

Viking UK Gas Limited

FINANCIAL STATEMENTS

for the year ended
31 December 2010



Company Registration No 01421481

Viking UK Gas Limited
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for the year ended 31 December 2010

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Viking UK Gas Limited
COMPANY INFORMATION
for the year ended 31 December 2010

DIRECTORS

R Valand
JAG Dewar

SECRETARY

MD Secretaries Limited

REGISTERED OFFICE

Knapton Generating Station
East Knapton
Malton
North Yorkshire
YO17 8JF

REGISTERED NUMBER

01421481

INDEPENDENT AUDITOR

Baker Tilly UK Audit LLP
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Viking UK Gas Limited

Directors' report

The directors submit their report and the financial statements of Viking UK Gas Limited for the year ended 31 December 2010

Principal Activities

The principal activity of the Company continues to be that of exploring for and developing gas assets in the United Kingdom. The Company also operates an electricity generating power station at Knapton, North Yorkshire, on behalf of RGS Energy Limited, a fellow group company.

Review of the business

Gas assets

The Company entered the year producing a regular supply of gas and for the first quarter of the year production was near to full capacity. During 2010, the Company's ultimate parent company carried out a review of its UK operations and reached the decision to put the Group up for sale. As a result of this review, the decision to drill the next well in 2010 was delayed and, as a consequence, production reduced over the latter part of the year.

Faced with continuing reductions in production, the Group, with the agreement of its then ultimate parent company, decided to proceed with the drilling of a new well in the period between December 2010 and January 2011 and the preparation costs in readiness for drilling have been capitalised in these financial statements.

The results for the year are set out on page 6.

The directors do not recommend the payment of a dividend.

Future developments

The Company will continue to explore and develop its gas assets in North Yorkshire.

The well that was drilled in the early part of 2011 did not produce gas so since March 2011 the Company has been operating on a restricted output in order to extend the production capability of existing wells as far as possible.

On 26th July 2011, UK Energy Systems Limited, the Company's immediate parent company was sold to Third Energy Holdings Limited ("TEHL").

The drilling of new wells has risks and there can be no certainty that they will deliver the volumes of gas expected. TEHL is currently reviewing all sub-surface and other information relating to the North Yorkshire gas assets with the intention of managing these risks more effectively.

Principal risks and uncertainties

The Company is part of a Group of companies with its immediate parent company being UK Energy Systems Limited. Risks are managed on a Group-wide basis, as set out below.

Operational risk

The Group is reliant on being able to provide a reliable, continuous supply of gas to its electricity turbine to enable it to generate electricity for onward sale to Scottish Power. This activity has certain risks by its very nature and there can be no guarantee that future drilling operations will be successful.

The Group is mitigating these risks by preparing detailed field development plans before choosing new drilling targets.

Financial risk

The nature of the Group's capital projects as described above means that a return cannot be guaranteed. As a result, the Group carefully manages the balance between loan and equity funding to ensure financial liabilities can be properly met.

The company is funded by an interest-free loan from its parent company with no fixed terms for repayment.

Viking UK Gas Limited

Directors' report (continued)

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future

The directors and managers are working with TEHL to deliver the improved management of the risks inherent in its gas supply, power supply contracts and power generation, as set out in the preceding paragraphs, which will enable the Group to invest in improved production

The directors have reviewed the Group's forecasts for the period to December 2012 and believe that, with the continued support of its immediate parent company, UK Energy Systems Limited, the Group can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on the going concern basis, for the reasonably foreseeable future

Director

The directors who have held office since 1st January are set out below

JP Reynolds	(resigned 26 th July 2011)
R Valand	(appointed 26 th July 2011)
JAG Dewar	(appointed 26 th July 2011)

Statement as to disclosure of information to the auditor

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. The directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

Auditor

Baker Tilly UK Audit LLP has indicated its willingness to continue in office

On behalf of the board



R Valand
Director

11th January 2012

Viking UK Gas Limited

Directors' responsibilities in the preparation of financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 those financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and accounting estimates that are reasonable and prudent,
- c state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- d 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 of the members of Viking UK Gas Limited

We have audited the company financial statements (the "financial statements") on pages 6 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Director's Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit

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

Opinion on the 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 2010 and of the loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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 by the parent company, 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.

Baker Tilly UK Audit LLP

PAUL WATTS, Senior Statutory Auditor
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

12th January 2012

Viking UK Gas Limited

Profit and loss account

for the year ended 31 December 2010

	<i>Notes</i>	2010 £	2009 £
TURNOVER	<i>1</i>	3,962,794	2,570,427
Cost of sales		(4,763,975)	(3,895,598)
GROSS LOSS		<u>(801,181)</u>	<u>(1,325,171)</u>
Administration expenses		(812,213)	(392,646)
OPERATING LOSS	<i>2</i>	<u>(1,613,394)</u>	<u>(1,717,817)</u>
Exceptional items	<i>4</i>	-	21,816,000
Profit on sale of Fixed Assets		9,338	-
Interest receivable and similar income	<i>5</i>	10,400	1,029
Interest payable and similar charges	<i>6</i>	(115,845)	(111,485)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(1,709,501)</u>	<u>19,987,727</u>
Tax on loss on ordinary activities	<i>7</i>	-	-
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	<i>14</i>	<u><u>(1,709,501)</u></u>	<u><u>19,987,727</u></u>

The result for the year arises from the Company's continuing operations

The Company has no other recognised gains or losses other than those passing through the profit and loss account

The notes on pages 8 to 14 form part of these financial statements

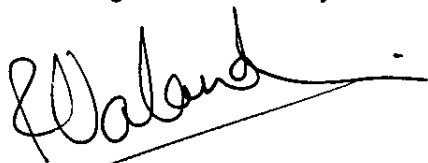
Viking UK Gas Limited

Balance sheet
31 December 2010

Company Registration No 01421481

	Notes	2010 £	2009 £
FIXED ASSETS			
Tangible assets	8	4,259,060	5,555,863
CURRENT ASSETS			
Stocks	9	239,093	309,501
Debtors	10	784,387	753,049
Cash at bank and in hand		4,427,460	2,999,599
		5,450,940	4,062,149
CREDITORS Amounts falling due within one year	11	(3,565,761)	(1,879,112)
NET CURRENT ASSETS		1,885,179	2,183,037
TOTAL ASSETS LESS CURRENT LIABILITIES		6,144,239	7,738,900
PROVISIONS FOR LIABILITIES	12	(2,202,700)	(2,087,860)
NET ASSETS		3,941,539	5,651,040
CAPITAL AND RESERVES			
Called up share capital	13	11,600,000	11,600,000
Capital contribution		5,789,842	5,789,842
Profit and loss account – (deficit)	14	(13,448,303)	(11,738,802)
SHAREHOLDERS' FUNDS	15	3,941,539	5,651,040

The financial statements were approved by the board of directors and authorised for issue on 11th January 2012 and are signed on its behalf by



R Valand
Director

Viking UK Gas Limited

Accounting policies

Accounting policies

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards

The company has taken advantage of the exemptions under Financial Reporting Standards 1 - Cash Flow Statements not to prepare a Cash Flow Statement as the company is included within the consolidated financial statements of UK Energy System Limited

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future

The directors and managers are working with TEHL to deliver the improved management of the risks inherent in the power supply contracts and power generation, as set out in the preceding paragraphs, which will enable the Group to invest in improved production

The directors have reviewed the Company's forecasts for the period to December 2012 and believe that, with the continued support of its immediate parent company, UK Energy Systems Limited, the Company can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on the going concern basis, for the foreseeable future

Deferred tax

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 that result in an obligation to pay more tax in the future, or a right to pay less tax in the future 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

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that the assets will be recovered

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Foreign currencies

Assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result

Tangible fixed assets

(a) Exploration and development of discovery fields

The Group follows the full cost method of accounting under which costs relating to the acquisition, exploration, appraisal and development of petroleum interests are capitalised

Depreciation is provided using the unit of production method based on entitlement to proved and probable reserves of gas and estimated future development expenditure expected to be incurred to access these reserves

Viking UK Gas Limited

Accounting policies

(b) Other fixed assets

Plant and machinery and motor vehicles and equipment are stated at historical cost less accumulated depreciation and less any provision for impairment

The decommissioning asset is stated at an amount equal to the initial provision for decommissioning less accumulated depreciation

Depreciation is provided so as to write off the costs of the assets to residual values over the assets' useful estimated lives, on the following bases -

Motor vehicles and equipment	3-4 years	Straight line
Plant and Machinery	3 to 15 years	Straight line
Decommissioning asset	3 to 10 years	Straight line

Impairment

An estimate of the discounted future net revenues is made where there are indications of impairment and compared to the net capitalised expenditure. Where, in the opinion of the directors, there is impairment, tangible asset values are written down accordingly through the profit and loss account

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Provision for decommissioning

A provision for decommissioning costs is recognised in full at the commencement of operations. The amount recognised is the present value of the estimated future expenditure that will be required to decommission the company's assets and bring the land back to the state that existed prior to the assets being built. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to interest expense

A corresponding tangible fixed asset is created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities

Leasing and hire purchase commitments

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding

All other leases are "operating leases" and the annual rentals are charged to profit and loss on a straight line basis over the lease term

Turnover

Turnover represents amounts receivable from the sale of the Company's petroleum products, net of trade discounts and VAT

Viking UK Gas Limited

Notes to the financial statements
for the year ended 31 December 2010

1 TURNOVER

Turnover is wholly attributable to the principal activity of the Company and is generated within the United Kingdom

2	OPERATING LOSS	2010 £	2009 £
	Operating loss is stated after charging/(crediting)		
	Depreciation of tangible assets		
	- owned assets	1 989,898	1,199,393
	- leased assets	-	7,412
	Reversal of impairment of tangible fixed assets	-	(187,196)
	Auditor's remuneration - audit	14,000	14,000
	Operating leases - land and buildings	193,655	184,168
		<u> </u>	<u> </u>

3	STAFF COSTS	2010 £	2009 £
	Wages and salaries	764,563	778,862
	Social security costs	83,412	91,998
	Pension costs	50,336	59,777
		<u>898,311</u>	<u>930,637</u>

Director's emoluments	-	-
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The director received no remuneration for his services. The cost of the director's services are covered by a management charge from the parent company.

The average monthly number of employees during the year was as follows

	2010 No	2009 No
Management and administration	5	5
Technical and operations	14	15
	<u>19</u>	<u>20</u>

4	EXCEPTIONAL ITEMS	2010 £	2009 £
	Waiver of amounts owed to group companies	-	21,816,000
		<u> </u>	<u> </u>

Viking UK Gas Limited

Notes to the financial statements

for the year ended 31 December 2010

5	INTEREST RECEIVABLE	2010 £	2009 £
	Bank interest receivable	10,400	1,029
6	INTEREST PAYABLE AND SIMILAR CHARGES	2010 £	2009 £
	Unwinding of discount on decommissioning provision	114,840	108,840
	Interest on finance lease agreements	1,005	2,643
	Other interest	-	2
		115,845	111,485
7	TAXATION	2010 £	2009 £
	<i>Analysis of charge in the period</i>		
	Current tax - UK corporation tax on profits for the period	-	-
	Deferred tax – origination and reversal of timing differences	-	-
	Tax on profit on ordinary activities	-	-
	Factors affecting tax charge in the period		
	(Loss)/Profit on ordinary activities before taxation	(1,709,501)	19,987,727
	(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 50% (2008 – 50%)	(854,750)	9,993,864
	Expenses not deductible for tax purposes (primarily amortisation)	53,104	102,815
	Income not taxable for tax purposes – waiver of group loans and reorganisation	-	(11,010,284)
	Capital allowances in excess of depreciation	446,575	(2,933,559)
	Ring fence expenditure supplement	(1,061,695)	(977,578)
	Unrealised taxation losses	1,416,766	4,824,742
	Current tax charge	-	-

The Company has a potential deferred tax asset at 31 December 2010 of £24.6m (2009 £23.8m) consisting of accumulated tax losses and accelerated capital allowances of £49.3m (2009 £47.7m). This asset has not been recognised under FRS19 as it is not certain that the Company will have sufficient taxable profits for these to be utilised in the foreseeable future.

Viking UK Gas Limited

Notes to the financial statements
for the year ended 31 December 2010

8 TANGIBLE FIXED ASSETS

	Gas exploration and development £	Decomm- -issioning asset £	Plant and machinery £	Motor vehicles and equipment £	Total £
Cost					
At 1 January 2010	34,728,535	1,778,053	1,173,447	109,066	37,789,101
Additions	684,899	-	-	9,373	694,272
Disposals	(10,750)			(17,317)	(28,067)
At 31 December 2010	<u>35,402,684</u>	<u>1,778,053</u>	<u>1,173,447</u>	<u>101,122</u>	<u>38,455,306</u>
Depreciation					
At 1 January 2010	29,192,091	1,778,053	1,173,447	89,647	32,233,238
Charge for the year	1,975,908	-	-	13,990	1,989,898
Reversal of depreciation on disposals	(10,750)	-	-	(16,140)	(26,890)
At 31 December 2010	<u>31,157,249</u>	<u>1,778,053</u>	<u>1,173,447</u>	<u>87,497</u>	<u>34,196,246</u>
Net book value					
At 31 December 2010	<u>4,245,435</u>	<u>-</u>	<u>-</u>	<u>13,625</u>	<u>4,259,060</u>
At 31 December 2009	<u>5,536,444</u>	<u>-</u>	<u>-</u>	<u>19,419</u>	<u>5,555,863</u>

The net book value of motor vehicles includes £Nil (2009 £8,551) in respect of assets held under finance leases. The depreciation charge for the year in respect of these assets was £7,096 (2009 £7,412).

An impairment review of the company's tangible fixed assets has been carried out as at 31 December 2010 and no impairment was considered necessary. Following the activities post year end, which include the drilling of a well that did not produce gas, the directors will perform a further impairment review of these assets for the year ended 31 December 2011 following which a provision for impairment may be required.

9 STOCKS

	2010 £	2009 £
Spare parts	157,345	139,672
Tubulars and drilling equipment	81,748	169,829
	<u>239,093</u>	<u>309,501</u>

Viking UK Gas Limited

Notes to the financial statements
for the year ended 31 December 2010

10	DEBTORS amounts falling within one year	2010 £	2009 £
	Amounts owed by group companies	53,585	409,484
	Prepayments and accrued income	573,455	283,257
	Other debtors	157,347	60,308
		<u>784,387</u>	<u>753,049</u>
11	CREDITORS amounts falling due within one year	2010 £	2009 £
	Trade creditors	649,390	113,552
	Amounts owed to group undertakings	2,824,434	1,549,968
	Obligations under finance leases	-	7,446
	Taxation and social security costs	63,929	65,146
	Other creditors	7,286	9,053
	Accruals and deferred income	20,722	133,947
		<u>3,565,761</u>	<u>1,879,112</u>
12	PROVISIONS FOR LIABILITIES	2010 £	2009 £
	Decommissioning costs		
	At 1 January	2,087,860	1,979,019
	Unwinding of discount to profit and loss	114,840	108,841
	At 31 December	<u>2 202,700</u>	<u>2,087,860</u>
	The provision for liabilities and charges relates to the decommissioning costs of the wellsites and other facilities		
13	CALLED UP SHARE CAPITAL	2010 £	2009
	Authorised		
	11,600,000 ordinary shares of £1 each	11,600,000	11,600,000
	Allotted, issued and fully paid		
	11,600,000 ordinary share of £1 each	<u>11,600,000</u>	<u>11,600,000</u>

Viking UK Gas Limited

Notes to the financial statements
for the year ended 31 December 2010

14	STATEMENT OF MOVEMENTS ON RESERVES	Profit and loss account £
	Deficit at 1 January 2010	(11,738,802)
	Loss for the year	(1,709,501)
	Deficit at 31 December 2010	<u>(13,448,303)</u>

15	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2010 £	2009 £
	(Loss)/profit after tax for the year	(1,709,501)	19,987,727
	Net proceeds of issue of ordinary share capital	-	8,500,000
	Net change in shareholders' funds	<u>(1,709,501)</u>	<u>28,487,727</u>
	Shareholders' funds as at 31 December 2009	5,651,040	(22,836,687)
	Shareholders' funds as at 31 December 2010	<u>3,941,539</u>	<u>5,651,040</u>

16 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The company is a member of a VAT group and the net potential liability under the group registration as of 31 December 2010 was £nil (2009 £234,057)

17 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under Financial Reporting Standard No 8 not to disclose transactions between itself and other wholly owned Group companies

18 ULTIMATE PARENT COMPANY

The Company's immediate parent company is Viking Petroleum UK Limited

As at 31 December 2010 the company's ultimate controlling party was GBGH, LLC, a company incorporated in the United States of America

Since July 2011, the Company's ultimate parent company is Barclays PLC, a company incorporated in England and Wales