Company Registration No. 04458621

EOG Resources United Kingdom Limited

Annual Report and Financial Statements

Year ended 31 December 2016

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EOG RESOURCES UNITED KINGDOM LIMITED

Annual Report and Financial Statements 2016

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Strategic report for the year ended 31 December 2016

The directors present their strategic report and the audited financial statements on the affairs of EOG Resources United Kingdom Limited (the Company), for the year ended 31 December 2016.

Review of the business

The principal activity of the Company is the exploration, development, production and marketing of crude oil and natural gas reserves in the United Kingdom.

The Company is engaged in the exploration and production of crude oil and natural gas from the United Kingdom Continental Shelf, in particular in the Southern Gas Basin of the North Sea, the Central North Sea and the East Irish Sea. The Company's interests in the Southern Gas Basin consist of the Valkyrie Field 25%, Arthur Field 30% and Viper Exploration Area 50%. The Company's interest in the Central North Sea consists of a 25% interest in the Columbus discovery in Block 23/16f. The Company's interest in the East Irish Sea, which is its only active area, consist of a 100% interest in Block 110/12a containing the Conwy Field.

In 2007, a successful appraisal well was drilled on the Columbus natural gas discovery in the Central North Sea. After several proposals, there is no current commercially viable export route and the Company took the decision to write off the Columbus assets in 2013. The Company continues to work with its partners with an aim to finding a viable export route and submitting a revised field development plan to United Kingdom Department of Energy and Climate Change (DECC).

In 2009, the Company drilled the Block 110/12-6 discovery well, in which the Company has a 100% working interest as the Conwy field. Following the installation of the Conwy platform and pipelines in 2012, the Company has now completed the drilling of three production wells, a water injection well and a condensate reinjection well. The Conwy pipelines were tied into the nearby, third party owned, Douglas platform where the Conwy fluids will be processed. The design and fabrication of modifications to the Douglas platform continued throughout 2014 and 2015, with offshore construction work continuing during 2016. First production was achieved in March 2016. During the second quarter of 2017, the Conwy production was off-line due to operational issues. Additional downtime is expected in the second half of 2017 due to planned facility improvements and ongoing operational issues. Production is expected to resume in the fourth quarter of 2017.

Turnover in 2016 increased significantly to £34.7 million due to the startup of Conwy field. In addition, the reversal of impairment of £60.3 million (of which the majority related to the Conwy field) contributed to the 2016 operating income of £69.8 million as compared to the operating loss for 2015 of £178.5 million. The reversal of impairment in respect of Conwy was primarily due to the weakening of £ sterling, and to a lesser extent the recovery of oil prices and a small increase in remaining commercial reserves. Income after tax for 2016 was £69.8 million, as compared to £189.5 after tax loss in 2015.

Results and dividends

The Company generated a gain after tax for the year ended 31 December 2016 of £69.8 million (2015 – Loss of £189.5 million).

Strategic report for the year ended 31 December 2016 (continued)

Key Performance Indicators

	Units	2016 £'000	2015 £'000	Change %
Turnover		*34,678*	*71*	*45182%*
Operating gain/(loss)		69,820	(178,494)	- 139%
Gain/(loss) after tax		69,834	(189,469)	- 134%
Equity shareholder's deficit		(22,398)	(92,102)	- 71%
Sales volumes- Crude Oil	Mbbl	1,126.100	-	n/a
Sales volumes - Natural Gas	MMcf	-	17.000	-100%
Sales volumes - Condensate	Mbbl	-	0.100	-100%
Average crude oil price	£/bbl	28.550	-	n/a
Average natural gas price	£/Mcf	-	3.950	- 100%
Average condensate price	£/bbl	-	32.880	- 100%

Principal risks and uncertainties

Risks and uncertainties such as exploration success, production performance and crude oil and natural gas prices are typical to an oil and gas company. The first two risks are partially mitigated through the application of state-of-the art exploration technology and the management of major properties by first class operators. The crude oil and natural gas prices risk is discussed below under "financial risk management".

Financial risk management

The company applies the policies of its ultimate parent, EOG Resources, Inc. (the Parent) in respect of financial risk management. The following is a summary of the principle financial risks and their management:

Commodity price risk: The Company's revenues and profitability depend substantially upon the market price of crude oil. Crude oil and natural gas price declines and volatility could adversely affect the Company's revenues and profitability. To manage its exposure to natural gas price declines, the company periodically enters into physical natural gas forward contracts to secure a price for a portion of its expected future production. During 2016, there were no gas sales and no physical natural gas forward contracts were employed.

Foreign currency exchange rate risk: The Company has transactions in United States Dollars and Euros and as such is exposed to movements in exchange rates. These transactions include intercompany balances with its Parent in the normal course of business, crude oil sales to a third party and European purchases as part of the Conwy development. To help mitigate the exchange rate risk, the Company's treasury policy is to monitor closely the movements in the exchange rates and keep the outstanding balances as a result of these transactions to a minimum. The Company considers the exposure associated with these transactions in the current year to be immaterial.

Credit risk: The Parent evaluates its exposure to significant counterparties on an ongoing basis. In some instances, the Parent renegotiates payment terms and / or requires collateral, parent guarantees or letters of credit to minimize credit risk. During 2016, the Company had a high concentration of credit risk as a result of selling all of its oil production to one purchaser. However, it is the Parent's view that the concentration of credit risk in this case is acceptable based on the current amount of exposure and the current financial position of the purchaser's parent company.

Andrews House
College Road, Guildford
Surrey GU1 4QB

25 September 2017

By order of the Board,

Adam J. Farrow
Director

Directors' report for the year ended 31 December 2016

The directors present their report on the affairs of the Company for the year ended 31 December 2016.

Directors

Directors serving throughout the year and up to the date of signing the financial statements, except as noted, were as follows:

Adam J. Farrow	
William R. Thomas	
Helen Y. Lim	(Resigned 31 March 2016)
Gary L. Thomas	
David W. Trice	
Robert L. West	(Appointed 1 April 2016)
James P. Woods	

Dividends

In 2016 there were no common dividends paid or declared.

Going Concern: *The Company's business, together with factors likely to affect its future development, performance* and position are set out in the Strategic report on pages 1 to 2. The Strategic report also outlines the Company's financial risk management policies. The Parent has pledged continued financial support to the Company for a period of not less than 12 months from the date of approval of the financial statements. The Company has no borrowings other than from its immediate parent. These factors, combined with the anticipated cash flows from current projects, lead the directors to believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to use the going concern basis in preparing the annual report and financial statements.

Post Balance Sheet events:

In March 2017 the Company experienced an oil pipeline blockage caused by wax deposition. Further details of this and other post balance sheet events are provided in note 23 to the financial statements.

Future Developments:

The company continues to evaluate assets.

Information to Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1) So far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2) The director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s418 of Companies Act *2006.*

Auditors

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting pursuant to sections 485 – 488 of the Companies Act 2006.

Andrews House
College Road, Guildford
Surrey GU1 4QB

By order of the Board,

Directors' report for the year ended 31 December 2016 (continued)

25 September 2017 Adam J. Farrow, Director



Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

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

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

Independent auditor's report to the members of EOG Resources United Kingdom Limited

We have audited the financial statements of EOG Resources United Kingdom Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 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 an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

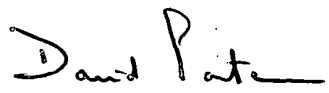
Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



David Paterson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
25 September 2017

Profit and Loss Account

For the year ended 31 December 2016

	Notes	2016 £	2015 £
TURNOVER	2	34,678,291	70,881
Cost of sales		(22,141,486)	(334,363)
GROSS INCOME(LOSS)		12,536,805	(263,482)
Exploration expenditures written off	3	(521,738)	(538,680)
Reversal of impairment/(impairment) of tangible fixed assets	10	60,287,502	(175,801,009)
Administrative expenses		(2,482,177)	(1,891,133)
OPERATING (LOSS)/INCOME		69,820,392	(178,494,304)
Finance costs, net	6	(975,624)	(1,324,862)
INCOME/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	7	68,844,768	(179,819,166)
Taxation on income/(loss) on ordinary activities	8	988,873	(9,650,150)
INCOME/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		69,833,641	(189,469,316)

There are no other items of comprehensive income or expense other than those shown above during the current and prior financial year. Consequently, no statement of comprehensive income is presented.

The above results were generated from continuing operations.

Balance Sheet
As at 31 December 2016

	Notes	2016 £	2015 £
FIXED ASSETS			
Intangible assets	9	-	-
Tangible assets	10	134,560,524	73,064,228
		134,560,524	73,064,228
CURRENT ASSETS			
Debtors due within one year	11	2,099,403	2,640,286
Deferred tax asset – due after more than one year	12	24,430,857	23,441,984
Stock	13	4,212,445	9,595
Cash at bank		23,299,798	7,696,528
		54,042,503	33,788,393
CREDITORS: amounts falling due within one year	14	(184,550,804)	(157,792,171)
Corporation taxes payable within one year		-	-
NET CURRENT LIABILITIES		(130,508,301)	(124,003,778)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,052,223	(50,939,550)
PROVISIONS FOR LIABILITIES	16	(26,449,909)	(41,162,664)
NET LIABILITIES		(22,397,686)	(92,102,215)
CAPITAL AND RESERVES	18		
Called up share capital		327,488,001	327,488,001
Capital contribution		15,269,611	15,398,723
Share premium account		321,184	321,184
Profit and loss account		(365,476,482)	(435,310,123)
SHAREHOLDER'S FUNDS/(DEFICIT)		(22,397,686)	(92,102,215)

The financial statements of EOG Resources United Kingdom Limited (registered number 04458621) were approved by the board and authorised for issue on 25 September 2017. They were signed on its behalf by:

Adam J. Farrow Director

Statement of Changes in Equity

For the year ended 31 December 2016

	Called up share capital £	Capital contribution £	Profit and loss account £	Share premium account £	Total share-holder's funds £
1 January 2015	327,488,001	15,680,710	(245,840,807)	321,184	97,649,088
Loss for the year	-	-	(189,469,316)	-	(189,469,316)
Tax benefit to Parent for stock options exercised	-	(281,987)	-	-	(281,987)
Issue of share capital	-	-	-	-	-
31 December 2015	327,488,001	15,398,723	(435,310,123)	321,184	(92,102,215)
Income for the year	-	-	69,833,641	-	69,833,641
Tax benefit to Parent for stock options exercised	-	(129,112)	-	-	(129,112)
31 December 2016	327,488,001	15,269,611	(365,476,482)	321,184	(22,397,686)

Tax benefit to Parent for permanent stock option tax deductions in excess of related book expenses represents the amount of corporation tax benefit recognised by the Parent and has been recognised as a charge to Capital contribution in both the current and prior years.

Notes to the financial statements for year ended 31 December 2016

For the year ended 31 December 2016

1 Significant accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

a) General information and basis of accounting

The Company is incorporated in the United Kingdom under the Companies Act. The address of the registered office is Andrews House, College Road, Guildford Surrey GU1 4QB. The Company is a private company which is limited by shares. The nature of the Company's operations and its principle activities are set out in the Strategic report on pages 1 to 2.

The financial statements are prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. They are also prepared in accordance with the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" issued by the UK Oil Industry Accounting Committee on 7 June 2001 (the SORP), with the following exceptions: (i) depletion, depreciation and amortisation charges in the Company's accounts are calculated using proved developed oil and gas reserves where the SORP recommends the use of proved and probable reserves; and (ii) licence costs and exploratory geological and geophysical costs are expensed where the SORP recommends the initial capitalisation of these costs.

The functional currency of the Company is considered to be pound sterling because that is the currency of the primary economic environment in which the Company operates.

In accordance with FRS 102, exemptions have been taken in relation to share-based payments, financial instruments, presentation of a cash-flow statement and remuneration of key management personnel.

The financial statements are prepared under the going concern assumption as laid out in the directors' report.

b) Oil and gas assets and exploration costs

The Company adopts the successful efforts method of accounting for exploration costs.

Intangible Oil and Gas Assets

Under the successful efforts method, exploratory drilling costs are capitalised as intangible oil and gas assets pending determination of proved commercial reserves. If proved commercial reserves are not discovered the exploratory drilling costs are expensed. If proved reserves are determined then the associated costs are transferred to tangible assets. Non-producing leasehold costs are also classified as intangible oil and gas assets and amortised over the life of the lease.

Expenditure incurred prior to the acquisition of a licence and the costs of other exploration activities which are not specifically directed to an identified structure are expensed as incurred whilst all development costs, together with related exploration costs, are capitalised within tangible fixed assets.

Depreciation, Depletion and Amortisation

Provision for depreciation, depletion and amortisation is determined on a field-by-field basis using the unit-of-production method based on proved developed reserves.

Joint Ventures

The Company's oil and gas activities that are conducted in joint ventures with other companies fall within the FRS 102 Section 15 "Investments in Joint Ventures" definition of jointly controlled assets. Accordingly, in respect of its interest in the jointly controlled asset, the Company recognises its share of production revenues, capital and operating expenditures, assets and liabilities and cash flows.

Provision for Decommissioning

Provisions for decommissioning costs are recorded at the present value of the expenditures expected to be required to settle the Company's future obligation, to the extent any damage has been caused to date and taking risks and uncertainties into account in reaching the best estimate of the provision. Provisions are reviewed at each balance sheet date to reflect the current best estimate of the cost at present value. A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access

Notes to the financial statements for the year ended 31 December 2016 (continued)

1 Significant accounting policies (continued)

to future economic benefit. The decommissioning asset is then depleted by field on a unit-of-production basis, using proved developed reserves. The unwinding of the discount relating to the decommissioning provision is included within finance costs.

c) Tangible fixed assets (other than oil and gas assets)

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	Term of lease
Software	3 years
Furniture, fixtures and other equipment	5 years

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

d) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced to below its carrying value. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. For oil and gas assets the recoverable amount is considered to be the discounted pre-tax future cash flows relating to the reserves associated with that asset, being its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine whether there is evidence of an impairment reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

e) Turnover and cost of sales

Represents the value of sales, net of related sales taxes, arising from the sale of oil and gas, and is recognised when title to the hydrocarbon product passes to the customer.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1 Significant accounting policies (continued)

Cost of sales are the operating costs to produce crude.

f) Interest receivable

Interest is earned on the automatic investments made for the cash in the bank accounts at Barclays PLC. The interest is based on an agreed-upon bank rate less fees for making the investments on behalf of the Company.

g) Foreign currency translation

Transactions arising in foreign currencies have been translated to pounds sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated to pounds sterling at the year-end exchange rate. Exchange gains and losses arising on translation are charged or credited to the profit and loss account.

h) Cash flow statement

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, EOG Resources, Inc., includes the company's cash flows in its own consolidated financial statements.

i) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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 Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Non-current debt instruments which meet the following conditions, are subsequently measured at amortised cost using the effective interest method:

(a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.

(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.

(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

Notes to the financial statements for the year ended 31 December 2016 (continued)

1 Significant accounting policies (continued)

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid *or received, net of impairment.*

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

j) Retirement benefits

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

k) Stock-based compensation

During 2016, the Parent maintained various stock-based compensation plans as discussed below. The Company recognizes compensation expense on grants of stock options, restricted stock units, and grants made under the EOG Resources, Inc. Employee Stock Purchase Plan (ESPP). Stock-based compensation expense is calculated based upon the grant date estimated fair value of the awards, net of forfeitures, based upon the Parent's historical employee turnover rate. Compensation expense is amortized over the shorter of the vesting period or the period from date of grant until the date the employee becomes eligible to retire without company approval.

Stock Options and Employee Stock Purchase Plan

Participants in the Parent's stock-based compensation plans have been or may be granted options to purchase shares of Common Stock. Stock options are granted at a price not less than the market price of the Common Stock on the date of grant. Stock options granted vest on a graded vesting schedule up to four years from the date of grant based on the nature of the grants and as defined in individual grant agreements. Terms for stock options granted have generally not exceeded a maximum of term of seven years. EOG Resources, Inc.'s ESPP allows eligible employees to semi-annually purchase, through payroll deductions, shares of Common Stock at 85 percent of the fair market value at specified dates. Contributions to the ESPP are limited to 10 percent of the employee's pay (subject to certain ESPP limits) during each of the two six-month offering periods each year. The fair value of stock option grants is estimated using the Hull-White II binomial option pricing model. The fair value of ESPP grants is estimated using the Black-Scholes-Merton model.

Restricted stock units

Employees may be granted restricted stock units without cost to them. The restricted stock units generally vest five years after the date of grant as defined in individual grant agreements, or upon employee retirement without company approval. Upon vesting, restricted stock units are converted into shares of Common Stock and released to the employee.

Notes to the financial statements for the year ended 31 December 2016 (continued)

1 Significant accounting policies (continued)

l) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events which result in an obligation to pay more tax, or a right to pay less tax, at a future date, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, 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 is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

The tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) 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, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

m) Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

n) Stock

Stock includes both crude inventory and equipment. The crude inventory is valued at lower of the cost or net realisable value at 31-December 2016. Production costs include £3,247,437 (2015: £nil) of inventory costs which were charged to expense during the year. The equipment (spare parts and consumables) is stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Provision is made for obsolete, slow-moving or defective items as appropriate.

o) Borrowing costs

Borrowing costs that are directly attributable to the construction of tangible fixed assets are capitalised as part of these assets. This policy is applied when the construction period of the tangible fixed assets is expected to exceed one year. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Borrowing costs, including premiums payable on settlement or redemption, are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

1 Significant accounting policies (continued)

p) Over/Under Crude Imbalance

Conwy crude production flows to ENI's Douglas Platform where the crude is processed. It is then stored along with ENI's crude in the Off Shore Installation to await a lifting. Each lifting is taken 100%, either by EOG or ENI, which creates an over/under imbalance between the producers. When EOG is in an underlift position, an asset is recorded to receivables at the EOG sales price, with a corresponding adjustment to cost of sales. When EOG is in an overlift position, a liability is recorded at an estimated market price (an adjusted Brent price), and the offset is recorded to cost of sales. At 31-December-2016, EOG was in an overlift position of 90,080 barrels, valued at £3,706,379.

q) Use of Judgment and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are based on management's experience and other factors. Actual outcomes could differ from these estimates. The key areas of estimation uncertainty in the next 12 months that have a risk of causing significant adjustment to the amounts recognised in the financial statements are set out below.

Assessment of commercial reserves

Management is required to assess the level of the Company's commercial reserves. These are utilised in determining the amortisation and depletion charge for the period and assessing whether any impairment adjustment is required. In addition to its own assessments, from time to time the wider EOG Group employs independent reserves specialists who periodically assess the commercial reserves by reference to geological, geophysical and financial information in respect of the EOG Group's assets.

Assessment of asset impairment

At an individual asset level, management monitors internal and external indicators of impairment which may indicate that the carrying value of the Company's tangible assets may not be recoverable. The calculation of the recoverable amount of a producing oil or gas asset involves estimating the net present value of the cash flows expected to be generated. Future cash flows are based on assumptions such as estimated commercial reserves and oil and gas sales prices. The discount rate applied is a pre-tax rate which reflects the risks of offshore oil and gas production in the UK. During the year a significant impairment reversal was recorded, further details of which are provided in note 10.

Assessment of deferred tax asset recoverability

Management is required to assess whether the Company will generate sufficient future taxable profits in order to utilise the recognised deferred tax asset, including that portion arising from past unutilised tax losses. This assessment is based on forecast estimated cash flows from operations (which are impacted by many of the same variables as outlined above in respect of asset impairment) and judgement about the application of current tax regulations. Further details are disclosed in note 12.

Assessment of decommissioning liabilities

Management is required to assess the amount of the Company's decommissioning liabilities at the balance sheet date. For non-operated assets, this assessment is based on the independent decommissioning cost estimates prepared on a periodic basis by the operator of each producing asset. For operated assets, including Conwy, this assessment is based on estimates by the Company's internal engineers. To calculate the liability at the balance

Notes to the financial statements for the year ended 31 December 2016 (continued)

sheet date, management applies inflation and discount rates as considered appropriate to the UK offshore sector. Further details are disclosed in note 16.

2 Turnover

Turnover for both 2016 and 2015 represents crude oil and natural gas sales and relates to one geographical segment, the United Kingdom.

The results for both 2016 and 2015 relate to one class of business, the sale of crude oil and natural gas.

3 Exploration expenditures written off

Exploration expenditures written off in 2016 included annual licence fees of £125,481, with the additional £396,257 being other geological and geophysical expenses. Exploration expenditures written off in 2015 included annual licence fees of £138,651, with the remainder of £400,029, being other geological and geophysical expenses.

4 Staff Costs

	2016 No.	2015 No.
Average monthly number of persons employed (including one UK director)		
Administration	5	5
Sales and operations	1	2
	6	7

	2016 £	2015 £
Staff costs during the year (including one UK director)		
Wages and salaries	697,195	912,426
Social security costs	*99,992*	*241,045*
Pension costs	92,085	113,101
Other costs	-	9,660
	889,272	1,276,232

5 Directors' remuneration and transactions

	2016 £	2015 £
Directors' remuneration		
Emoluments	981,806	1,318,071
Contributions to defined contribution pension schemes	77,924	81,183
	1,059,730	1,399,254
Remuneration of the highest paid director		
Emoluments	344,514	206,274
Contributions to defined contribution pension schemes	9,855	6,984
	354,369	213,258

All directors were members of defined contribution pension schemes. Seven directors exercised share options in the Parent during 2016 including the highest paid director.

Included in the above directors' remuneration are £825,343 (2015 - £1,129,353) of costs relating to services provided to the Company but for which the cost was borne by another group undertaking, and which were not recharged to the Company.

Notes to the financial statements for the year ended 31 December 2016 (continued)

6 Finance costs, net

Finance expense / (income) for the year comprises the following:

	2016 £	2015 £
Interest payable and similar charges		
Foreign exchange gain/(loss)	(59,248)	123,790
Unwinding of discount on bonds (see note 15)	312,066	1,551,050
Unwinding of discount on provisions (see note 16)	851,360	1,328,344
Other	5,614	-
	1,109,792	3,003,184
Interest income and similar income		
Bank interest	(47,578)	(73,606)
Other	(5)	(53,666)
	(47,583)	(127,272)
Borrowing costs capitalised	(86,585)	(1,551,050)
	975,624	1,324,862

Borrowing costs have been capitalised based on a capitalisation rate of 1.0% (2015 – 1.31%) which is the weighted average of rates applicable to the Company's general borrowings outstanding during the year.

7 Loss on ordinary activities before taxation

(Profit) / Loss on ordinary activities before taxation is stated after charging / (crediting):

	2016 £	2015 £
Non O&G assets only depreciation of tangible fixed assets	31,025	22,326
Impairment of tangible fixed assets	347,470	175,801,009
Reversal of past impairment losses on tangible fixed assets	(60,634,969)	(223,378)
Operating lease rentals	127,835	164,947
Foreign exchange (gain)/loss	(59,248)	123,790

Impairments and reversal of impairments of tangible fixed assets are included within Operating (profit) / loss in the Profit and Loss Account.

The analysis of the auditor's remuneration is as follows:

	2016 £	2015 £
Auditor's remuneration – audit of financial statements	53,800	43,800
	53,800	43,800

Notes to the financial statements for the year ended 31 December 2016 (continued)

8 Taxation on loss on ordinary activities

The tax charge comprises:

	2016 £	2015 £
Current corporation tax charge/(credit)	-	(31,969)
Deferred tax		
Origination and reversal of timing	28,346,814	(55,136,486)
Tax losses arising in the year	(896,867)	(34,618,833)
Deferred tax on losses, not recognized (Valuation Allowance released)	(17,834,597)	111,359,412
Ring Fence Expenditure Supplement	(10,604,223)	(11,921,974)
Deferred tax (credit)/charge recognised in the period	(988,873)	9,682,119
Due to tax losses	(5,677,269)	3,271,002
Due to tax rate changes	4,688,396	6,411,117
Total deferred tax expense/(benefit) (see note 12)	(988,873)	9,682,119
Total tax (credit)/expense on ordinary activities	(988,873)	9,650,150

Factors affecting corporation tax charge for the year:
The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the result before tax is as follows:

	2016 £	2015 £
Income/(loss) on ordinary activities before tax	68,844,768	(179,819,166)
Income on ordinary activities multiplied by average UK Corporation tax rate of 40% (2015 – 50 %)	27,537,907	(89,909,583)
Effects of:		
Losses not recognized/(recognized) for deferred tax purposes	(33,215,176)	93,875,761
Other timing differences	-	(717,937)
Non-deductible expenses	-	22,760
Deferred tax due to tax rate changes	4,688,396	6,411,117
Previous period tax accrual to return adjustment	-	(31,968)
Total tax (credit)/charge for period	(988,873)	9,650,150

The average tax rate shown above incorporates the 10% supplementary tax (2015 – 20%) on UK North Sea profits and the standard UK corporation tax rate for such ring fenced income of 30%.

The Ring Fence Expenditure Supplement (RFES) assists companies that do not have sufficient taxable income for ring fence corporation tax purposes against which to fully offset their exploration, appraisal and development costs. The RFES originally allowed companies to elect to increase the value of losses carried forward from one period to the next by 6% for a maximum of 6 years, not necessarily consecutive years. The annual rate of the RFES was increased to 10% by Order effective 1 January 2012.

Notes to the financial statements for the year ended 31 December 2016 (continued)

9 Intangible assets

Cost	2016 £	2015 £
At 1 January	18,002,125	23,286,822
Additions / change in estimate	126,712	(13,463)
Disposals	-	(5,271,234)
At 31 December	18,128,837	18,002,125
Amortisation and impairment		
At 1 January	(18,002,125)	(23,286,822)
Impairment reversal	(126,712)	13,463
Disposals	-	5,271,234
At 31 December	(18,128,837)	(18,002,125)
Net book value		
At 31 December 2015	-	-
At 31 December 2016	-	-

As at 31 December 2016, there are no intangible assets. Columbus, Valkyrie and Arthur are not producing and are fully written off. Only Columbus and Conwy licenses were in effect at 31 December 2016.

Notes to the financial statements for the year ended 31 December 2016 (continued)

10 Tangible assets

Cost	Oil and gas properties £	Decommis-sioning asset £	Non O&G properties £	Total £
At 1 January 2016	492,301,162	40,051,275	1,073,433	533,425,870
Additions / change in estimate	19,682,358	(7,928,440)	82,237	11,836,155
At 31 December 2016	*511,983,520*	*32,122,835*	*1,155,670*	*545,262,025*
Depreciation				
At 1 January 2016	(447,033,410)	(12,276,828)	(1,051,405)	(460,361,643)
Charge for the year	(7,815,771)	(2,780,564)	(31,025)	(10,627,360)
Impairment reversal	57,098,910	3,188,592	-	60,287,502
At 31 December 2016	(397,750,271)	(11,868,800)	(1,082,430)	(410,701,501)
Net book value				
At 31 December 2015	45,267,752	27,774,447	22,028	**73,064,228**
At 31 December 2016	114,233,249	20,254,035	73,240	**134,560,524**

At 31 December 2016 the above represents the Company's 100% interests in the Conwy Field in the United Kingdom sector of the East Irish Sea. It also represents the Company's interest in the Valkyrie Field (25%) and the Arthur Field (30%) in the United Kingdom sector of the North Sea, although these assets are fully depreciated.

The 2016 impairment reversal in respect of the Conwy development of £57.1 million was mainly triggered by the increase in oil prices during 2016, the weakening of the £ sterling and also by an increase in the commercial reserves estimate. The impairment review has been based on the value in use of the assets using a pre-tax discount rate of 12%. The cash flow estimates have been calculated for a 5 year period, through to the end of the development's estimated commercial field life in 2021, using the Dated Brent forward prices as of December 31, 2016 for the next 5 years.

The 2016 decommissioning asset impairment reversal of £3.2 million arose due to a revision in the decommissioning estimates on the Arthur and Valkyrie Fields during 2016. As no further production is anticipated from either Field the decrease in the decommissioning assets has been released to the income statement.

Cumulative borrowing costs capitalised included in the cost of tangible fixed assets amount to £10,454,562 (2015 – £10,367,977).

Notes to the financial statements for the year ended 31 December 2016 (continued)

11 Debtors

	2016 £	2015 £
Amounts falling due within one year:		
VAT debtors	1,829,944	2,270,640
Other debtors	3,461	45,223
Amount due from Ultimate Parent	8,312	69,272
Prepayments and accrued income	225,717	255,151
Corporation Tax	31,969	-
	2,099,403	**2,640,286**

12 Deferred tax asset – due after more than one year

	2016 £	2015 £
Deferred tax asset	**24,430,857**	**23,441,984**

Analysis of deferred tax

	2016 £	2015 £
Deferred tax asset at 1 January	23,441,984	33,124,103
Credited/(charged) to profit and loss account	988,873	(9,682,119)
Deferred tax asset at 31 December	24,430,857	23,441,984

	2016 £	2015 £
Accelerated capital allowances	(38,748,808)	(14,700,896)
Share based payment	33,664	132,861
Bond amortisation	93,620	499,480
Tax losses carried forward	63,052,381	37,510,539
Deferred tax asset	24,430,857	23,441,984

During 2016, the Company incurred a tax loss of approximately £30 million (£3 million net operating loss and £27 million uplift) which, along with prior years' tax losses of £600 million (£479 million net operating loss and £121 million uplift), will be carried forward indefinitely. The tax effect of these tax losses represent a future tax benefit (deferred tax asset) and must be evaluated for the likelihood of future utilisation. Evaluations in 2016 indicate that, due primarily to the low prevailing crude oil prices, not all of these tax losses may be utilised and therefore £188.7 million (representing tax losses of approximately £471.8 million) of the deferred tax assets are not recognised.

Deferred tax as at 31 December 2016 has been recognised at the rate of 40% (2015 – 50%) on UK assets and liabilities, which includes the Supplementary Charge to Corporation Tax which applies to oil and gas companies producing in the UK and UK Continental Shelf (see note 8).

Notes to the financial statements for the year ended 31 December 2016 (continued)

13 Stock

	2016 £	2015 £
Crude oil in Off Shore Installation	4,202,850	-
Raw materials and consumables	9,595	9,595
	4,212,445	9,595

14 Creditors: amounts falling due within one year

	2016 £	2015 £
Trade creditors	392,830	1,032,087
Amount due to Parent	259,382	424,053
Amount due to fellow subsidiary	164,720,000	132,790,341
Original Issue Discount Bonds – due to fellow subsidiary (see note 15)	-	10,619,934
Accruals and deferred income	5,199,151	10,426,417
Other creditors	3,706,473	259
Decommissioning provision (falling due within one year) (see note 16)	10,272,968	2,499,080
	184,550,804	157,792,171

Loan from immediate parent company
Included within Amount due to fellow subsidiary above is an unsecured, interest free loan of £164.7 million (2015- £132.8 million) from EOGI International Company (the Company's immediate parent). The loan has increased during the year as a result of the Company requiring funding to continue work on the Conwy development.

Notes to the financial statements for the year ended 31 December 2016 (continued)

15 Creditors: amounts falling due after more than one year

	2016 £	2015 £
Original Issue Discount Bonds – due to fellow subsidiary		
- Between one and two years	-	-
- Between two and five years	-	-
	-	-
- On demand or within one year	-	10,619,934
	-	10,619,934
Creditors: amounts falling due after more than one year	-	-

On 19 July 2012 the Company issued three Original Issue Discount Bonds to the Company's immediate parent, EOGI International Company. Each of the bonds is unsecured and was issued at an original discount (compared to its ultimate redemption value) that is unwound over the term of the bond on an effective interest basis. The bonds have a term of two, three and four years with discount rates of 4.83%, 4.90% and 5.06% respectively and all of them were repaid before December 31, 2016.

The first bond was fully repaid in August 2014. The total repayment amount was £45.1 million.

The second bond was fully repaid in August 2015. The total repayment amount was £37.7 million.

The third and final bond was fully repaid in August 2016. The total repayment amount was £10.9 million.

16 Provisions for liabilities

	2016 £	2015 £
Decommissioning provision (falling due after more than one year)	26,423,558	41,123,675
Other	26,351	38,990
	26,449,909	41,162,664

Analysis of decommissioning provision

	2016 £	2015 £
At 1 January	43,622,755	44,628,976
Additions	-	-
Unwinding of discount	851,360	1,328,344
Utilisation	(166)	(744,663)
Change in estimate	(7,777,423)	(1,589,902)
At 31 December	36,696,526	43,622,755
Decommissioning provision (falling due within one year) (see note 14)	10,272,968	2,499,080
Decommissioning provision (falling due after more than one year)	26,423,558	41,123,675
At 31 December	36,696,526	43,622,755

The provision is in respect of the decommissioning of oil and gas facilities currently in place.

The utilisation in the year relates to initial decommissioning works that have been carried out on the Arthur Field.