

The new standard concerning financial instruments is effective for annual periods beginning on or after 1 January 2018. The new standards concerning revenue (IFRS 15) and leases (IFRS 16) are effective for annual periods beginning on or after 1 January 2018 and 1 January 2019 respectively. The new standard concerning the statement of cash flows is effective for annual periods beginning on or after 1 January 2017. We are currently evaluating the effect that adopting these new standards will have on our financial position, results of operations or cash flows.

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## Notes to the Financial Statements

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### Note 4 – Revenue

(Amounts in US \$000)	Year Ended	
	31 December	
	2016	2015
Revenue from crude oil sales	80,992	132,759
Revenue from natural gas sales	31,517	67,811
Revenue from natural gas liquids	3,885	8,522
<b>Total revenue</b>	<b>116,394</b>	<b>209,092</b>

No revenue was derived from the exchange of goods and services in either 2016 or 2015. All revenue for 2016 and 2015 was earned in the UK.

### Note 5 – Operating Loss

(Amounts in US \$000)	Note	Year Ended	
		31 December	
		2016	2015
Operating loss is stated after charging/(crediting):			
Depreciation charge - oil and gas assets		26,963	69,307
Depreciation of other property, plant and equipment		—	316
Depreciation, depletion and amortisation	10	26,963	69,623
Impairment of oil and gas properties		80,400	119,362
Impairment of exploration and evaluation assets		—	3,825
Impairment of properties	10	80,400	123,187
Insurance proceeds		—	(10,529)
Revisions to decommissioning obligations for non-producing fields	18	11,967	(7,838)
Movement in oil inventory		(3,920)	3,672
Foreign exchange movements		(15,153)	(8,519)
Operating lease rentals related to office space		296	218

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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### Impairment of Oil and Gas Properties

During the year, we carried out an impairment review of the related CGUs. During 2016, the review determined that while overall reserves increased, the commercial viability of our interest in the Rochelle field decreased significantly as a result of natural field declines that were faster than anticipated. During 2015, the review determined that the commercial viability of our fields decreased significantly as a result of declining commodity prices during the period. As a result, an impairment loss was recognised in the statement of profit or loss as part of other operating expenses. Refer to *Note 3 – Accounting Policies* for a description of the assumptions used in the impairment calculation.

### Insurance Proceeds

We received \$15.9 million in 2015 in insurance proceeds related to our insurance claim for the loss of production income and property damage resulting from the rupture of the Alba water injection pipeline. Of the amount received, approximately \$10.5 million in 2015 related to loss of production income.

### Operating Lease Rentals

During 2016 and 2015, we recorded \$0.3 and \$0.4 million, respectively, in expense related to the office lease. Refer to *Note 23 – Commitments and Contingencies* for the remaining commitments under our office lease.

## Note 6 – Auditor's Remuneration

(Amounts in US \$000)	Year Ended	
	31 December	
	2016	2015
Audit of the financial statements	80	127
Taxation compliance services	93	34
Taxation advisory services	47	—

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**Note 7 – Finance Costs**

(Amounts in US \$000)	Year Ended 31 December	
	2016	2015
Payable on loans from group undertakings	(128,994)	(108,567)
Accretion expense (Note 18)	(2,390)	(5,147)
Other	(239)	(114)
<b>Total</b>	<b>(131,623)</b>	<b>(113,828)</b>

**Note 8 – Employment Costs and Remuneration of Directors**

**Employment Costs**

(Amounts in US \$000)	Year Ended 31 December	
	2016	2015
Wages and salaries	1,155	3,095
Share based payments (Note 24)	—	140
Social security costs	127	347
Pension charge	153	351
Other	34	243
<b>Total</b>	<b>1,469</b>	<b>4,176</b>

**Number of Employees**

The average number of persons employed by the Company during the year, analysed by category, was as follows:

	Year Ended 31 December	
	2016	2015
Operations and administration	5	14



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## **Remuneration of Directors**

None of the directors received any fees or remuneration for services as directors of the Company during the period.

Certain of the directors also hold office in other group undertakings. Emoluments paid to directors by other group companies are disclosed within their financial statements. Given the size of the Company it is not possible for a reliable estimate of the directors' remuneration to be allocated to the Company.

## **Note 9 – Taxation**

The major components of income tax expense are as follows:

<u>(Amounts in US \$000)</u>	<u>2016</u>	<u>2015</u>
PRT current benefit	2,258	468
PRT deferred expense	(25,734)	(15,623)
PRT tax expense	(23,476)	(15,155)
<u>Total tax expense</u>	<u>(23,476)</u>	<u>(15,155)</u>

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## Notes to the Financial Statements

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### Effective Tax Rate Reconciliation

The following table presents the principal reasons for the difference between our effective tax rates and the United Kingdom statutory income tax rate in 2016 and 2015:

(Amounts in US \$000)	Year Ended 31 December	
	2016	2015
<i>Current tax reconciliation:</i>		
Loss before tax	(183,053)	(185,786)
Current tax rate	40%	50%
Current tax credit at tax rate of 40% (2015: 50%)	(73,221)	(92,893)
<i>Effects of:</i>		
Expenses (benefits) not deductible for tax purposes	(100)	5,262
Impact of decommissioning for non-producing assets	385	14,297
Impact of change in SCT rate	28,866	14,160
Impact of change in PRT rate	(11,316)	—
PRT - net of current tax benefit	25,434	7,810
Valuation allowance	33,267	33,458
Nondeductible license basis	—	5,529
Limitation on interest expense deduction	23,215	27,426
Under (over) provided in prior years	(3,054)	106
<b>Total current tax expense on loss</b>	<b>23,476</b>	<b>15,155</b>

# Endeavour Energy UK Limited

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The components of the deferred tax were:

	Statement of Financial Position	
(Amounts in US \$000)	2016	2015
Net deferred tax asset:		
PRT asset - decommissioning	17,198	42,934
Ring Fence loss carried forward	261,780	249,100
Invest allowance activated but not utilized	2,160	4,320
Decommissioning	29,823	37,995
Other	—	69
Total deferred tax assets	310,961	334,418
Less valuation allowance	(274,614)	(229,910)
Total deferred tax assets after valuation allowance	36,347	104,508
Deferred tax liability:		
Property, plant and equipment	(12,270)	(40,084)
Petroleum revenue tax, net of tax benefit	(6,879)	(21,492)
Deferred tax liability	(19,149)	(61,576)
Net deferred tax asset	17,198	42,932

We have not recognised a net deferred tax asset of \$274.6 million and \$229.9 million in 2016 and 2015, respectively, given the uncertainty that exists regarding our ability to generate sufficient taxable earnings in order to utilise this asset.

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## Notes to the Financial Statements

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### Note 10 – Intangible Fixed Assets and Property, Plant & Equipment

(Amounts in US \$000)

	Intangible assets - exploration and evaluation assets	Property, plant and equipment - development and production assets	Other property, plant and equipment	Total
<i>Cost:</i>				
At 31 December 2014	20,931	1,475,253	5,506	1,501,690
Additions	24,311	1,778	—	26,089
Asset retirement cost decreases	(5,152)	(38,346)	—	(43,498)
Insurance proceeds	—	(5,794)	—	(5,794)
Transfers	(9,182)	9,182	—	—
At 31 December 2015	30,908	1,442,073	5,506	1,478,487
Additions	430	17,394	—	17,824
Asset retirement cost increases	—	30,708	—	30,708
Retirements	(3,044)	—	—	(3,044)
Transfers	(3)	3	—	—
At 31 December 2016	28,291	1,490,178	5,506	1,523,975
<i>Depletion and depreciation:</i>				
At 31 December 2014	781	(1,070,539)	(5,190)	(1,074,948)
Impairment	(3,825)	(119,362)	—	(123,187)
Charged in year	—	(69,307)	(316)	(69,623)
At 31 December 2015	(3,044)	(1,259,208)	(5,506)	(1,267,758)
Impairment	—	(80,400)	—	(80,400)
Retirements	3,044	—	—	3,044
Charged in year	—	(26,963)	—	(26,963)
At 31 December 2016	—	(1,366,571)	(5,506)	(1,372,077)
<i>Net book value:</i>				
At 31 December 2015	27,864	182,865	—	210,729
At 31 December 2016	28,291	123,607	—	151,898

# Endeavour Energy UK Limited

## Notes to the Financial Statements

31 December 2016

### Impairment of Oil and Gas Properties

During the year, we carried out an impairment review of each cash-generating unit, typically an individual field. The impairment losses were recorded to reduce the carrying value of the assets to their applicable recoverable amounts ("VIU"), which were estimated as the net present value of proved plus probable reserves, discounted at our average weighted cost of capital. Our average weighted cost of capital is as follows:

	2016	2015
Cost of Capital	15.9%	14.8%

The recoverable amounts of the assets declined from prior year due to the decline in oil prices throughout 2015. During 2016, Rochelle experienced natural field declines that were faster than anticipated resulting in lowered reserves and recoverable amount. As a result, an impairment loss was recognised in the statement of comprehensive income as part of other operating expenses.

### Insurance Proceeds

We received \$15.9 million in 2015 in insurance proceeds related to our insurance claim for the loss of production income and property damage resulting from the rupture of the Alba water injection pipeline and storm related damage to one of the wells at Rochelle. Of the amount received, approximately \$5.8 million in 2015 related to property damage.

### Note 11 – Current Intercompany Receivables

We record receivables from our affiliates in the ordinary course of business. The amounts receivable from our affiliates do not bear interest and have no set maturity date.

### Note 12 – Other Non-Current Assets

(Amounts in US \$000)	At 31 December	
	2016	2015
Deposits	62	62
Investments	—	—
<b>Total</b>	<b>62</b>	<b>62</b>

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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### Investments

(Amounts in US \$000)	Subsidiary Undertakings
<i>Cost:</i>	
At 1 January 2015 and 31 December 2015	-
<i>Provision for impairment:</i>	
At 1 January 2015 and 31 December 2015	-
<i>Net investment:</i>	
At 1 January 2015 and 31 December 2015	-

The following was held as a subsidiary undertaking of the Company during the year:

Name	Country of Incorporation	Class of Shares	Holdings	Nature of Business	Direct/ Indirect
Endeavour North Sea Limited	United Kingdom	Ordinary	100%	Dormant	Direct

### Note 13 – Inventories

(Amounts in US \$000)	At 31 December	
	2016	2015
Oil and condensate inventories	9,822	4,373
Materials	3,144	3,412
<b>Total inventories</b>	<b>12,966</b>	<b>7,785</b>

**Endeavour Energy UK Limited**  
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## Note 14 – Trade and Other Receivables

(Amounts in US \$000)	At 31 December	
	2016	2015
Trade receivables	7,577	14,175
Tax receivables	3,317	8,803
Joint interest receivables	471	635
Other receivables	4,323	5,752
<b>Total receivables</b>	<b>15,688</b>	<b>29,365</b>

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms.

Tax receivables are PRT refunds expected to be received in the subsequent year. See *Note 9 – Taxation* for additional detail of tax benefits and activity.

At 31 December 2016 and 2015, the analysis of trade receivables that were past due, but not impaired, is, as follows:

(Amounts in US \$000)	Total	Current	< 30 days	30-60 days	60-90 days	90-120 days
At 31 December 2016	7,577	7,501	—	76	—	—
At 31 December 2015	14,175	13,540	—	—	11	624

In determining the recoverability of a trade or other receivable, we perform a risk analysis considering the type and age of the outstanding receivable and the creditworthiness of the counterparties.

## Note 15 – Other Current Assets

(Amounts in US \$000)	At 31 December	
	2016	2015
Prepaid insurance	1,838	2,258
Other	142	105
<b>Total other current assets</b>	<b>1,980</b>	<b>2,363</b>

## Note 16 – Restricted Cash

Restricted cash includes amounts held as collateral for lines of credit.

**Endeavour Energy UK Limited**  
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## Note 17 – Share Capital and Share Premium

	At 31 December	
	2016	2015
<i>Authorized:</i>		
Equity: 10,000 ordinary shares of £0.10 each	£ 1,000	£ 1,000
(Amounts in US \$000)		
<i>Allotted, called up and fully paid:</i>		
Equity: 1,400 ordinary shares of £0.10 each	\$ 342,846	\$ 342,846

## Note 18 – Decommissioning Provisions

(Amounts in US \$000)	
At 1 January 2016:	203,457
Revisions to decommissioning liabilities for active fields	30,708
Revisions to decommissioning obligations for non-producing fields	(4,510)
Accretion expense	2,390
Utilised in the year	(1,081)
Impact of foreign currency exchange rate changes	(33,057)
<b>At 31 December 2016</b>	<b>197,907</b>
At 31 December 2016:	
Current provisions	1,835
Long-term provisions	196,072
<b>At 31 December 2016</b>	<b>197,907</b>
At 31 December 2015:	
Current provisions	5,456
Long-term provisions	198,001
<b>At 31 December 2015</b>	<b>203,457</b>



# Endeavour Energy UK Limited

## Notes to the Financial Statements

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The decommissioning expenditure is expected to be incurred through 2036; however, this is dependent on future production levels and the discovery of additional reserves. The major estimates applied to this calculation are discounted at a rate of 1.3% and 2.0% for 2016 and 2015, respectively, and the estimated costs of abandonment are provided by the field operators.

Production from each of our Ivanhoe, Rob Roy, Hamish (collectively, “IVRRH”), Renee, Rubie and Goldeneye fields has ceased and we have performed minor maintenance and decommissioning activities over the last several years. Costs incurred during 2015 completed the IVRRH abandonment obligations and began the Renee and Rubie abandonment obligations. In addition certain decommissioning security agreements (see *Note 23 – Commitments and Contingencies*) require us to put up security, which causes us to incur further costs and dedicate additional capital.

### Note 19 – Trade and Other Payables

(Amounts in US \$000)	At 31 December	
	2016	2015
Trade creditors	13,650	23,331
Oil inventory overlifts	1,732	203
Accrued interest	2,622	1,366
<b>Total</b>	<b>16,272</b>	<b>24,697</b>

### Note 20 – Intercompany Notes Payables

(Amounts in US \$000)	At 31 December	
	2016	2015
\$500 million Intercompany Loan	500,000	500,000
EIHBV Intercompany Loan	440,000	440,933
<b>Total</b>	<b>940,000</b>	<b>940,933</b>

### Amounts Owed to Related Parties

#### EIHBV Intercompany Loan

We have \$440 million floating rate notes issued to EIHBV (the “EIHBV Intercompany Loan”) in conjunction with EIHBV and End Finco LLC’s closing of the Amended Term Loan Facility. Borrowings under the Amended Term Loan Facility are guaranteed by EIHBV and the Company, subject to certain exceptions. The Amended Term Loan Facility is secured by our oil and gas assets.

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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At 31 December 2016 and 2015, we had \$440 million outstanding under the EIHBV Intercompany Loan. Interest and principal payments follow the required payments under the Amended Term Loan Facility. To the extent not previously paid, we may repay the EIHBV Intercompany Loan, in whole or in part, at any time prior to its maturity. Interest will be paid quarterly at a rate of the sum of:

- LIBOR;
- 10.00% per year (with a LIBOR floor of 1% per year); and
- 0.1901%.

Payment of interest has been deferred since 31 December 2015 in accordance with the deferral of interest payments under the Forbearance. See discussion of the Forbearance in *Note 2 – Basis of Presentation – Going Concern*.

Subsequent to 31 December 2016, we have repaid approximately \$46 million in principal of the EIHBV Intercompany Loan which was used to repay the same amount of principal of the Amended Term Loan Facility.

### **\$500 million Intercompany Loan**

On 31 May 2012, we entered into a \$550 million unsecured Revolving Intercompany Loan Agreement with EOC (“\$500 million Intercompany Loan”). We may borrow up to the maximum principal amount of the facility, at the discretion of the issuer.

At 31 December 2016 and 2015, we had \$500 million outstanding under the facility. We may drawdown one or more advances, subject to approval by the issuer, and may repay any advance, in whole or in part, at any time prior to its maturity, 31 December 2017. Interest is paid semi-annually at a rate consistent with our ultimate parent company’s weighted average cost of funds, as determined by the issuer. This rate is determined on each semi-annual interest payment date. As of 31 December 2016 and 2015, the interest rate was 12% per annum.

## **Note 21 – Current Intercompany Payables**

We record payables due to our affiliates, including amounts charged under services agreements, in the ordinary course of business. The amounts payable do our affiliates do not bear interest and have no set maturity date.

### **Services Agreements**

In 2015, we had intercompany services agreements with EIC and EOC for their provision of various services supporting our business activities. For the year ended 31 December 2015, we incurred \$10.0 million of expense relates to these intercompany services agreements.

On 21 October 2015, we entered into an intercompany service agreement with Aspire and incurred \$9 million (2015: \$0.7 million) of expenses related to this agreement for the year

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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ended 31 December 2015. These expenses are included within General and Administrative expenses in our Statements of Comprehensive Income.

### Note 22 – Deferred Revenue

For certain of our U.K. fields, we sell production on a monthly basis; however, the production remains in the field's storage tanks. The inventory associated with these sales remains on our balance sheet and the revenue is deferred until the production is shipped out of our storage tanks.

At 31 December 2016 and 2015, our deferred revenue was attributable to our fields as follows:

(Amounts in US \$000)

2016	Amount	Delivery Date
Alba	4,868	Q1 2017
Rochelle	349	Q1 2017
<b>Total</b>	<b>5,217</b>	

  

2015		
Alba	2,556	Q1 2016
<b>Total</b>	<b>2,556</b>	

### Note 23 – Commitments and Contingencies

Total commitments for the remainder of the lease term, for which no provision has been made, are as follows:

(Amounts in US \$000)

	At 31 December	
	2016	2015
Office lease less than a year	253	302
Office lease greater than one year and less than five years	759	906
Office lease greater than five years	21	328
<b>Total office lease</b>	<b>1,033</b>	<b>1,536</b>

As of 31 December 2016, the remaining lease expires 30 January 2021.

# Endeavour Energy UK Limited

## Notes to the Financial Statements

31 December 2016

### Commitments Related to Asset Retirement Obligations

We have entered into decommissioning security agreements related to abandonment liabilities for certain of our oil and gas properties. Under these agreements, we are required to post security from time to time in the form of letters of credit, cash or other agreed-upon consideration. We have collateralized these obligations by posting cash collateral, reflected as “Restricted cash” in our statements of financial position.

The collateral securing decommissioning obligations in connection with certain of our fields is as follows:

	December 31,	
	2016	2015
Obligations related to currently producing fields	\$ 64,197	\$ 71,897
Obligations related to non-producing fields	10,736	30,356
	\$ 74,933	\$ 102,253

The timing of decommissioning activities for currently producing fields will be determined by the ultimate life of the reservoir.

### Note 24 – Share-Based Payments

EIC granted restricted stock and stock options of EIC to employees and directors as incentive compensation. As a result of EIC’s bankruptcy as discussed in *Note 2 – Basis of Preparation*, all restricted stock and stock options of EIC were cancelled during 2015. Aspire has not granted any restricted stock or stock options. There was a mechanism in place whereby EIC recharged the Company for the cost of awards issued to employees of the Company. This recharge was accounted for in the amounts owed to ultimate parent.

Information relating to stock options is summarized as follows:

	Year Ended 31 December 2015	
	Number of Shares	Weighted Average Exercise per Share
Balance outstanding - beginning of	11,914	\$ 5.38
Cancelled	(11,914)	5.38
Expired	-	-
Balance outstanding - end of year	-	\$ -
Currently exercisable - end of year	-	-

# Endeavour Energy UK Limited

## Notes to the Financial Statements

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Status of the restricted shares and the changes during the years ended 31 December 2015 are presented below:

Year Ended 31 December 2015		
	Number of Shares	Weighted Average Exercise per Share
Balance outstanding - beginning of	100,723	\$ 4.53
Granted	-	-
Vested		7.94
Cancelled	(100,723)	4.53
Forfeited	-	-
Balance outstanding - end of year	-	\$ -

The total expense recognised for the year ended 31 December 2015 arising from share-based payments was \$140,000. All share-based payments were treated as “equity settled.”

## Note 25 – Capital Management

We do not have any externally imposed financial covenants or regulatory capital requirements for managing capital. Our capital is managed as a consolidated group by our ultimate parent company. The objectives of our ultimate parent company when managing its capital structure are to maintain financial flexibility and balance to enable access capital markets to sustain its on-going operations.

## Note 26 – Parent Undertaking

As discussed in *Note 2 – Basis of Preparation*, the Company’s ultimate parent company became Aspire on 21 October 2015, a limited liability corporation in the United States of America. Prior to that date, the Company was a subsidiary undertaking of EIC incorporated in the United States of America. The directors regard Aspire as the ultimate parent and controlling party. The largest group in which the results of the Company are consolidated is that headed by Aspire. Copies of the consolidated financial statements are available from Aspire Holdings, LLC, 811 Main Street, Suite 2100, Houston, TX 77002.

The Company is a wholly owned subsidiary of Endeavour Energy North Sea L.P., a Delaware, United States partnership, which is the immediate parent company.

The smallest group in which the results of the Company are consolidated is that headed by Endeavour Energy North Sea L.P.

## Oil and Gas Reserves Quantities (Unaudited)

Net proved and probable oil and gas reserve quantities for the year ended 31 December 2016 are as follows:

	Oil (mbbl)	Gas (mmcf)
<i>Net proved and probable reserves, beginning of year</i>		
Proved developed reserves	2,519	13,384
Proved undeveloped reserves	—	—
Probable reserves	6,735	23,095
Total	9,254	36,479
<i>Changed during the year</i>		
Revisions of previous estimates	8,266	(24,003)
Production	(2,210)	(6,407)
Total	6,056	(30,410)
<i>Net proved and probable reserves, end of year</i>		
Proved developed reserves	10,301	5,846
Proved undeveloped reserves	3,789	223
Probable reserves	1,220	—
Total	15,310	6,069

The forward strip price as of 31 December 2016 was used when estimating whether reserve quantities are economical to produce. At 31 December 2016, the average prices used for the life of the reserves were between \$58.26 and \$53.59 per barrel and \$5.29 and \$2.25 per mcf for oil and gas, respectively.