

NORTH SEA ENERGY (UK) LIMITED

SC325585

FINANCIAL STATEMENTS

December 31, 2016



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

COMPANY INFORMATION

Director	Ian D. Lambert
Company secretary	Brodies Secretarial Services Limited
Company number	SC325585
Registered office	c/o Brodies LLP Brodies House 31-33 Union Grove Aberdeen AB10 6SD
Auditor	Neil Morrison Campbell Dallas LLP Chartered Accountants & Statutory Auditors 23 Carden Place Aberdeen AB10 1UQ

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STRATEGIC REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

Business review


During the year ended December 31, 2016, the Company was inactive except to continue its negotiations with Gemini Oil & Gas Fund II, L.P. ("Gemini") with respect to the arbitration settlement amount. The Company will continue to work to reach an agreement with Gemini with respect to the settlement amount payable.

Principal risks and uncertainties

In December, 2014, the Company recorded a settlement amount payable for US\$5,820,907 as a result of the arbitration award against North Sea Energy Inc. and North Sea Energy (UK) Limited plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The Company does not have adequate cash available, nor any ready source of funding, to settle the liability although to date Gemini has chosen not to enforce the award. As a result, there is material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

The Company's parent is in prolonged negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. The Company's parent will continue to work toward appropriate settlement of the award with Gemini. A settlement with Gemini may entail the sale of assets and/or an exchange of debt for shares. However, while management anticipates that the Company will be able to settle amounts with Gemini, there is no assurance that the Company will be successful in its negotiations.

This report was approved by the board on September 29, 2017 and signed on its behalf.


Ian D. Lambert
Director

NORTH SEA ENERGY (UK) LIMITED
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DIRECTORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

The directors present their report and the financial statements for the year ended December 31, 2016.

Principal activities

The principal activity of the Company was that of oil and gas exploration and prospect development in the North Sea. The Company is inactive except to continue its negotiations with Gemini with respect to the arbitration settlement amount.

Results

The loss for the year, after taxation, amounted to US\$420,501 (2015: US\$1,033,077 profit).

Directors

The directors who served during the year were:

Ian D. Lambert

Future objectives

The Company will remain inactive in the foreseeable future and will be dissolved as soon as practicable.

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.

Auditor

The auditor, Campbell Dallas LLP, will be proposed for re-appointment in accordance with Section 485 of the Companies Act 2006.

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DIRECTORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

Statement of Director's 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 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;
- state whether applicable 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 the 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.

This report was approved by the board on September 29, 2017 and signed on its behalf.



Ian D. Lambert
Director

Report of the Independent Auditors 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 2016 on pages seven to fifteen. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 a Report of the Auditors 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 auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page four, 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 of the Directors 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 2015 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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emphasis of Matter

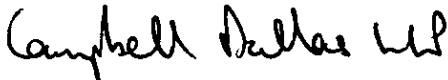
Without modifying our opinion, we draw attention to Note 2 to the financial statements, which indicate the existence of material uncertainties that may cast significant doubt about North Sea Energy (UK) Limited's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Report of the Independent Auditors 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; or



Neil Morrison (Senior Statutory Auditor)
for and on behalf of Campbell Dallas LLP
Chartered Accountants &
Statutory Auditors
23 Carden Place
Aberdeen
AB10 1UQ

Date: 29 September 2017

NORTH SEA ENERGY (UK) LIMITED
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STATEMENT OF INCOME AND RETAINED EARNINGS


For the year ended December 31,	2016	2015
Turnover	-	-
Cost of sales	-	-
Gross Profit	-	-
Administrative recovery (expenses)	7,203	(16,098)
Foreign exchange gain (loss)	(203,523)	1,238,080
Operating profit	(196,320)	1,221,982
Interest receivable and similar income	-	-
Interest payable and similar charges (note 6)	(224,181)	(188,905)
	(420,501)	1,033,077
Profit (loss) on ordinary activities before taxation	(420,501)	1,033,077
Tax on profit on ordinary activities	-	-
Profit (loss) for the financial year	(420,501)	1,033,077
Retained losses at January 1,	(12,683,143)	(13,716,220)
Retained losses at December 31,	(13,103,644)	(12,683,143)

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STATEMENT OF FINANCIAL POSITION
(Company Number: SC325585)

As at December 31,	2016	2015
CURRENT ASSETS		
Cash at bank and at hand	802	586
	802	586
CREDITORS: amounts falling due within one year		
Trade creditors (note 8)	1,326	3,867
Settlement payable (note 8)	6,295,475	6,071,294
	6,296,801	6,075,161
NET CURRENT LIABILITIES	(6,295,999)	(6,074,575)
TOTAL ASSETS LESS CURRENT LIABILITIES	(6,295,999)	(6,074,575)
CREDITORS: amounts falling due after more than one year (note 9)	6,807,643	6,608,566
NET LIABILITIES	(13,103,642)	(12,683,141)
CAPITAL AND RESERVES		
Called up share capital (note 12)	2	2
Profit and loss account (note 13)	(13,103,644)	(12,683,143)
SHAREHOLDERS' DEFICIT	(13,103,642)	(12,683,141)

The financial statements were approved and authorised for issue by the Board of Directors on September 29, 2017 and were signed on its behalf by:


Ian D Lambert, Director

NORTH SEA ENERGY (UK) LIMITED
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STATEMENTS OF CASH FLOWS

For the year ended December 31,	2016	2015
Increase (decrease) in cash		
OPERATING ACTIVITIES		
Cash flows from operating activities		
Net income (loss)	(420,501)	1,033,077
Add (deduct): charges to income not involving cash		
Non-cash interest expense	224,181	188,905
Changes in non-cash working capital items:		
Trade debtors	-	11,747
Trade creditors	(2,541)	(15,239)
Amounts owed to related parties	199,077	(237,438)
	216	981,052
FINANCING ACTIVITIES	-	-
INVESTING ACTIVITIES	-	-
Effect of foreign exchange on cash	-	(1,007,806)
INCREASE (DECREASE) IN CASH	216	(26,754)
CASH, beginning of the year	586	27,340
CASH, end of the year	802	586

See accompanying notes to the financial statements

NORTH SEA ENERGY (UK) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the period ended December 31, 2016

1. COMPANY INFORMATION

North Sea Energy (UK) Limited ("the Company" or "NSE UK") was incorporated under the laws of Scotland on June 15, 2007. The registered office of the Company is located at c/o Brodies LLP, Brodies House, 31-33 Union Grove, Aberdeen, AB10 6SD. The Company is a wholly owned subsidiary of North Sea Energy Inc. ("NSE"), a Canadian publicly traded company listed on the TSX Venture Exchange under the symbol "NUK".

The Company is an oil and gas exploration and development company in the United Kingdom's Continental Shelf (UKCS). The Company was inactive during the fiscal year ended December 31, 2016 except to continue its negotiations with Gemini with respect to the arbitration settlement amount. The Company will continue to work to reach an agreement with Gemini with respect to the settlement amount payable.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

These accounts are presented in US dollars.

Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realise its assets and settle its obligations in the normal course of business. At December 31, 2016, the Company has net current liabilities of US\$6,295,999 primarily as a result of an award recorded in December, 2014 resulting from an arbitration decision between the Company and Gemini Oil & Gas Fund II, L.P. ("Gemini"). The arbitration decision awarded US\$5,820,907 against North Sea Energy (UK) Limited plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The Company does not have adequate cash available, or any ready source of funding, to settle the liability although to date Gemini has chosen not to enforce the award.

As a result, there is material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

The Company's parent is in prolonged negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. The Company's parent will continue to work toward appropriate settlement of the award with Gemini. A settlement with Gemini may entail the sale of assets and/or an exchange of debt for shares. However, while management anticipates that the Company will be able to settle amounts with Gemini, there is no assurance that the Company will be successful in its negotiations.

These financial statements do not reflect adjustments, which could be material, to the carrying value of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

NORTH SEA ENERGY (UK) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

For the period ended December 31, 2016

3. PRINCIPAL ACCOUNTING POLICIES

(a) Creditors

Short term trade creditors are measured at the transaction price.

(b) Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed. Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the Company is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised. Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference. With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and
- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

(c) 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.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended December 31, 2016

3. PRINCIPAL ACCOUNTING POLICIES (CONITNUED)

(d) 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.

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after:

	2016	2015
Auditors' remuneration	1,143	360
Auditors' remuneration - taxation and other services	-	(3,222)
Foreign exchange losses (gains)	203,523	(1,238,080)
Legal fees and settlement	-	-

5. DIRECTORS' COMPENSATION

The company has no employees other than the directors, who did not receive any remuneration.

6. INTEREST PAYABLE

	2016	2015
Settlement interest - Gemini	224,181	188,905

The Company and Gemini Oil & Gas Fund II, L.P. ("Gemini") were in arbitration regarding the loan agreement signed September 8, 2008 from November, 2011 to December, 2014. While the Company was in arbitration, the Company recorded a provision at its best estimate as a provision to settle the disputed amount. On December 2, 2014, the Company received the final decision by the arbitrator awarding against NSE and NSE UK the amount of US\$5,820,907 plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The arbitrator ordered that each party bear its own legal costs and that half of the costs of the arbitration be paid by each party. Therefore, the Company has reclassified the amount as a settlement payable from a loan provision. The Company is currently in prolonged negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended December 31, 2016

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The corporation tax charge for the year is US\$nil (2015: US\$nil). The company has a potential deferred tax asset of US\$5,084,090 (2015: US\$4,999,990) which has not been recognised.

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, 2016 is as follows:

	2016	2015
Accounting profit/ (loss) before taxation	(420,501)	1,033,077
Substantively enacted tax rate	20.00%	20.00%
Expected tax recovery	(84,100)	206,615
Loss (utilised)/ carried forward	84,100	(206,615)
Current tax expense reported in the profit and loss account	-	-

8. CREDITORS

Amounts falling due within one year

	2016	2015
Trade creditors	1,326	3,867
Settlement payable	6,295,475	6,071,294

The Company and Gemini Oil & Gas Fund II, L.P. ("Gemini") were in arbitration regarding the loan agreement signed September 8, 2008 from November, 2011 to December, 2014. While the Company was in arbitration, the Company recorded a provision at its best estimate as a provision to settle the disputed amount. On December 2, 2014, the Company received the final decision by the arbitrator awarding against NSE and NSE UK the amount of US\$5,820,907 plus simple interest at the rate of LIBOR +3% from September 1, 2014 to the date of payment. The arbitrator ordered that each party bear its own legal costs and that half of the costs of the arbitration be paid by each party. Therefore, the Company has reclassified the amount as payable from a provision. The Company is in prolonged negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended December 31, 2016

9. CREDITORS: amounts due after more than one year

The financial statements include amounts payable to its related parties as follow:

	2016	2015
Due to parent/shareholder	6,807,643	6,608,566
Due to fellow subsidiary	-	-
	6,807,643	6,608,566

The amount due to related parties is unsecured, not interest bearing and has no fixed terms of repayment.

10. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption, under the terms of FRS 102, not to disclose related party transactions with wholly owned subsidiaries within the group.

During the year the company was charged US\$Nil (2015 - US\$3,189) 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\$Nil (2015 - US\$Nil) 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.

11. 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.

12. CALLED UP SHARE CAPITAL

Authorised
Unlimited ordinary shares

Issued	2016	2015
Ordinary share (\$0.00002):		
Dollar amount	2	2
Number of shares	100,000	100,000

No new shares have been issued during the year.

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NOTES TO THE FINANCIAL STATEMENTS

For the period ended December 31, 2016

13. RESERVES

Profit and loss account	2016	2015
At January 1	(12,683,143)	(13,716,220)
Profit (loss) for the year	(420,501)	1,033,077
At December 31	(13,103,644)	(12,683,143)

14. STERLING EXCHANGE RATE

The sterling exchange rate as at December 31, 2016 was US\$1.2336 (2015: US\$1.4745).

15. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including: market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Company's primary financial risk management objective is to ensure that the financial performance of the Company is not subject to the material negative impact of unmanaged risk.

Foreign exchange risk

The Company operates primarily in the United Kingdom. The functional and reporting currency of the company is US dollars. Foreign exchange risk arises because the amount of the local currency receivable or payable for transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-US dollar denominated loan from the Company's parent may vary on revaluation into the Canadian dollar reporting currency ("translation exposures"). The Company has not entered into arrangements to hedge its foreign currency risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company has been in prolonged negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. If these negotiations fail and Gemini demands payment, the Company will seek court protection.

Interest rate risk

The Company's exposure to interest rate risk is related to the Gemini's settlement payable, whereby if LIBOR increases the ultimate amount payable may increase as well. The Company's cash balances earn nominal interest. The Company has no other loans subject to interest rate risk.