



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

June 30, 2017 and 2016

NORTH SEA ENERGY INC.

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MANAGEMENT'S REPORT TO THE SHAREHOLDERS

Management is responsible for the reliability and integrity of these financial statements. The accompanying condensed consolidated financial statements have been prepared by management in accordance with International Accounting Standards (“IAS”) 34 - Interim Financial Reporting. The condensed interim consolidated financial statements are presented in Canadian Dollars.

The accompanying condensed consolidated financial statements have been prepared using policies and procedures established by management and reflect fairly the Company’s financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the financial statements. Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities by the Audit Committee, which is composed entirely of independent directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management’s responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the condensed interim consolidated financial statements to the Board.

The following interim condensed consolidated financial statements are unaudited and have not been reviewed by the Company’s auditor.

Signed “Ian Lambert”
Chief Executive Officer

Signed “Scott Davis”
Chief Financial Officer

NORTH SEA ENERGY INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
Presented in Canadian Dollars

	As at June 30, 2017	As at December 31, 2016
Current assets		
Cash	\$ 13,824	\$ 44,766
Trade and other receivables	2,587	15,417
Prepaid expenses	1,854	48,827
	18,265	109,010
Non-current assets		
Exploration and evaluation assets (note 5)	603,321	604,299
Total assets	\$ 621,586	\$ 713,309
Current liabilities		
Trade and other payables	\$ 373,037	\$ 108,569
Due to related parties (note 14)	397,722	323,750
Settlement payable (note 8)	8,353,959	8,452,935
	9,124,718	8,885,254
Non-current liabilities		
Provisions (note 7)	27,435	27,435
	27,435	27,435
Total liabilities	9,152,153	8,912,689
Shareholders' deficiency		
Capital stock (note 10)	19,330,721	19,330,721
Contributed surplus	6,173,588	6,114,048
Equity component of convertible debenture (note 9)	239,800	239,800
Deficit	(32,948,359)	(32,261,429)
Translation reserve	(1,326,317)	(1,622,520)
	(8,530,567)	(8,199,380)
Total shareholders' deficiency and liabilities	\$ 621,586	\$ 713,309
Going concern (note 2)		

On behalf of the Board:

"Ian Lambert"
(Director)

"D. Brett Whitelaw"
(Director)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NORTH SEA ENERGY INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
Presented in Canadian Dollars

	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
EXPENSES				
Compensation and consulting fees (note 3)	\$ 33,470	\$ 82,237	\$ 336,776	\$ 177,047
Depreciation (note 3)	-	95	-	4,831
General and administrative costs (note 3)	20,170	39,499	76,429	95,757
Share-based payments	59,540	-	59,540	-
	113,180	121,831	472,745	277,635
OPERATING LOSS	(113,180)	(121,831)	(472,745)	(277,635)
Abandonment recovery	-	-	1,053	8,700
Foreign exchange gain (loss)	(42,311)	9,668	(56,259)	(94,715)
Interest and finance income	(1)	12,856	33	13,162
Interest and finance costs (note 8)	(82,487)	(66,578)	(159,012)	(135,077)
	(124,799)	(44,054)	(214,185)	(207,930)
NET LOSS FOR THE PERIOD	(237,979)	(165,885)	(686,930)	(485,565)
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange gain (loss) on translation	214,149	(31,514)	296,203	562,077
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (23,830)	\$ (197,399)	\$ (390,727)	\$ 76,512
NET LOSS PER SHARE (note 4):				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NORTH SEA ENERGY INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

Presented in Canadian Dollars

	Issued and fully paid shares (note 10)	Contributed surplus	Equity portion of convertible debenture	Deficit	Translation reserve	Total
Balance as at January 1, 2016	\$ 19,330,721	\$ 6,114,048	\$ 239,800	\$ (31,306,131)	\$ (1,890,971)	\$ (7,512,533)
Net loss for the period	-	-	-	(485,565)	-	(485,565)
Exchange differences on translating Foreign operations	-	-	-	-	562,077	562,077
Balance as at June 30, 2016	\$ 19,330,721	\$ 6,114,048	\$ 239,800	\$ (31,791,696)	\$ (1,328,894)	\$ (7,436,021)
Balance as at January 1, 2017	\$ 19,330,721	\$ 6,114,048	\$ 239,800	\$ (32,261,429)	\$ (1,622,520)	\$ (8,199,380)
Net loss for the period	-	-	-	(686,930)	-	(686,930)
Share-based payments	-	59,540	-	-	-	59,540
Exchange difference on translating foreign operations	-	-	-	-	296,203	296,203
Balance as at June 30, 2017	\$ 19,330,721	\$ 6,173,588	\$ 239,800	\$ (32,948,359)	\$ (1,326,317)	\$ (8,530,567)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NORTH SEA ENERGY INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) Presented in Canadian Dollars

	For the six months ended June 30, 2017	For the six months ended June 30, 2016
OPERATING ACTIVITIES		
Cash used in operations		
Net loss	\$ (686,930)	\$ (485,565)
Add (deduct): charges to income not involving cash		
Depreciation (note 6)	-	4,831
Asset retirement obligation (note 7)	-	(20,800)
Non-cash interest expense	159,012	135,077
Share-based payments	59,540	-
Changes in non-cash working capital items:		
Prepaid expenses	46,973	(7,008)
Trade and other receivables	12,830	1,371
Trade and other payables	264,468	80,987
Due to related parties	73,972	-
	(70,135)	(291,107)
INVESTING ACTIVITIES		
Exploration and evaluation assets (note 5)	-	(99,256)
	-	(99,256)
Effect of foreign exchange on cash	39,193	90,975
DECREASE IN CASH	(30,942)	(299,388)
CASH, beginning of the period	44,766	539,222
CASH, end of the period	\$ 13,824	\$ 239,834

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Presented in Canadian Dollars

For the six months ended June 30, 2017

1. BUSINESS DESCRIPTION AND BASIS OF PREPARATION

North Sea Energy Inc. ("NSE" or the "Company") exists under the Business Corporations Act (Ontario) and is a publicly traded company on the TSX Venture Exchange under the symbol "NUK".

The Company is a UK focused oil and gas exploration and appraisal ("E&A") company active in the United Kingdom's Continental Shelf ("UKCS"). Exploration and development activities are focused on the Inner Moray Firth and central areas of the UKCS. The Company holds its oil and gas interests through its wholly owned subsidiaries, North Sea Energy (UK) Limited ("NSE UK"), North Sea Energy (UK NO2) Limited, Echo Exploration Limited and March Resources Limited.

The head office, principal address and registered office of the Company are located at 800-120 Eglinton East, Toronto, Ontario, M4P 1E2.

Basis of preparation

The unaudited condensed interim consolidated financial statements ("interim financial statements") were prepared using the same accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2016. The interim financial statements are in compliance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of the Company's consolidated financial statements for the year ended December 31, 2016. These interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016.

The interim financial statements are presented in Canadian Dollars, which is the functional currency of the parent company.

The condensed interim consolidated financial statements for the six months ended June 30, 2017 were authorized for issue on August 22, 2017.

2. GOING CONCERN

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and settle its obligations in the normal course of business. At June 30, 2017, the Company has negative working capital of \$9,106,453 primarily as a result of a \$8,353,959 award resulting from an arbitration between the Company and Gemini Oil & Gas Fund II, L.P. ("Gemini"). The arbitration decision awarded US\$5,820,907 against NSE and NSE UK 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. However, should the results from drilling the Bagpuss well be considered successful, management will undertake to raise capital either through financial markets or via sale of its assets.

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

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Presented in Canadian Dollars

For the six months ended June 30, 2017

2. GOING CONCERN (CONTINUED)

The Company has been in negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award. The Company has made a proposal which Gemini is evaluating and management 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 has attempted to settle amounts with Gemini, there is no assurance that the Company will be successful in its negotiations.

These interim condensed consolidated 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.

3. EXPENSES

	For the three months ended June 30, 2017 \$	For the three months ended June 30, 2016 \$	For the six months ended June 30, 2017 \$	For the six months ended June 30, 2016 \$
COMPENSATION AND CONSULTING FEES				
Consulting fees	19,970	40,737	53,986	94,047
Directors fees (note 14)	13,500	41,500	42,790	83,000
CEO contract termination fee (note 14)	-	-	240,000	-
	33,470	82,237	336,776	177,047
GENERAL AND ADMINISTRATIVE				
Rent	287	10,047	767	31,898
Public issuer fees	1,908	9,062	10,544	17,288
Travel	54	712	81	8,785
Professional fees	12,033	8,194	12,033	15,599
Office supplies	4,184	6,821	7,421	14,047
Telecommunications	81	2,373	598	4,058
Meals and entertainment	-	2,241	130	3,831
Operating costs	20	49	52	251
Run off insurance	1,603	-	44,803	-
	20,170	39,499	76,429	95,757

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
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For the six months ended June 30, 2017

4. LOSS PER SHARE

The calculation of basic and diluted net loss per share is based on the following data:

	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Net loss for the period	\$ (237,979)	\$ (165,885)	\$ (686,930)	\$ (485,565)
Weighted average number of shares	59,295,512	59,295,512	59,295,512	59,295,512
Basic and diluted loss per ordinary share*	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)

*The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as preference shares, outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the period, if dilutive.

5. EXPLORATION AND EVALUATION ASSETS

	June 30, 2017	December 31, 2016
	\$	\$
Cost as at beginning of period	604,299	617,912
Additions	17,191	4,826
Net exchange differences	(18,169)	(18,439)
Cost as at end of period	603,321	604,299
Net book value as at end of period	603,321	604,299

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Presented in Canadian Dollars

For the six months ended June 30, 2017

6. OFFICE FURNITURE AND EQUIPMENT

	June 30, 2017	December 31, 2016
	\$	\$
Cost as at beginning of period	-	29,777
Disposals	-	(29,777)
Cost as at end of period	-	-
Accumulated depreciation as at beginning of period	-	23,841
Depreciation charge for the period	-	1,196
Loss on disposition	-	3,656
Proceeds on disposition	-	1,084
Disposals	-	(29,777)
Accumulated depreciation as at end of period	-	-
Net book value as at end of period	-	-

7. PROVISIONS

	June 30, 2017	December 31, 2016
	\$	\$
Decommissioning costs*:		
Balance as at beginning of period	27,435	31,076
Costs incurred	-	(3,641)
Balance as at end of period	27,435	27,435

***Decommissioning costs:** The estimated provision for decommissioning costs is 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

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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8. SETTLEMENT PAYABLE

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 has been currently in negotiations with Gemini in efforts to find a solution to satisfy the liability with respect to the arbitration award.

	June 30, 2017	December 31, 2016
	\$	\$
Balance as at beginning of period	8,452,935	8,402,671
Interest expense included in loss for the period	159,012	296,996
Foreign currency movement	(257,988)	(246,732)
Balance as at end of period	8,353,959	8,452,935

9. CONVERTIBLE DEBENTURES

The following table summarizes the changes in the liability and equity components of the convertible debentures as at:

	June 30, 2017	December 31, 2016
	\$	\$
Equity component:		
Balance as at end of period	239,800	239,800

On November 22, 2012, the Company completed a private placement of unsecured convertible debentures in the amount of \$3,800,000 (the "Debentures"). The subscription price per Debenture was \$1,000 with an interest rate of 7.75% payable semi-annually, for a term of five years from the issue date. The Debentures are convertible into common shares at the holder's option at any time after four months from the date of issuance at a price of \$0.45 per common share of the Company. The Company may elect to convert the Debentures on each anniversary date of the date of issuance of the Debentures at a price of \$0.45 per common share.

The Debentures are subject to an Undertaking Agreement (UA), signed at the time of issuance of the Debentures, that restricted the convertibility of the Debentures to circumstances where, after conversion, the holder would not hold more than 10% of the issued and outstanding common shares of the Company.

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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9. CONVERTIBLE DEBENTURES (CONTINUED)

On November 26, 2014, the holder, Mr. Karel van de Velde, agreed to defer interest payable (including the interest payment that was due on November 22, 2014) and all future interest payments payable by the Company to the holder, until the Company has received and closed a minimum of \$2,500,000 of financing. This financing was to be arranged by Deer Creek Capital, a company associated with one of NSE's past directors. The Company for its part has agreed not to exercise its Debenture conversion option as of November 22, 2014. Furthermore, the Amending Agreement signed on November 26, 2014 stipulates that interest shall not accrue from May 22, 2015 on the principal amount and that the principal amount shall not be payable if a financing (as defined in the Amending Agreement) was not received and closed by the July 1, 2015 deadline. The deferred interest payments (November 22, 2014 and May 22, 2015) shall be cancelled and no amount shall be payable by the Company to the holder with respect thereto.

As stipulated by the Amending Agreement, since a financing as defined under the Amending Agreement was not closed by July 1, 2015, the Company is under no obligation to repay the Debentures. The conversion option available to the holder and the Company are subject to the UA discussed above. As long as the holder owns more than 10% of the issued and outstanding common shares of the Company, the holder or the Company cannot convert the Debentures into common shares. The holder's latest public filing indicates that he owns 20.3% of the issued and outstanding common shares of the Company.

Effective July 1, 2015, the Debenture ceased to be a financial liability and was derecognized. Since the UA prevents conversion of the Debenture to common shares, however, the recorded amount of the Debenture at July 1, 2015 has been reclassified to contributed surplus at that date. In the event that the Debenture is converted to common shares at a future date, the amount recognized as contributed surplus will be reclassified to capital stock at that time.

10. CAPITAL STOCK**(a) Authorized**

Unlimited common shares
Unlimited preferred shares, issuable in series

(b) Issued common shares

	Common shares	
	Number of shares	Amount (\$)
Balance as at December 31, 2016	59,295,512	19,330,721
Balance as at June 30, 2017	59,295,512	19,330,721

No new shares were issued during the six month period ended June 30, 2017.

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Presented in Canadian Dollars

For the six months ended June 30, 2017

11. SHARE - BASED PAYMENTS

A summary of the status of the Company's stock option plan as at June 30, 2017 and December 31, 2016 and changes during each fiscal period are presented below:

	Number of options	Weighted average exercise price (\$)
Outstanding at January 1, 2016	11,695,285	0.20
Expired	(1,050,005)	0.28
Outstanding at December 31, 2016	10,645,280	0.20
Expired	(1,775,070)	0.27
Granted	2,700,000	0.05
Outstanding at June 30, 2017	11,570,210	0.15

The following table summarizes stock options outstanding and exercisable under the stock option plan:

Exercise prices (\$)	Number outstanding and exercisable	Weighted average years to expiry	Expiry date
0.33	3,000,175		October 16, 2017
0.23	175,000		January 2, 2018
0.33	600,035		January 28, 2018
0.07	3,780,000*		January 19, 2018
0.07	1,315,000		July 2, 2018
0.05	2,700,000		April 20, 2020
	11,570,210	1.07	

*During the period ended June 30, 2017, the Company extended the period for which 3,780,000 stock options, granted on July 2, 2015 to former directors and officers may be exercised to January 19, 2018 at \$0.07 per share

During the period ended June 30, 2017, the Company granted 2,700,000 options with an exercise price of \$0.05 at a fair value of \$59,540.

The fair value of all compensatory options granted is estimated on the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair values are as follows:

	<u>2017</u>	<u>2016</u>
Risk-free interest rate	1.03%	-
Expected life of option	3.00 years	-
Expected dividend yield	0%	-
Expected stock price volatility	153.26%	-
Fair value per option	\$0.02	-

NORTH SEA ENERGY INC.

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12. INTEREST IN JOINT ARRANGEMENTS

Farm-out arrangement

During the year ended December 31, 2013, the Company, through its wholly owned subsidiary, North Sea Energy (UK NO2) Limited, entered into a farm-out agreement with Maersk Oil North Sea UK Limited ("Maersk Oil") to participate in the initial exploration and appraisal of the Company's UK North Sea blocks 13/24c and 13/25 ("Bagpuss Prospect").

Under the farm-out agreement, Maersk Oil is to carry 100% of NSE's costs, subject to a cap, to drill the initial Bagpuss well including a site survey and agreed past costs. In addition, Maersk Oil is to carry 50% of NSE's costs, subject to a cap, on a subsequent Bagpuss well should one be drilled. In return, Maersk Oil acquired a 25% working interest and NSE retained a 15% working interest in blocks 13/24c and 13/25.

Interests in jointly controlled assets and operations

As at June 30, 2017 North Sea Energy (UK NO2) Limited has working interests in the following UKCS licences:

Licence	Block	Name	Working Interest	Operator/ Administrator	Licence Type
P .1943	13/24c and 13/25	Bagpuss/ Blofeld	20%	Reach	Traditional

Summarized financial statement information for the Company's share of jointly controlled assets included in the consolidated financial statements, is disclosed below:

	June 30, 2017	December 31, 2016
	(\$)	(\$)
Non-current assets	603,321	604,299
Total assets	603,321	604,299
Current liabilities	30,753	82,026
Total liabilities	30,753	80,026

	For the three months ended June 30,		For the six months ended June 30,	
	2017 (\$)	2016 (\$)	2017 (\$)	2016 (\$)
Operating costs	20	49	52	251

NSE has ongoing commitments through joint operations for license fees and drilling studies, which will be funded through the Company's working capital. To December 31, 2016, Maersk Oil paid for past costs, site survey costs and the Bagpuss exploration/appraisal well. During the period, Maersk and the Bagpuss JV listed below reassigned Maersk's 25% working interest in the Bagpuss on a prorated basis. Upon final approval by the OGA, NSE2's working interest in Bagpuss increased from 15 % to 20%. The working interests in the Bagpuss JV going forward are as follows: Encounter - 17.67%, Groliffe - 8.83%, NSE2 - 20.0%, Reach Halibut Limited - 53.5%, Total - 100%.

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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13. SEGMENTED INFORMATION

The Company has three wholly owned subsidiaries in the United Kingdom. All operating activities are related to exploration, development and production of oil and natural gas assets.

	For the three months ended		For the six months ended	
	2017	June 30, 2016	2017	June 30, 2016
	\$	\$	\$	\$
Group operating loss				
Canada	(110,276)	(106,469)	(469,596)	(241,124)
United Kingdom	(2,904)	(15,362)	(3,149)	(36,511)
Total Group operating loss	(113,180)	(121,831)	(472,745)	(277,635)
Foreign exchange gain (loss) from operations*	(42,312)	9,668	(56,260)	(94,715)
Interest and finance income*	-	12,856	34	13,162
Interest and finance costs*	(82,487)	(66,578)	(159,012)	(135,077)
Abandonment recovery	-	-	1,053	8,700
Loss before income tax	(237,979)	(165,885)	(686,930)	(485,565)
*Foreign exchange gain (loss) from operations				
Canada	-	(5)	(11)	(22)
United Kingdom	(42,312)	9,673	(56,249)	(94,693)
*Interest and finance income				
Canada	-	289	34	582
United Kingdom	-	12,567	-	12,580
*Interest and finance costs				
Canada	-	-	-	-
United Kingdom	(82,487)	(66,578)	(159,012)	(135,077)
* Abandonment recovery				
Canada	-	-	1,053	8,700
United Kingdom	-	-	-	-
Operating costs				
Canada	-	-	-	-
United Kingdom	20	49	52	251
Total operating costs	20	49	52	251

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13. SEGMENTED INFORMATION (CONTINUED)

	June 30, 2017 (\$)	December 31, 2016 (\$)
Non-current assets		
Canada	-	-
United Kingdom		
Oil and gas properties	-	-
Exploration and evaluation assets	603,321	604,299
Total non-current assets	603,321	604,299
Total assets		
Canada	9,122	94,086
United Kingdom	612,464	619,223
Total assets	621,586	713,309
Total liabilities:		
Canada	771,722	447,706
United Kingdom	8,380,431	8,464,983
Total liabilities	9,152,153	8,912,689

14. RELATED PARTY DISCLOSURES

The financial statements include the financial statements of North Sea Energy Inc. and its wholly owned subsidiaries North Sea Energy (UK) Limited, North Sea Energy (UK NO2) Limited, Echo Exploration Limited and March Resources Ltd.

Compensation of key management personnel of the Company

For the six months ended June 30, 2017, the Company incurred expenditures of \$337,722 (2016 - \$257,000) to companies controlled by directors of the Company, for management consulting services and directors' services to key management personnel as set out in the table below:

	For the three months ended		For the six months ended	
	2017	June 30, 2016	2017	June 30, 2016
	\$	\$	\$	\$
Management and consulting services	21,021	85,500	54,932	174,000
Directors fees*(accrued not paid)	13,500	41,500	42,790	83,000
CEO contract termination fee (accrued not paid)	-	-	240,000	-
	34,521	127,000	337,722	257,000

*The outstanding unsecured balance due to related parties is \$31,182 of unpaid management and consulting services to the Company's CEO and CFO and \$366,540 of unpaid director's fees from 2015, 2016 and 2017 accumulated to June 30, 2017.

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Presented in Canadian Dollars

For the six months ended June 30, 2017

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**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 Canada and the United Kingdom. The functional and reporting currency of the parent company is Canadian dollars. The functional currency of the UK subsidiaries is the US dollar. 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-Canadian dollar denominated financial statements of the Company's subsidiaries may vary on revaluation into the Canadian dollar reporting currency ("translation exposures").

The Company's operations are exposed to exchange rate changes in the U.S. dollar and British Pound to the Canadian dollar. As of June 30, 2017, fluctuations of +/- 5% would, everything else being equal, have had an effect of approximately \$417,700 on other comprehensive income in 2017 and \$401,000 in 2016 mainly related to the Gemini settlement payable. As of June 30, 2017, fluctuations of +/- 5% would, everything else being equal, have had a nominal effect on earnings in 2017 and nominal effect in 2016. The Company has not entered into arrangements to hedge its foreign currency risk.

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.

Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and trade and other receivables. The carrying value of financial assets represents the Company's maximum credit exposure as follows:

	June 30, 2017	December 31, 2016
	\$	\$
Cash	13,824	44,766
Trade and other receivables	2,587	15,417
Total	16,411	60,183

The Company mitigates this credit risk by dealing with counterparties who are major financial institutions and monitoring credit exposure on trade and other receivables.

NORTH SEA ENERGY INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities to ensure it has sufficient available funds to meet current and foreseeable financial requirements.

The following are the undiscounted contractual maturities of financial liabilities as at June 30, 2017:

	Carrying amount (\$)	Less than 1 year (\$)	1 to 2 years	After 2 years
Trade payables	373,037	373,037	-	-
Due to related parties	397,722	397,722	-	-
Settlement payable	8,353,959	8,353,959	-	-
Total	9,124,718	9,124,718	-	-

The following are the undiscounted contractual maturities of financial liabilities as at December 31, 2016:

	Carrying amount (\$)	Less than 1 year (\$)	1 to 2 years	After 2 years
Trade payables	108,569	108,569	-	-
Due to related parties	323,750	323,750	-	-
Settlement payable	8,452,935	8,452,935	-	-
Total	8,885,254	8,885,254	-	-

16. CAPITAL MANAGEMENT

There were no changes to the Company's approach to capital management during the current period. Capital for the reporting periods under review is summarized as follows:

	June 30, 2017 (\$)	December 31, 2016 (\$)
Total shareholders' deficiency	(8,530,567)	(8,199,380)
Total liabilities	9,152,153	8,912,689
Cash	(13,824)	(44,766)
Capital (deficiency)	607,762	(668,543)

Capital for the reporting periods under review is summarized as follows: