

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & Co SC

KELT U.K. LIMITED
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ACCOUNTS - 31 MARCH 1993

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS



The company's registered number is 1421481

KELT U.K. LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 1993

The directors submit their annual report on the affairs of the company together with the accounts and auditors' report for the year ended 31 March 1993.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activities of the company comprise oil and gas exploration and production and the provision of technical and engineering services to the energy industry.

RESULTS AND DIVIDENDS

The results of the company for the year are set out in the profit and loss account on page 4. The directors recommend that no dividend be paid in respect of the year ended 31 March 1993 (1992 -£Nil).

FIXED ASSETS

A summary of movements of fixed assets during the year is shown in Note 8 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were as follows :

R D Barrett (appointed 15.4.92)

R Fox

B James (appointed 15.4.92)

R E Jones

P C Spink

D M Bizeau (resigned 6.4.92)

J H E Butterfield (resigned 6.4.92)

J G Crick (resigned 7.4.92)

The interests in the shares and share options of group companies of the directors who were also directors of the parent company, Kell Energy PLC, are disclosed in the report and accounts of that company

DIRECTORS' REPORT (Continued)

At 31 March 1993 the following share options had been granted to directors under the Executive Share Option Scheme:

	Exercise Price	Exercise Period	1993 Number	1992 Number
R D Barrett	20p	Feb 1996 to Feb 2003	75,000	-
	11p	Mar 1995 to Mar 2002	40,000	40,000
B James	20p	Feb 1996 to Feb 2003	75,000	-
	11p	Mar 1995 to Mar 2002	50,000	50,000
R E Jones	20p	Feb 1996 to Feb 2003	100,000	-
	11p	Mar 1995 to Mar 2002	50,000	50,000
	37p	Nov 1992 to Nov 1999	2,000	2,000

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which 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 those accounts, the directors are required to :

select suitable accounting policies and then apply them consistently;

make judgments and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

AUDITORS

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

130 Jermyn Street
London
SW1Y 4UJ

26 January 1994

BY ORDER OF THE BOARD

A Eager
A Eager
Secretary

ARTHUR ANDERSEN

London

Auditors' report to the Members of Kelt U.K. Limited

We have audited the accounts on pages 4 to 12 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 6 to 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Without qualifying our opinion below, we draw attention to note 14 of the accounts which states that the company has net liabilities of £1,015,000 at 31 March 1993, and explains that the company's parent company, Kelt Energy PLC, has undertaken to provide continuing financial support to the company to enable it to meet its liabilities as they fall due and the accounts have therefore been prepared on a going concern basis.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 March 1993 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS

26 January 1994

KELT U.K. LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 1993

	<u>Notes</u>	<u>1993</u> <u>£'000s</u>	<u>1992</u> <u>£'000s</u>
TURNOVER	2	5,378	11,637
Cost of sales	3	<u>(4,323)</u>	<u>(10,991)</u>
GROSS PROFIT		1,055	646
Administrative expenses		<u>(143)</u>	<u>(393)</u>
OPERATING PROFIT	4	912	253
Interest receivable		62	57
Interest payable	6	<u>(1,620)</u>	<u>(1,596)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION		(646)	(1,286)
ACCUMULATED DEFICIT, brought forward		(469)	(1,587)
Transfer from revaluation reserve		<u>-</u>	<u>2,404</u>
ACCUMULATED DEFICIT, carried forward		<u>(1,115)</u> □□□□□	<u>(469)</u> □□□□□

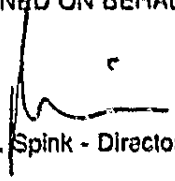
The accompanying notes are an integral part of this profit and loss account

KELT U.K. LIMITED

BALANCE SHEET - 31ST MARCH 1993

	<u>Notes</u>	<u>1993</u> <u>£'000s</u>	<u>1992</u> <u>£'000s</u>
FIXED ASSETS			
Tangible assets	8	<u>14,694</u>	<u>12,226</u>
CURRENT ASSETS			
Stocks		12	14
Debtors	9	13,433	13,146
Cash at bank		<u>3</u>	<u>6</u>
		<u>13,448</u>	<u>13,166</u>
CREDITORS:			
Amounts falling due within one year	10	<u>(8,875)</u>	<u>(6,965)</u>
NET CURRENT ASSETS		<u>4,573</u>	<u>6,201</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		19,267	18,427
CREDITORS:			
Amounts falling due after more than one year	11	(19,808)	(18,424)
PROVISIONS FOR LIABILITIES AND CHARGES	12	<u>(474)</u>	<u>(372)</u>
NET LIABILITIES		<u>(1,015)</u> =====	<u>(369)</u> =====
CAPITAL AND RESERVES			
Called-up share capital	13	100	100
Profit and loss account		<u>(1,115)</u>	<u>(469)</u>
		<u>(1,015)</u> =====	<u>(369)</u> =====

SIGNED ON BEHALF OF THE BOARD


P.C. Spink - Director

26 January 1994

The accompanying notes are an integral part of this balance sheet.

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS - 31ST MARCH 1993

1. STATEMENT OF ACCOUNTING POLICIES

The following principal accounting policies, which have been applied consistently throughout the year and with preceding years, were adopted in arriving at the financial information set out in these accounts.

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of fixed assets, and in accordance with applicable accounting standards.

b) Joint operations

Kelt U.K.'s oil and gas activities are conducted principally as co-licensee in joint operations with other companies.

The accounts reflect Kelt U.K.'s share of income and expenditure arising from these ventures.

c) Turnover

Turnover represents the company's invoiced sales of oil and gas, all of which arise in the United Kingdom.

d) Exploration and development costs

Capitalisation

Costs of acquisition, exploration, appraisal and development of oil and gas properties are capitalised under the principles of full cost accounting.

All costs, including geological, geophysical, engineering and general and administrative expenses directly related to these activities are capitalised in a full cost pool. Financing costs in respect of borrowings relating to these activities are capitalised. Interest costs are expensed insofar as they relate to borrowing associated with proved developed producing reserves.

Proceeds of disposal of licence interests are credited to the pool, and no gain nor loss is recognised.

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

d) Exploration and development costs (cont'd)

Depreciation

All expenditure carried within the full cost pool is depreciated on a unit of production basis using the ratio of the production in the period to the estimated quantity of commercial reserves at the end of the period plus the production in the period. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the anticipated future field development costs at current period end unescalated prices.

Changes in cost and reserve estimates are dealt with prospectively.

Ceiling test

A ceiling test is carried out at each balance sheet date to assess whether the net book value of capitalised costs is covered by the anticipated and undiscounted future net revenues calculated at period end prices. Any deficiency arising under this comparison is provided to the extent that, in the view of the directors, it is considered to represent a permanent diminution in the value of the related assets.

e) Office equipment and motor vehicles

Depreciation on cost is provided on a straight line basis at rates between 25% and 33% per annum.

f) Foreign currency

Transactions denominated in foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling on the balance sheet date, exchange differences being reflected in the profit and loss account.

g) Deferred taxation

Deferred taxation is provided at anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is possible that a liability or asset will crystallise in the future.

KELT U.K LIMITED
NOTES TO THE ACCOUNTS (continued)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

h) Abandonment provision

Estimated abandonment costs are provided field by field on a unit of production basis.

i) Stocks

Stocks are stated at the lower of cost and net realisable value.

j) Cash flow statement

No cash flow statement has been prepared. The company's ultimate holding company, Kelt Energy PLC, prepared a consolidated cash flow statement in accordance with Financial Reporting Standard No. 1.

2. TURNOVER AND LOSS ON ORDINARY ACTIVITIES

The company's turnover and loss on ordinary activities before taxation for the period were derived from oil and gas production in the United Kingdom. Turnover includes £2,872,000 (1992 - £1,576,000) in respect of brokerage sales of third party oil.

3. COST OF SALES

	<u>1993</u> £'000s	<u>1992</u> £'000s
Purchase of crude oil for resale	2,629	9,622
Other operating costs	1,000	937
Royalties	18	12
Depletion and amortisation	574	313
Abandonment	<u>102</u>	<u>107</u>
	<u>4,323</u>	<u>10,991</u>

4. OPERATING PROFIT

	<u>1993</u> £'000s	<u>1992</u> £'000s
Operating Profit is stated after crediting:		
Profit on disposal of fixed assets	17	-
And after charging		
Depreciation	102	130
Hire of plant and machinery	109	46
Other operating lease rentals	412	413
Auditors' remuneration and expenses		
- Audit fees	24	24
- Other fees (including tax)	12	18
Staff costs (Note 5)	<u>2,185</u>	<u>2,298</u>
	=====	=====

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

5.	STAFF COSTS	<u>1993</u> £'000	<u>1992</u> £'000
	Wages and salaries	1,863	1,947
	Social security costs	189	199
	Other pension costs	<u>133</u>	<u>152</u>
		2,185	2,298
		□□□□□	□□□□□

The average number of persons employed by the company during the year was 75 (1992 - 76).

The employee costs shown above include the following remuneration in respect of directors.

Emoluments, including pension contributions	205	291
	□□□	□□□

The directors' remuneration shown above (excluding pension contributions) included:

Chairman	-	-
	□□□	□□□
Highest paid director	90	86
	□□□	□□□

Directors received emoluments (excluding pension contributions) in the following ranges:

	<u>Number</u>	<u>Number</u>
£0 - £5,000	4	3
£5,001 - £10,000	1	-
£10,001 - £15,000	1	-
£15,001 - £20,000	1	-
£20,001 - £25,000	-	1
£25,001 - £30,000	-	1
£30,001 - £35,000	1	1
	□	□

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

	<u>1993</u> £'000	<u>1992</u> £'000
6. INTEREST PAYABLE		
Interest on bank overdraft	-	3
Interest on intercompany loans (Note 11)	1,792	1,936
Less amounts capitalised	<u>(172)</u>	<u>(343)</u>
	<u>1,620</u>	<u>1,596</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There was no tax charge for the year (1992 - £Nil) as the company has unutilised tax losses carried forward.

8. TANGIBLE FIXED ASSETS

	<u>Oil and gas</u> <u>properties</u> £000's	<u>Office equipment</u> <u>and motor vehicles</u> £000's	<u>Total</u> £000's
COST OR VALUATION			
At 31 March 1992	18,219	955	19,174
Additions	3,010	134	3,144
Disposals	<u>-</u>	<u>(61)</u>	<u>(61)</u>
As at 31 March 1993	21,229 □□□□□	1,028 □□□□	22,257 □□□□□
DEPRECIATION			
At 31 March 1992	6,378	570	6,948
Charge for the year	574	102	676
Disposals	<u>-</u>	<u>(61)</u>	<u>(61)</u>
As at 31 March 1993	6,952 □□□□□	611 □□□	7,563 □□□□□
NET BOOK VALUE			
At 31 March 1993	14,277 □□□□□	417 □□□	14,694 □□□□□
NET BOOK VALUE			
At 31 March 1992	11,841 □□□□□	385 □□□	12,226 □□□□□

Expenditure capitalised during the year includes interest of £172,000 (1992 - £343,000).

The 'full cost pool' of oil and gas properties includes properties carried at valuations established by the directors in 1988 and 1989 in conjunction with corporate acquisitions by the company's parent company.

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

9. DEBTORS

Amounts falling due within one year	<u>1993</u> £'000s	<u>1992</u> £'000s
Trade debtors	1,387	1,433
Due from group undertakings	11,938	11,529
Other debtors	-	58
Prepayments and accrued income	<u>108</u>	<u>126</u>
	13,433	13,146
	=====	=====

10. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1993</u> £'000s	<u>1992</u> £'000s
Trade Creditors	1,621	1,307
Amounts owed to group undertakings	6,923	5,074
VAT	73	268
Social security and PAYE	53	53
Accruals	<u>205</u>	<u>265</u>
	8,875	6,965
	=====	=====

11. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1993</u> £'000s	<u>1992</u> £'000s
Amounts owed to group undertakings	19,808	17,191
Other creditors	<u>-</u>	<u>1,233</u>
	19,808	18,424
	=====	=====

Amounts owed to group undertakings are repayable after more than five years from the balance sheet date. Interest is charged at a rate equivalent to Lloyds Bank PLC deposit rate plus 1%.

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

12. PROVISIONS FOR LIABILITIES AND CHARGES

Abandonment
Costs
£000'

At 31 March 1992	372
Charge for the year	<u>102</u>
At 31 March 1993	474
	===

The full potential liability for deferred corporation tax, calculated on the liability method at 33%, arises from accelerated capital allowances, offset by intercompany interest accruals and tax losses carried forward.

13. CALLED-UP SHARE CAPITAL

	<u>1993</u> <u>£'000s</u>	<u>1992</u> <u>£'000s</u>
Authorised, allotted, called-up and fully paid - Ordinary shares of £1 each	100	100
	===	===

14. NET LIABILITIES

The company has net liabilities of £1,015,000 at 31 March 1993 and is therefore technically insolvent. The company's parent company, Kelt Energy PLC, has undertaken to continue to make available to the company such financial support as is necessary to enable it to meet its obligations as they fall due. The accounts have therefore been prepared on the going concern basis.

15. CAPITAL COMMITMENTS

At 31 March 1993 the company was committed to the following expenditure (Kelt U.K. share) on exploration and development activities.

	<u>1993</u> <u>£'000s</u>	<u>1992</u> <u>£'000s</u>
Contracted	510	2,003
Authorised but not contracted for	<u>394</u>	<u>1,420</u>
	904	3,423
	===	=====

16. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Kelt Energy PLC, registered in England and Wales. Kelt Energy PLC is the parent undertaking for the only group in which the results of Kelt U.K. Limited are consolidated. The consolidated accounts of this group are available to the public and may be obtained from 130 Jermyn Street, London SW1Y 4UJ.