

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

Registered No: 08319706

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HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

FOR YEAR ENDED 31 DECEMBER 2015

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HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2015

COMPANY INFORMATION

Registered number:	08319706
Country of incorporation:	England and Wales
Registered office:	5 Hanover Square London W1S 1HQ
Directors:	P. Rose C. Rees K. Kent D. Mitchell M. Jarvis D.B. Willey C. Berris
Company Secretary:	D.B. Willey
Independent Auditors:	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2015.

Principal Activities

The Company acts as a holding company and is a wholly-owned subsidiary of Hunting U.S. Holdings, Inc., a company registered in the United States of America. The Company is UK domiciled and was incorporated in England and Wales on 5 December 2012.

Results

The results and financial position of the Company are set out in the attached financial statements.

A loss from operations of \$428,629,000 was made during the year (2014: \$36,667,000 profit). The loss is primarily due to the impairment charge of \$453,962,000 that has been recognised in the year for the Company's investment in Hunting Energy Corporation (see note 6 for further details). The loss for the year was \$453,962,000 (2014: \$11,334,000 profit). Net assets have decreased from \$196,274,000 to net liabilities of \$257,688,000 as a result of the loss being made during the year. In 2014, an interim dividend of \$11,265,000 was paid. The Directors do not recommend the payment of a dividend for the year.

Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Hunting PLC Group and are not managed separately. The principal risks and uncertainties of the Hunting PLC Group, which include those of the Company, are discussed on pages 26 to 29 of the Hunting PLC 2015 Annual Report and Accounts. Further detail on financial risks is provided within note 10.

Key Performance Indicators

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using Key Performance Indicators is not necessary for an understanding of the development, performance or position of the business.

On Behalf of the Board



P. Rose
Director

8 September 2016

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

DIRECTORS' REPORT

The Directors present their report, together with the audited financial statements for the year ended 31 December 2015.

Dividends

No dividends were declared and paid during the year (2014: \$11,265,000) (see note 13). The Directors do not recommend the payment of a dividend for the year.

Risk Management

Further information on financial risk management is disclosed in note 10.

Future Outlook

No change in the current activities of the Company is anticipated in 2016.

Political Contributions

The Company made no payments to political organisations during the year.

Directors

The Directors of the Company who served during the year and up to the date of this report were as follows:

P. Rose
C. Rees
K. Kent
D. Mitchell
M. Jarvis
C. Berris
D.B. Willey

No Director had a material interest in any contract of significance to which either the Company or its subsidiaries were a party.

Directors' and Officers' Liability Insurance

The ultimate parent company, Hunting PLC, maintains insurance against certain liabilities which could arise from a negligent act or a breach of duty by its Directors and officers and those of its subsidiaries in the discharge of their duties. This is a qualifying third party indemnity provision, which was in force throughout the financial year and at the date of approval of the financial statements.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, 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, the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). 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.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

DIRECTORS' REPORT (continued)

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement on Disclosure of Information to Auditors

In accordance with the Companies Act 2006, all Directors in office, as at the date of this report, have confirmed so far as they are aware there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all reasonable steps necessary in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

On Behalf of the Board



P. Rose
Director

8 September 2016

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Hunting Knightsbridge (US) Finance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance Sheet as at 31 December 2015;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, 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.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED (continued)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

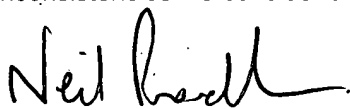
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Neil Proudlove (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

8 September 2016

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

STATEMENT OF COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 \$'000	2014 \$'000
Revenue		25,333	36,667
Impairment of investment in subsidiary	6	<u>(453,962)</u>	<u>-</u>
(LOSS) PROFIT FROM OPERATIONS	3	(428,629)	36,667
Finance expense	4	<u>(25,333)</u>	<u>(25,333)</u>
(LOSS) PROFIT BEFORE TAX		(453,962)	11,334
Taxation	5	<u>-</u>	<u>-</u>
(LOSS) PROFIT AND TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR		<u><u>(453,962)</u></u>	<u><u>11,334</u></u>

The loss for the year arises from the Company's continuing operations.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

BALANCE SHEET AT 31 DECEMBER 2015

	Notes	2015 \$'000	2014 \$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	6	<u>330,203</u>	<u>784,165</u>
Current assets			
Cash and cash equivalents	7	<u>20</u>	<u>20</u>
Net current assets		<u>20</u>	<u>20</u>
Non-current liabilities			
Borrowings	8	<u>(587,911)</u>	<u>(587,911)</u>
Net (liabilities) assets		<u>(257,688)</u>	<u>196,274</u>
Shareholders' equity			
Share capital	12	196	196
Share premium		196,078	196,078
Accumulated losses		<u>(453,962)</u>	<u>-</u>
Total (losses) equity		<u>(257,688)</u>	<u>196,274</u>

The notes on pages 12 to 22 form part of these financial statements. The financial statements on pages 8 to 22 were approved by the Board of Directors on 8 September 2016 and were signed on its behalf by:



P. Rose
Director

Registered No: 08319706

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital \$'000	Share premium \$'000	Accumulated losses \$'000	Total losses \$'000
At January 2015	196	196,078	-	196,274
Comprehensive expense:				
Loss for the year	-	-	(453,962)	(453,962)
	<u>196</u>	<u>196,078</u>	<u>(453,962)</u>	<u>(257,688)</u>
At 31 December 2015	<u>196</u>	<u>196,078</u>	<u>(453,962)</u>	<u>(257,688)</u>

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital \$'000	Share premium \$'000	Accumulated losses \$'000	Total equity \$'000
At January 2014	196	196,078	(69)	196,205
Comprehensive income:				
Profit for the period	-	-	11,334	11,334
Transactions with owners:				
Dividend paid	-	-	(11,265)	(11,265)
At 31 December 2014	<u>196</u>	<u>196,078</u>	<u>-</u>	<u>196,274</u>

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 \$'000	2014 \$'000
Operating activities		
(Loss) profit from operations	(428,629)	36,667
Non-cash flow items – impairment of subsidiary	453,962	-
Net cash inflow from operating activities	<u>25,333</u>	<u>36,667</u>
Financing activities		
Interest paid	(25,333)	(25,402)
Dividend paid	-	(11,265)
Net cash outflow from financing activities	<u>(25,333)</u>	<u>(36,667)</u>
Net cash inflow in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	<u>20</u>	<u>20</u>
Cash and cash equivalents at the end of the year (note 7)	<u>20</u>	<u>20</u>

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. ACCOUNTING POLICIES

1.1 Basis of Accounting

The financial statements have been prepared in accordance with the Companies Act 2006 and those International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee ("IFRS IC") Interpretations as adopted by the European Union. The financial statements have been prepared on a going concern basis under the historical cost convention. The going concern basis is considered to be appropriate due to the availability of funding for a period of not less than one year from the date of approval of the financial statements from the Company's ultimate parent company, Hunting PLC, which will enable the Company to meet its liabilities as they fall due. The Directors have considered that although Hunting Knightsbridge US Finance Limited has a deficit in equity given the continued support from Hunting PLC the adoption of the going concern assumption is appropriate.

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

Adoption of New Standards, Amendments and Interpretations

The following standards, amendments and interpretations have been adopted and are effective for the Company's accounting period beginning on or after 1 January 2015:

- Annual Improvements to IFRS 2011-2013 Cycle

Although the adoption of these standards, amendments and interpretations represents a change in accounting policy, comparative figures for 2014 have not been restated for these as the changes do not impact the financial performance or position of the Company.

The following standards, amendments and interpretations are effective subsequent to the year end and are being assessed to determine whether there is a significant impact on the Company's results or financial position:

- IFRS 9 Financial Instruments*
- IFRS 15 Revenue from Contracts with Customers*
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 7: Disclosure Initiative*
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2012-2014 Cycle

*Not yet endorsed by the European Union.

1.2 Revenue

Dividend income is recognised in the income statement in the period in which it has been approved, by the relevant company's shareholders or, if earlier, declared and paid by that company.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

1. ACCOUNTING POLICIES (continued)

1.3 Interest

Interest expense is recognised in the income statement using the effective interest method and is included in finance expense.

1.4 Taxation

Current tax is the expected tax receivable or payable arising in the current period on the current period's profit before tax, using tax rates enacted or substantively enacted at the balance sheet date.

1.5 Foreign Currency Translation

The financial statements of the Company are prepared and presented using its functional currency, which is US dollars. The functional currency is the currency of the primary economic environment in which the Company operates. Monetary assets and liabilities that are not denominated in US dollars are retranslated at the exchange rates ruling at the balance sheet date. Transactions in currencies other than the US dollar are translated at the exchange rate ruling at the date of transaction. All exchange differences are taken to the income statement.

1.6 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand. Accrued interest is disclosed as part of the period end balance.

1.7 Investments in Subsidiaries

Investments in subsidiaries are stated at cost, which is the fair value of the consideration paid, less any provision for impairment.

1.8 Financial Assets

The Company classifies its financial assets into loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Financial assets are initially recognised at fair value at the trade date, which is normally the consideration paid, plus transaction costs.

The Company assesses at each balance sheet date whether a financial asset is impaired and, if necessary, the carrying amount is reduced to the appropriate value and the loss is recognised in the income statement immediately. Financial assets cease to be recognised when the right to receive cash flows has expired or the Company has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents. Loans and receivables are carried at amortised cost using the effective interest method. If collection is expected in one year or less, they are classified as current assets, otherwise they are presented as non-current assets. By virtue of the nature of the effective interest method, interest accrued on loans carried at amortised cost is regarded as an integral part of the loan balance and is, therefore, included within the carrying value of those loans.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

1. ACCOUNTING POLICIES (continued)

1.9 Financial Liabilities

Financial liabilities are initially recognised at fair value at the trade date, which is normally the consideration received less transaction costs. The Company subsequently re-measures all of its financial liabilities, including other accounts payable, at amortised cost.

Payables are classified as current liabilities if payment is due within one year, otherwise they are presented as non-current liabilities.

By virtue of the nature of the effective interest method, interest accrued on loans that are measured at amortised cost using the effective interest method is regarded as an integral part of the loan balance and is, therefore, included within the carrying value of those loans. Consequently, interest payable within twelve months on loans due after more than one year is recognised in non-current borrowings.

1.10 Group Financial Statements

The Company has taken advantage of the exemption from preparing group financial statements under section 400 of the Companies Act 2006. The financial statements of the Company are included within the consolidated financial statements of the ultimate parent company, Hunting PLC, a company registered in England and Wales.

1.11 Share Capital

The Company's share capital comprises a single class of Ordinary shares, which are classified as equity.

1.12 Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements and assumptions about the future, resulting in the use of accounting estimates. These will, by definition, seldom equal the related actual results and adjustments will consequently be necessary. Estimates are continually evaluated, based on experience, consultation with experts and reasonable expectations of future events.

In respect of the carrying value of the Company's investments in subsidiaries, assessments are undertaken at least annually to determine whether there have been any events or changes in circumstances that indicate that the carrying value may be impaired. An impairment review is carried out when such indicators are present by comparing the carrying value of a subsidiary to its recoverable amount. The recoverable amount is the higher of either the fair value less costs to sell or the net present value of estimated future cash flows, known as value in use. Any impairment is recognised in the statement of comprehensive income immediately.

The estimated future gross cash flows used in the impairment review are based on the Directors' view of the future trading prospects of the business units owned by Hunting Energy Corporation and are discounted at a rate that is determined for each business unit in isolation by consideration of their business risk profiles.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

1. ACCOUNTING POLICIES (continued)

The estimated future gross cash flows expected from a number of business units were revised downwards to reflect the severity of the downturn in the oil and gas sector and its impact on business activity levels. Consequently, the investment in Hunting Energy Corporation was impaired by \$453,962,000 to reflect these revised estimates.

Further details of the impairment review are disclosed in note 6.

2. DIRECTORS AND EMPLOYEES

None of the Directors received any remuneration during the year in respect of their services to the Company (2014: \$nil). Remuneration received by Directors was for their services to Hunting PLC, the ultimate parent company acting in various Group capacities. The key management of Hunting Knightsbridge (US) Finance Limited is its Directors.

The average monthly number of persons employed by the Company during the year was nil (2014: nil).

3. (LOSS) PROFIT FROM OPERATIONS

Auditors' remuneration of \$25,000 (2014: \$32,000) is borne by Hunting PLC, the Company's ultimate parent company, for services provided to the Company for the statutory audit of the financial statements.

4. FINANCE EXPENSE

	2015 \$'000	2014 \$'000
Interest expense in respect of:		
Fellow group companies	<u>25,333</u>	<u>25,333</u>

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

5. TAXATION

	2015	2014
	\$'000	\$'000

UK Corporation Tax:

Current tax – current year

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The tax for the year is lower (2014: lower) than the UK standard rate for corporation tax of 20.25% (2014: 21.5%) because of the following:

	2015	2014
	\$'000	\$'000
(Loss) profit before tax	(453,962)	11,334
Taxation at the standard UK corporation tax rate of 20.25% (2014: 21.5%)	(91,927)	2,437
Adjustments in respect of foreign taxes	1,282	1,362
Non-taxable income	(5,130)	(7,884)
Expenses not deductible for tax purposes	91,927	-
Group relief – no payment	3,848	4,085
	-	-

The Company has surrendered the benefit of tax losses amounting to \$3,848,000 (2014: \$4,085,000) to a fellow group company without receiving any payment. Therefore, no tax losses are available for carry-forward. There was no deferred tax included in the amounts surrendered.

In July 2013, the UK Government enacted a change in the UK corporation tax rate from 21% to 20% effective from 1 April 2015.

A number of changes to the UK corporation tax system were announced in the Summer 2015 Budget Statement, whereby from 1 April 2017 the main rate of corporation tax will reduce from 20% to 19%, with a further reduction from 19% to 18% on 1 April 2020. The Finance Bill which included these changes received Royal Assent on 18 November 2015. The changes are not expected to have a material impact on the financial statements.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

6. INVESTMENTS IN SUBSIDIARIES

	2015 \$'000	2014 \$'000
Cost:		
At 1 January and 31 December	<u>784,165</u>	<u>784,165</u>
Impairment:		
At 1 January	-	-
Charge for the year	<u>453,962</u>	<u>-</u>
At 31 December	<u>453,962</u>	<u>-</u>
Net book amount	<u>330,203</u>	<u>784,165</u>

In respect of the carrying value of the Company's investment in subsidiaries, assessments are undertaken at least annually to determine whether there have been any events or changes in circumstances that indicate that the carrying value may be impaired. An impairment review is carried out when such indicators are present by comparing the carrying value of a subsidiary to its recoverable amount.

The downturn in the oil and gas sector began towards the end of 2014 and continued to worsen during 2015. Business activity levels declined more quickly and more severely than was initially expected during 2015 and a decline in the performance of operating businesses is expected in 2016. Likewise, the general view on the outlook for commodity prices remains progressively "lower for longer". Hence, management has carried out an impairment review in preparing these financial statements.

The recoverable amount for the investment has been determined based on a fair value less costs to sell approach, thereby including currently approved capital projects, which are in progress, and deducting appropriate selling costs. The recoverable amount calculations use discounted pre-tax nominal cash flow projections. The value of the debt has then been deducted from the cash flows. The key assumptions for the recoverable amount calculations are revenue growth rates, taking into account the impact these have on margins, terminal growth rates and the discount rates applied. The valuation is a level 3 measurement as per the fair value hierarchy as defined within IFRS 13 due to unobservable inputs used in the valuation.

For 2016 and 2017, projections are based on budgets prepared by the business units owned by Hunting Energy Corporation in October 2015 and approved by the Hunting PLC Board in early December 2015. Modest downward adjustments have been made to the budget projections, reflecting worsening conditions and a downturn in expectations. For 2018 to 2020 management has made revenue projections using Spears and Associates "Drilling and Production Outlook" reports as a basis, selecting the most appropriate geographic market and driver (rig count, footage drilled or E&P spend) for each investment. Management has then applied judgemental decreases to reflect the worsening of expectations and has then modelled the expected impact on margin and cash flows from the resulting revenue projections.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

6. INVESTMENTS IN SUBSIDIARIES (continued)

Market conditions remain volatile, difficult to predict and will impact subsidiaries differently. The compound annual growth rates ("CAGR") for revenue for the subsidiaries between 2015 and 2020 vary between minus 5% and positive 12%. After 2020, a terminal value has been calculated assuming growth above inflation of 35 basis points, giving nominal growth rates of 2%.

Cash flows have been discounted using nominal pre-tax rates between 9% and 12%. The discount rates reflect current market assessments of the time value of money, the risks associated with the cash flows, the likely external borrowing rate of the subsidiary and expected levels of leverage. Consideration has also been given to other factors such as currency risk, operational risk and country risk.

Following the impairment review, an impairment charge of \$453,962,000 (2014: \$nil) was recognised in relation to the Company's investment in Hunting Energy Corporation to reflect a reduction in the estimated future cash flows arising from the sustained current downturn in the oil and gas sector.

In the opinion of the Directors, following the impairment review, the value of the investments in the subsidiaries is not less than the aggregate carrying value amount shown in the balance sheet.

The subsidiaries comprise:

	Country of incorporation & operations	Effective % interest in ordinary shares	Business
Hunting Energy Corporation	USA	73.7	Holding company
Hunting Energy Services, Inc.	USA	73.7	Oilfield and trenchless drilling products and services
Hunting Energy Services (Drilling Tools), Inc.	USA	73.7	Drilling equipment
Hunting Energy de Mexico	Mexico	73.7	Oilfield services
National Coupling Company, Inc.	USA	73.7	Oilfield services
Hunting Innova, Inc.	USA	73.7	Oilfield services electronic component manufacturer
Hunting Titan, Inc	USA	73.7	Oilfield services – perforating systems
Hunting Dearborn, Inc	USA	73.7	Oilfield services – precision engineering
Hunting Specialty Supply, Inc	USA	73.7	Oilfield services

There have been no changes to the subsidiaries during the year.

The interest in Hunting Energy Corporation is held directly by the Company. The other companies are held indirectly.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

7. CASH AND CASH EQUIVALENTS

	2015 \$'000	2014 \$'000
Cash at bank and in hand	<u>20</u>	<u>20</u>

Cash at bank and in hand is denominated in US dollars.

8. BORROWINGS

	2015 \$'000	2014 \$'000
Non-current:		
Payable due to immediate parent company - loan	<u>587,911</u>	<u>587,911</u>

The payable of \$587,911,000 (2014: \$587,911,000) is unsecured, due to be repaid in June 2018 and bears interest at a fixed rate of 4.25% (2014 – 4.25%). The borrowing is denominated in US dollars.

9. FINANCIAL INSTRUMENTS: FAIR VALUES

The carrying value of cash and cash equivalents and borrowings approximates their fair values. The fair value of financial instruments that are not traded in an active market is determined using standard valuation techniques, predominantly based on discounted cash flows. The impact of discounting is not significant.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

10. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to certain financial risks, namely market risk (including cash flow interest risk and fair value interest risk), credit risk and liquidity risk. From the perspective of the Company, these financial risks are integrated with the financial risks of the Hunting PLC Group and are not managed separately.

a) Interest rate risk

The Company is exposed to cash flow interest rate risk from its bank balances, which are at variable interest rates. The Company is exposed to fair value interest rate risk from its payable due to its immediate parent, which is at a fixed interest rate.

b) Credit risk

Cash and cash equivalents have been deposited with a bank that has a Fitch short-term trading rating of F1 and are expected to be fully recovered.

c) Liquidity risk

All the Company's funds are arranged centrally through the Hunting PLC Group's treasury function, which has facilities available to satisfy the Company's requirements.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date of the financial liabilities. The amounts presented in the table are the contractual undiscounted cash flows, whereas the carrying amounts in the balance sheet are the discounted amounts. Balances due within one year have been included in the maturity analysis at their carrying amounts, as the impact of discounting is not significant.

	2015		
	On demand or within one year \$'000	Between two and five years \$'000	Total \$'000
Non-derivative financial liabilities:			
Payable due to immediate parent company - loan	25,403	625,806	651,209
	2014		
	On demand or within one year \$'000	Between two and five years \$'000	Total \$'000
Non-derivative financial liabilities:			
Payable due to immediate parent company - loan	25,333	651,209	676,542

The Company did not have any derivative financial instruments.

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

11. FINANCIAL INSTRUMENTS: SENSITIVITY ANALYSIS

The following sensitivity analysis is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and shareholders' equity. Financial instruments affected by market risk include borrowings and cash and cash equivalents. The sensitivity analysis relates to the position as at 31 December 2015.

The sensitivity analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the net debt remain unchanged at 31 December 2015.

The analysis excludes the impact of movements in market variables on the carrying value of non-financial assets and liabilities.

For floating rate assets and liabilities, the amount of asset or liability outstanding at the balance sheet date is assumed to be outstanding for the whole period.

Positive figures represent an increase in profit.

Interest rate sensitivity

The sensitivity rate of 0.50% (2014 – 0.25%) for US interest rates represents managements' assessment of a reasonably possible change, based on historical volatility and a review of analysts' research and banks' expectations of future interest rates. The post-tax impact on the Company's profit for an increase or decrease in interest rates, with all other variables unchanged, at 31 December, was not material due to the financial liabilities bearing interest at a fixed rate as disclosed in note 8.

12. SHARE CAPITAL

	2015		2014	
	No of shares	\$'000	No of shares	\$'000
Ordinary equity shares of \$1 each:				
Allotted, issued and fully paid	196,275	196	196,275	196

There are no restrictions to any of the Ordinary shares in issue and all Ordinary shares carry equal voting rights.

13. DIVIDENDS PAID

	2015		2014	
	Cents per share	\$'000	Cents per share	\$'000
Dividends paid	-	-	5,739	11,265

HUNTING KNIGHTSBRIDGE (US) FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

14. CAPITAL RISK MANAGEMENT

The Company's capital consists of equity and net debt, comprising cash and cash equivalents and borrowings. It is managed with the aim of maintaining an appropriate level of financing available for the Company's activities, having due regard to interest rate and currency risks and the availability of borrowing facilities. Changes in equity arise from the retention of earnings and, from time to time, issues of share capital. Net debt is monitored on a periodic basis and is managed by the control of dividend payments.

At the year end, capital comprised:

	2015 \$'000	2014 \$'000
Total (losses) equity	(257,688)	196,274
Net debt	<u>587,891</u>	<u>587,891</u>
Gross capital employed	<u>330,203</u>	<u>784,165</u>

Gross capital employed has reduced due to the impairment charge of \$453,962,000 that has been recognised in the year for the Company's investment in Hunting Energy Corporation (see note 6 for further details). There have been no significant changes in the Company's funding policy during the year.

15. ULTIMATE PARENT COMPANY

The immediate parent company is Hunting U.S. Holdings, Inc., a company registered in the United States of America.

The ultimate parent company and controlling company is Hunting PLC, a company registered in England and Wales. The only group of which the Company is a member and for which consolidated financial statements are prepared is Hunting PLC. The consolidated financial statements of Hunting PLC can be obtained from its registered office at 5 Hanover Square, London, W1S 1HQ.

16. RELATED PARTY TRANSACTIONS

The Company owed \$587,911,000 (2014: \$587,911,000) on an interest bearing loan from Hunting U.S. Holdings, Inc., its parent company. Interest of \$25,333,000 (2014: \$25,333,000) was charged on the loan during the year.

During the year, the Company received dividend income of \$25,333,000 (2014: \$36,667,000) from Hunting Energy Corporation, its subsidiary.