NORTH SEA ENERGY (UK) LIMITED

SC325585

FINANCIAL STATEMENTS

December 31, 2012

NORTH SEA ENERGY (UK) LIMITED
Presented in US Dollars
(Incorporated under the laws of Scotland)

COMPANY INFORMATION

Directors	J. Craig Anderson Ian D. Lambert
Company secretary	Bondlaw Secretaries Limited
Company number	SC325585
Registered office	c/o Bond Dickinson LLP 13 Albyn Terrace Aberdeen AB10 1YP
Auditor	Grant Thornton UK LLP Grant Thornton House Melton Street Euston NW1 2EP

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DIRECTORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

The directors present their report and the financial statements for the year ended December 31, 2012.

Principal activities

The principal activity of the Company for the year was that of oil exploration and production in the North Sea.

Business review

North Sea Energy (UK) Limited (the "Company" or "NSE UK") derives its current production from the Jacky field. Discovered in 2007, the asset is located in block 12/21c in the Inner Moray Firth. During the year ended December 31, 2012, Jacky produced 344,902bbls (net to NSE 34,490bbls). Production from the Jacky field was interrupted for scheduled maintenance in Q2 2012 and Q4 2012.

During Q1 2012 operating efficiency was at 91% with the main cause of downtime attributable to flaring problems at the Beatrice Alpha platform. Other downtime was incurred due to a rig move at Beatrice Bravo, capacity constraints at Alpha, and an electrical fault associated with the Jacky electrical submersible pump ("ESP"). During Q2 2012, the Jacky field experienced downtime as a result of activities to improve the treatment of produced water. In Q3 2012, production remained stable. Production uptime in Q4 2012 was 80.5% due to scheduled interruption for regular maintenance.

Results

The loss for the year, after taxation, amounted to US$3,623,515 (2011 - US$2,701,205 loss).

Directors

The directors who served during the year were:

J. Craig Anderson
Ian G. Lisseter
Ian D. Lambert

Mr. Lisseter resigned as a director on January 31, 2013. Mr. Peter Rhys-Davies was appointed director on the same date. Mr. Peter Rhys-Davies resigned as a director on June 5, 2013.

Principal risks and uncertainties

The principal risks and uncertainties affecting the business are oil price fluctuations and adverse foreign exchange movements. The price the Company will receive for its oil may fluctuate continuously and, for the most part, is beyond the Company's control. The Company is exposed to fluctuations in foreign currency as a result of its North Sea operations. The Company has not entered into any foreign currency derivatives with respect to this exposure. Substantially, all of the Company's current accounts receivable are subject to minimal credit risk as most amounts were collected subsequent to the year end.

DIRECTORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

Partnership and legal risk: Litigation between NSE and Ithaca Energy (UK) Limited has ended concerning the classification of the J03 well drilled in the Jacky field and its implications for participation of the Jacky co-ventures. On July 3, 2012, the UK High Court has deemed that the J03 well was not an appraisal well but rather a producer according to the Joint Operating Agreement ("JOA"). The Company paid in full the Operator's legal fees and its share of the J03 well costs.

On November 23, 2011, the Company entered into arbitration with Gemini Oil and Gas Fund II, L.P. ("Gemini") regarding the loan agreement signed September 8, 2008. The ultimate amount of any payment is not determinable at this time and the Company is both disputing amounts claimed by Gemini and seeking recovery from Gemini, however, management has recorded as a provision its best estimate of the amount required to settle the disputed amount should Gemini's position prevail. An arbitration hearing was held in April, 2013 to determine the amounts of payment due, if any, by either party, however, no judgment has been delivered at this time.

Future objectives

The Company's future objectives are reflected in the following:

- To maximize cash flow from production of the Jacky field and minimize decommissioning costs of the field;
- To advance the Polly field towards development, subject to partnership agreement; and
- To evaluate the Terry lead.

Financial instruments

The Company does not actively use financial instruments as part of its financial risk management and therefore is not subject to price or liquidity risk. It is exposed to the usual credit and cash flow risks associated with advancing credit and manages this through credit control procedures.

Auditor

The auditor Grant Thornton UK LLP will be proposed for re-appointment in accordance with Section 485 of the Companies Act 2006.

This report was approved by the board on June 24, 2013 and signed on its behalf.

J. Craig Anderson
Director

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are responsible for preparing 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent auditor's report to the members of: North Sea Energy (UK) Limited

We have audited the financial statements of North Sea Energy (UK) Limited for the year ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Statement of Directors Responsibilities Statement set out on page 4, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of North Sea Energy (UK) Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Grant Thornton UK LLP

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
June 25, 2013

NORTH SEA ENERGY (UK) LIMITED
Presented in US Dollars
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PROFIT AND LOSS ACCOUNT

For the year ended December 31,	2012	2011
TURNOVER	4,061,744	7,470,945
Cost of sales	(2,762,217)	(5,681,282)
Amortisation of tangible assets	(1,971,831)	(3,603,903)
Total cost of sales	(4,734,048)	(9,285,185)
GROSS LOSS	(672,304)	(1,814,240)
Impairment charge (note 8 and 9)	(675,423)	(3,235,664)
General and administrative costs	(2,815,584)	(578,148)
Foreign exchange (loss)/ gain	(155,352)	203,750
Impairment of accounts receivable	(149,275)	-
	(3,795,634)	(3,610,062)
OPERATING LOSS (note 4)	(4,467,938)	(5,424,302)
Interest receivable	7,666	6,246
Interest payable and other similar (charges)/recovery (note 6)	(196,243)	863,851
	(188,577)	870,097
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(4,656,515)	(4,554,205)
Tax on loss on ordinary activities (note 7)	(1,033,000)	(1,853,000)
LOSS FOR THE FINANCIAL YEAR	(3,623,515)	(2,701,205)

All amounts relate to continuing operations.

The notes on pages 10 to 21 form part of these financial statements

NORTH SEA ENERGY (UK) LIMITED
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STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended December 31,	2012	2011
LOSS FOR THE FINANCIAL YEAR	(3,623,515)	(2,701,205)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	(3,623,515)	(2,701,205)
Prior year adjustment	-	(747,696)
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST FINANCIAL STATEMENTS	(3,623,515)	(3,448,901)

NORTH SEA ENERGY (UK) LIMITED
REGISTERED NUMBER: SC325585

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BALANCE SHEET

As at December 31,		2012		2011
FIXED ASSETS				
Intangible fixed assets (note 8)	11,112,342		11,041,755	
Tangible fixed assets (note 9)	1,864,894		4,517,342	
		12,977,236		15,559,097
CURRENT ASSETS				
Debtors (note 10)	301,703		1,317,775	
Cash at bank	278,223		1,570,928	
	579,926		2,888,703	
CREDITORS: amounts falling due within one year (note 11)	(1,122,781)		(2,564,038)	
NET CURRENT (LIABILITIES)/ASSETS		(542,855)		324,665
TOTAL ASSETS LESS CURRENT LIABILITIES		12,434,381		15,883,762
CREDITORS: amounts falling due after more than one year (note 12)		(7,500,000)		(7,336,031)
PROVISIONS FOR LIABILITIES				
Deferred tax	-		(1,033,000)	
Other provisions (note 13)	(3,578,557)		(2,535,392)	
		(3,578,557)		(3,568,392)
NET ASSETS		1,355,824		4,979,339
CAPITAL AND RESERVES				
Called up share capital (note 14)		2		2
Profit and loss account (note 15)		1,355,822		4,979,337
SHAREHOLDERS' FUNDS		1,355,824		4,979,339

See accompanying notes to the financial statements

The financial statements were approved and authorised for issue by the board on June 24, 2013
and were signed on its behalf by:

J. Craig Anderson, Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

North Sea Energy (UK) Limited ("the Company") was incorporated under the laws of Scotland on June 15, 2007.

The Company is an oil and gas production, exploration and development company active in the United Kingdom's Continental Shelf (UKCS). Exploration and development activities are focused on the Inner Moray Firth of the UKCS.

The registered office of the Company is located at c/o Bond Dickinson LLP, 13 Albyn Terrace, Aberdeen, AB10 1YP. The Company is a wholly owned subsidiary of North Sea Energy Inc., a Canadian publicly traded company listed on the TSX Venture Exchange under the symbol "NUK".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation which have been applied consistently throughout the year and the preceding period

The financial statements have been prepared under the historical cost convention and in accordance with UK Generally Accepted Accounting Principles, including the Statement of Recommended Practice "Accounting for oil and gas exploration, development, production and decommissioning activities".

These accounts have been prepared on the going concern basis. The Company is generating cashflow from its Jacky asset and currently has sufficient working capital to continue its operations. As per the Gemini loan agreement, the parent company North Sea Energy inc, is a party to the same agreement for the purposes, inter alia, of guaranteeing the obligations of the company.

(b) Turnover

Turnover comprises revenue recognised by the company in respect of oil sales, exclusive of Value Added Tax ("VAT"), which is recognised at the point the product is supplied. The Company's well is located ouside the scope of UK territorial waters so that VAT is not applicable. Revenue from sale of oil is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs at the point of delivery after metering.

(c) Oil and natural gas exploration, evaluation and development expenditure

Costs of acquisition, exploration, appraisal and development of oil and gas properties are accounted for using the full cost method of accounting.

All costs, including geological, geophysical and engineering expenses directly relating to these activities are capitalised within a cost pool. Exploration and appraisal costs are held temporarily outside the depreciable pool pending determination of related commercial reserves. Commercial reserves are proved and probable oil and gas reserves as defined in the Oil and Gas SORP.

The company has one cost pool, being the UK Continental Shelf, which encompasses all company assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation costs

During the geological and geophysical phase, costs are charged against income as incurred. Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity, are likely to be developed commercially, the costs continue to be carried as an intangible asset while sufficient and continued progress is made in assessing the commerciality of the hydrocarbons.

All such costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. If this is no longer the case, the costs are written off. When proved reserves of oil and gas are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

Development costs

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

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depletion and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The carrying value of oil and natural gas properties with proved reserves is reviewed periodically for impairment indicators and at least annually. Impairment will occur when the carrying amount of the oil and natural gas properties exceeds the higher of the discounted future cash flows expected to be derived from use of the oil and gas properties (value in use) and the fair value less costs to sell of these properties. The cash flows used to determine value in use will be used on the Company's latest approved budget. The impairment loss will be limited to the amount by which the carrying amount exceeds the higher of the value in use or the fair value of the oil and gas properties.

An item of oil and gas properties is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the Statement of Comprehensive Income.

The Company conducts an annual assessment of the residual balances, useful lives and depletion methods being used for oil and gas properties and any changes arising from the assessment are applied by the Company prospectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities in respect to taxable profit or loss for the current or prior periods. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

(e) Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

(f) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange ruling at the balance sheet date.

Transaction in foreign currencies are translated into US dollars at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

(g) Impairment of assets

If events or changes in circumstances indicate that the carrying amount of expenditure within a cost pool may not be recoverable from future net revenues from oil and gas reserves attributable to that pool, a comparison between the net book value of the cost pool and the discounted future cash flows from that cost pool is undertaken. To the extent that the carrying amount exceeds the recoverable amount, the pool is written down to its recoverable amount and charged as additional depreciation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) General Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Legal costs relating to such provisions are accounted for as they are incurred.

(i) Decommissioning provisions

Provisions for the cost of decommissioning of an asset and for site restoration at the end of the asset's producing life is recognised as that asset is installed. The amount provided is the discounted amount of the estimated cost of the future decommissioning event. That amount is capitalised as part of the cost of the oil and gas assets and depleted in accordance with the oil and gas assets accounting policy above. Periodically the discounted value of the provision is re-assessed. Any adjustment arising from the re-assessment of the estimated cost of decommissioning is normally capitalised whilst the adjustment arising from the unwinding of the discount is taken to the profit and loss account.

(j) Depletion and depreciation

All expenditures carried within the full cost pool is depreciated on a unit of production basis using the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus production in the period. Costs in the unit of production calculation include the net book value of capitalised costs, plus the expected future costs to extract all commercial oil and gas reserves. Changes in cost and reserve estimates are dealt with prospectively.

(k) Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Presented in US Dollars

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard No 1 (Revised) "Cash Flow Statements" to include a cash flow statement as part of its financial statements because its financial statements are incorporated within the consolidated financial statements of its immediate parent company which are publicly available.

3. TURNOVER

All turnover arose within the United Kingdom.

4. OPERATING LOSS:

The operating loss is stated after charging:

	2012	2011
Auditors' remuneration	9,000	30,000
Previous auditors' remuneration	-	10,535
Auditors' remuneration - taxation and other services	3,508	10,000
Previous auditors' remuneration - taxation and other services	-	10,485
Amortisation of tangible assets	1,971,831	3,603,903
Impairment of intangible assets	675,423	3,235,664
Foreign exchange losses (gains)	155,352	(203,750)
Legal fees and settlement	2,625,235	403,983

5. STAFF COSTS

The company has no employees other than the directors, who did not receive any remuneration (2011 - US$nil).

Presented in US Dollars

6. INTEREST PAYABLE AND OTHER SIMILAR CHARGES

	2012	2011
Loan interest - Gemini*	(846,636)	(647,948)
Provision for contingency **	1,042,879	(215,903)

*The loan payable has been revised as a result of the updated competent persons reserves report as at December 31, 2011 and 2012 for the Jacky asset. The reserves report reduced the estimated Jacky reserves from prior year's estimate. This in turn has affected the loan amount.

**The Company and Gemini Oil & Gas Fund II, L.P. ("Gemini") are in arbitration regarding the loan agreement signed September 5, 2008. The ultimate amount of any payment is not determinable at this time and the Company is both disputing amounts claimed by Gemini and seeking recovery from Gemini, however, management has recorded as a provision its best estimate of the amount required to settle the disputed amount should Gemini's position prevail. An arbitration hearing was held in April, 2013 to determine the amounts of payment due, if any, by either party, however, no judgment has been delivered at this time.

7. TAXATION

Analysis of tax charge in the year

Current tax

The major components of tax expense for the years ended December 31, 2012 and 2011:

	2012	2011
Current tax expense	-	-
Deferred tax recovery	**(1,033,000)**	(1,853,000)
Taxation recovery reported in the profit and loss account	**(1,033,000)**	(1,853,000)

A reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Accounting loss before income tax	**(4,656,515)**	(4,554,205)
Substantively enacted tax rate	**24.00%**	30.00%
Expected tax recovery	**(1,117,000)**	(1,366,000)

(Continued on next page)

Presented in US Dollars

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

7. TAXATION (CONTINUED)

	2012	2011
Non-deductible expenses		
Interest expense	-	(255,000)
Other	**47,000**	8,000
Exploration expenditure supplement	**(247,000)**	(251,000)
Change in substantively enacted rates	**(332,000)**	11,000
Loss carried forward	**616,000**	-
Tax recovery reported in the profit and loss account	**(1,033,000)**	(1,853,000)

8. INTANGIBLE FIXED ASSETS

At January 1, 2012	14,061,452
Additions	71,183
Cost as at December 31, 2012	**14,132,635**
Amortisation as at January 1, 2012	3,019,697
Provision for impairment	596
Amortisation as at December 31, 2012	**3,020,293**
Net book value as at December 31, 2012	**11,112,342**
Net book value as at December 31, 2011	**11,041,755**

Presented in US Dollars

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

9. TANGIBLE FIXED ASSETS

Cost as at January 1, 2012	20,316,951
Additions	3,232
Movement in provision	(9,021)
Cost as at December 31, 2012	**20,311,162**
Amortisation as at At January 1, 2012	15,799,609
Charge for the year	1,971,832
Provision for impairment	674,827
Amortisation as at December 31, 2012	**18,446,268**
Net book value as at December 31, 2012	**1,864,894**
Net book value as at December 31, 2011	**4,517,342**

10. DEBTORS

	2012	2011
Trade debtors	261,025	1,231,172
VAT recoverable	40,678	86,603
	301,703	1,317,775

Presented in US Dollars

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

11. CREDITORS

Amounts falling due within one year

	2012	2011
Other loans - Gemini	285,001	795,606
Trade creditors	375,508	508,925
Amounts due to related undertakings	462,272	1,259,507
	1,122,781	2,564,038

12. CREDITORS

Amounts falling due after more than one year

	2012	2011
Other loans - Gemini	-	336,031
Amounts due to related undertakings	7,500,000	7,000,000
	7,500,000	7,336,031

The other loans - Gemini included in note 11 and 12 refer to:

On September 5, 2008, the Company entered into a loan agreement with Gemini Oil & Gas Fund II, L.P. ("Gemini") for $12,000,000 to complete development of the Jacky well. As of December 31, 2012, the Company has paid a total of US$11,191,573 of cumulative principal and notional interest. Monthly repayments are due only in a month when there is production revenue from Jacky, calculated based on the lower of:

a) percentage of product sold versus future forecast product multiplied by the loan outstanding;
b) a percent of the field post tax cash flow as defined in the loan agreement; and
c) Gemini entitlement is defined as a percent of Gross Revenue until the payments to Gemini of Loan interest and loan repayment exceed the sum of one times the loan, and thereafter a percent of gross revenue until 95% of the ultimate recoverable reserves as determined from time to time as underlying the concession area have been produced.

The Loan shall be fully forgiven in the event that Jacky ceases production. The Company may use Jacky as collateral for obtaining additional financing subject to Gemini approval. The loan balance and effective interest thereon is calculated with reference to estimated repayments resulting from the above formulae, forecast over the expected life of the Jacky field. The loan agreement has no fixed interest rate and fixed monthly payments.

Presented in US Dollars

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

13. PROVISIONS

At January 1, 2012	2,535,392
Movement in the year	1,033,859
Accretion expense	4,020
Foreign exchange movements	5,286
At December 31, 2012	3,578,557

Decommissioning provisions

The estimated provision for decommissioning costs has been based on management assumptions, based on the current economic environment, which they believe to be reasonable to estimate the future liability. The estimate is reviewed regularly for any material changes to these assumptions. However, the actual decommissioning cost will ultimately depend upon future market prices for the necessary decommissioning work. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. As at December 31, 2012, the provision was $1,378,557 (2011: $1,378,270).

Gemini loan provision for contingency

As at December 31, 2012, the Company and Gemini Oil & Gas Fund II, L.P. ("Gemini") are in arbitration regarding the loan agreement signed September 5, 2008. The ultimate amount of any payment is not determinable at this time and the Company is both disputing amounts claimed by Gemini and seeking recovery from Gemini, however, management has recorded as a provision its best estimate of the amount required to settle the disputed amount should Gemini's position prevail. As at December 31, 2012, the provision for contingency is $2,200,000 (2011: $1,157,122). An arbitration hearing was held in April, 2013 to determine the amounts of payment due, if any, by either party, however, no judgment has been delivered at this time.

14. SHARE CAPITAL

Authorised, allotted, called up and fully paid		**2012**	2011
100,000 Ordinary shares of $0.00002 per share	$	2	2

Presented in US Dollars

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

15. RESERVES

Profit and loss account	**2012**	2011
At January 1	4,979,337	7,680,542
Loss for the year	(3,623,515)	(2,701,205)
At December 31	1,355,822	4,979,337

16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012	2011
Opening shareholders' funds	4,979,337	7,680,542
Loss for the year	(3,623,515)	(2,701,205)
Closing shareholders' funds	1,355,822	4,979,337

17. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in FRS 8 Related party disclosures from disclosing transactions with other group companies which are wholly owned.

During the year the company was charged US$ Nil (2011 - US$57,275) for renting office space by Tradewinds Ventures Inc. a company for which Craig Anderson and Ian Lambert were also directors. As of December 1, 2011, Tradewinds Ventures Inc. is no longer a related party to the Company as it was purchased by third non-related party.

During the year the company was charged US$88,311 (2011 - US$98,689) for consultancy fees by Anderson Capital Inc. a company for which Craig Anderson is also a director.

During the year the company was charged US$8,081 (2011 - US$32,717) for consultancy fees by Brighthelm Geoscience Consultants Ltd. a company for which Ian Lisseter is also a director.

During the year the company was charged US$41,649 (2010 - US$69,812) for consultancy fees by Marseis Limited a company for which William Powers, who is a director of the ultimate parent company North Sea Energy Inc., is also a director.

During the year the company was charged US$9,033 (2011 - US$35,283) for consultancy fees by Scotian Energy Corp. a company for which Brent Austin, who is a director of the ultimate parent company North Sea Energy Inc., is also a director.

There are no amounts due to/from related parties at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent company is North Sea Energy Inc, a company registered in Canada. The smallest and largest group to prepare financial statements including the results of this company is that headed by North Sea Energy Inc.

19. STERLING EXCHANGE RATE

The sterling exchange rate as at December 31, 2012 was US$1.6261. (2011 - US$1.5535)

20. CONTINGENCIES AND COMMITMENTS

The directors were not aware of any other contingencies or commitments at the time of approving these financial statements other than the disclosed in note 13.