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KELT U.K. LIMITED

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ACCOUNTS -- 31 MARCH 1990

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

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KELT U.K. LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 1990

The directors submit their annual report and the accounts of the company for the year ended 31 March 1990.

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 1990 (1989 - £Nil).

FIXED ASSETS:

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

DIRECTORS:

The directors who held office during the year and their interests in the ordinary shares of the parent company, Kelt Energy PLC, were-

	<u>Number of</u> <u>shares held</u>		<u>Share</u> <u>options</u>	
	<u>1990</u>	<u>1989</u>	<u>1990</u>	<u>1989</u>
A.J.D. Locke (resigned 29 November 1989)	N/A	499,508	N/A	150,000
D.M. Bizeau	12,316	12,316	250,000	150,000
E.P. Cameron	-	-	80,000	-
R.E. Jones	-	-	100,000	50,000
P.C. Spink	-	-	110,000	50,000
J.G. Crick	-	9,376	185,000	115,000
A.J. Shields	-	-	40,000	-
J.H.E. Butterfield (appointed 18 August 1989)	2,000	N/A	-	N/A
	=====	=====	=====	=====

DIRECTORS' REPORT (Continued)

DIRECTORS (Continued):

A.J.D. Locke and D.M. Bizeau also held the following interests in 6% cumulative preference shares of the ultimate parent company, Kelt Energy PLC-

	<u>Number of shares held</u>	
	<u>1990</u>	<u>1989</u>
A.J.D. Locke	N/A	100,000
D.M. Bizeau	1,470	1,470
	=====	=====

All of the share options above have been granted under the Kelt Energy PLC Executive Share Option Scheme. Options in existence at 31 March 1989 were granted at 52p exercisable between May 1991 and May 1998. Those options granted subsequently were granted at 37p exercisable between November 1992 and November 1996.

DIRECTORS' INTERESTS IN CONTRACTS:

No director who held office during 1989/90 had an interest in any contract or arrangement of a material nature with the company, its fellow subsidiaries, its parent or its ultimate holding company.

AUDITORS:

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

130 Jermyn Street
London
SW1Y 4UJ

12 October 1990

BY ORDER OF THE BOARD,


Roland Fox
Secretary

ARTHUR ANDERSEN & Co.

1 SURREY STREET
LONDON WC2R 2PS

Auditors' report to the Members of KELT U.K. LIMITED:

We have audited the accounts on pages 4 to 14 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 March 1990 and of its loss and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Without qualifying our opinion above, we draw attention to the fact that the company had net current liabilities of £1,755,000 at 31 March 1990. The accounts have been prepared on the going concern basis on the assumption that the company will continue to receive the support of its ultimate holding company, Kelt Energy PLC, which is able to maintain such support only with the agreement of its bankers.

Arthur Andersen & Co.

12 October 1990

KELT U.K. LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1990

		Year to 31 March 1990 £'000	15 months to 30 March 1989 £'000
	Notes		
TURNOVER	2	82	104
Cost of sales	3	(85)	(636)
GROSS LOSS		(3)	(532)
Administration expenses	4	(337)	(546)
OPERATING LOSS		(340)	(1,078)
Interest receivable and similar income		4	15
Interest payable and similar charges	6	(130)	(24)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(466)	(1,087)
Tax on loss on ordinary activities	7	-	338
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(466)	(749)
(ACCUMULATED DEFICIT) RETAINED EARNINGS, brought forward		(571)	34
Transfer from revaluation reserve	14	142	144
ACCUMULATED DEFICIT carried forward		(895)	(571)
		=====	=====

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

KELT U.K. LIMITED

BALANCE SHEET -- 31 MARCH 1990

	<u>Notes</u>	<u>31 March</u> <u>1990</u> <u>£'000</u>	<u>30 March</u> <u>1989</u> <u>£'000</u>
FIXED ASSETS			
Tangible fixed assets	8	15,120	7,446
CURRENT ASSETS			
Debtors	9	1,489	534
Cash at bank		1	-
		1,490	534
CREDITORS: Due within one year	10	(3,245)	(1,548)
NET CURRENT LIABILITIES		(1,755)	(1,014)
TOTAL ASSETS LESS CURRENT LIABILITIES		13,365	6,432
CREDITORS: Due after more than one year	11	(11,444)	(4,215)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(170)	-
NET ASSETS		1,751	2,217
CAPITAL AND RESERVES			
Capital-up share capital	13	100	100
Revaluation reserve	14	2,546	2,688
Profit and loss account		(875)	(571)
		1,751	2,217

APPROVED BY THE BOARD ON 12 OCTOBER 1990

E.P. Cameron

)

) Directors

A.J. Shields

)

[Signature]
[Signature]

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

KELT U.K. LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 MARCH 1990

	Year to 31 March <u>1990</u> £'000	15 months to 30 March <u>1989</u> £'000
SOURCE OF FUNDS		
Increase in creditors due beyond one year	7,229	4,215
Increase in provisions	170	-
Decrease in working capital, as shown below	741	-
	<u>8,140</u>	<u>4,215</u>
APPLICATION OF FUNDS		
Loss on ordinary activities before taxation	466	1,087
Adjustment for items not involving the movement of funds		
- depreciation, depletion and amortisation	(235)	(722)
- (profit) loss on disposal of tangible fixed assets	(20)	4
	<u>211</u>	<u>369</u>
Funds absorbed by operations	211	369
Tax paid	-	17
Expenditure on tangible fixed assets	7,929	5,527
Increase in working capital, as shown below	-	302
	<u>8,140</u>	<u>4,215</u>
INCREASE (DECREASE) IN WORKING CAPITAL		
Stock	-	(58)
Debtors	955	472
Creditors: amounts falling due within one year	(734)	370
	<u>221</u>	<u>784</u>
Movement in net liquid funds		
- cash	(962)	(482)
	<u>(741)</u>	<u>302</u>

The accompanying notes form an integral part of this statement.

KELT U.K. LIMITED

NOTES TO ACCOUNTS --- 31 MARCH 1990

1. ACCOUNTING POLICIES:

a) Convention

The accounts have been prepared under the historical cost convention, as modified by the revaluation of fixed assets.

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 share of invoiced oil and gas sales.

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 applying to these activities are capitalised. Interest costs are expensed insofar as they relate to borrowings associated with proved developed producing reserves.

Exploration and appraisal costs incurred prior to the determination of the existence or otherwise of commercial reserves are initially capitalised outside the related full cost pool, subject to there being no evidence of impairment. Such costs are transferred to the full cost pool upon declaration of commerciality or upon cessation of the related exploration programme.

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.

NOTES TO ACCOUNTS (Continued)

1. ACCOUNTING POLICIES (Continued):

d) Exploration and development costs (continued)

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 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 currencies

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.

Provision is made for Petroleum Revenue Tax over the expected life of each field on a unit of production basis taking account of the benefit of uplift, oil allowance, safeguard and abandonment costs and using oil prices and cost levels prevailing at the balance sheet date.

h) Abandonment provision

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

2. TURNOVER AND LOSS ON ORDINARY ACTIVITIES:

The company's turnover and loss on ordinary activities before taxation for the period were derived principally from gas production in the United Kingdom.

NOTES TO ACCOUNTS (Continued)

3. COST OF SALES:

	Year to 31 March <u>1990</u> £'000	15 months to 30 March <u>1989</u> £'000
Royalties	1	-
Operating costs	19	21
Depletion and amortisation	65	615
	<u>85</u>	<u>636</u>
	=====	=====

4. ADMINISTRATION EXPENSES:

Administration expenses include-

	Year to 31 March <u>1990</u> £'000	15 months to 30 March <u>1989</u> £'000
Depreciation	170	107
Auditors' remuneration	15	16
Loss (profit) on disposal of sundry fixed assets	20	(4)
	<u>205</u>	<u>119</u>
	=====	=====

5. STAFF COSTS:

Particulars of employees, including directors, are as follows-

	Year to 31 March <u>1990</u> £'000	15 months to 30 March <u>1989</u> £'000
Employee costs during the year amounted to-		
Wages and salaries	1,120	400
Social security costs	112	234
Other pension costs	103	43
	<u>1,335</u>	<u>677</u>
	=====	=====

The average number of persons employed by the company during the year was 47 (1989 - 22).

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

Emoluments, including pension contributions	<u>220</u>	<u>216</u>
	=====	=====

NOTES TO ACCOUNTS (Continued)

5. STAFF COSTS (Continued):

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

	Year to 31 March <u>1990</u> £'000	15 months to 30 March <u>1989</u> £'000
Chairman	- =====	- =====
Highest paid director	73 =====	78 =====

Other directors received emoluments (excluding pension contributions) in the following ranges-

	<u>Number</u>	<u>Number</u>
£ 0 - £ 5,000	3	9
£ 5,001 - £10,000	-	1
£20,001 - £25,000	1	-
£40,001 - £45,000	-	1
£50,001 - £55,000	2	-
£55,001 - £60,000	-	-
£60,001 - £65,000	-	1
	===	===

Higher paid employees-

Employees of the company, other than directors, received remuneration (excluding pension contributions) in the following ranges-

	<u>Number</u>	<u>Number</u>
£30,001 - £35,000	9	2
£35,001 - £40,000	4	-
£40,001 - £45,000	1	-
£50,001 - £55,000	1	-
	===	===

6. INTEREST PAYABLE AND SIMILAR CHARGES:

	Year to 31 March <u>1990</u> £'000	15 months to 30 March <u>1989</u> £'000
Interest on bank overdraft	25	37
Interest on intercompany loans (Note 11)	875	200
Less amounts capitalised	(770)	(213)
	=====	=====
	130	24
	=====	=====

NOTES TO ACCOUNTS (Continued)

7. TAX ON LOSS ON ORDINARY ACTIVITIES:

There was no tax charge for the year (1989 - £338,000 credit).

8. TANGIBLE FIXED ASSETS:

	<u>Oil and gas properties</u> £'000	<u>Office equipment and motor vehicles</u> £'000	<u>Total</u> £'000
COST OR VALUATION-			
At 31 March 1989	12,063	652	12,715
Additions	7,713	377	8,090
Disposals	-	(64)	(64)
	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 31 March 1990	19,776	965	20,741
	<u>-----</u>	<u>-----</u>	<u>-----</u>
DEPRECIATION-			
At 31 March 1989	5,166	103	5,269
Charge for the year	65	170	235
Disposals	-	(44)	(44)
Additions	-	161	161
	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 31 March 1990	5,231	390	5,621
	<u>-----</u>	<u>-----</u>	<u>-----</u>
NET BOOK VALUE			
At 31 March 1990	14,545	575	15,120
	<u>=====</u>	<u>=====</u>	<u>=====</u>
NET BOOK VALUE			
At 30 March 1989	6,897	549	7,446
	<u>=====</u>	<u>=====</u>	<u>=====</u>

Expenditure capitalised during the year includes interest of £770,000 (1989 - £213,000).

Certain oil and gas properties were revalued to fair market value effective 1 January 1988 to reflect the price paid for the company by Kelt Energy PLC.

The original cost, and aggregate depreciation based on cost, of these assets which are included at valuation was-

	<u>31 March 1990</u> £'000	<u>30 March 1989</u> £'000
Original cost	6,356	6,356
Depreciation based on cost	(5,103)	(4,910)
	<u>-----</u>	<u>-----</u>
	1,253	1,446
	<u>=====</u>	<u>=====</u>

NOTES TO ACCOUNTS (Continued)

9. DEBTORS:

Amounts falling due within one year-

	<u>1990</u> £'000	<u>1989</u> £'000
Due from joint venture partners	945	270
Due from group companies	344	93
Other debtors	125	136
Prepayments and accrued income	75	35
	<u>1,489</u>	<u>534</u>
	=====	=====

10. CREDITORS- AMOUNTS FALLING DUE WITHIN ONE YEAR:

	<u>1990</u> £'000	<u>1989</u> £'000
Bank overdraft (unsecured)	1,435	472
Trade creditors	120	52
Amounts owed to group companies	1,274	671
Taxation and social security	53	35
Accruals	363	318
	<u>3,245</u>	<u>1,548</u>
	=====	=====

The company had net current liabilities of £1,755,000 at 31 March 1990. The directors of the ultimate holding company have confirmed that sufficient funds will be made available to the company over the next year to enable it to meet any liabilities that it may incur.

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

	<u>1990</u> £'000	<u>1989</u> £'000
Amounts owed to a group company	11,444	4,215
	=====	=====

These amounts 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 +1%.

NOTES TO ACCOUNTS (Continued)

12. PROVISION FOR LIABILITIES AND CHARGES:

	<u>Abandonment costs</u>	<u>Deferred taxation</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
At 31 March 1989	-	-	-
Transfer relating to asset additions	170	-	170
	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 31 March 1990	170	-	170
	<u>=====</u>	<u>=====</u>	<u>=====</u>

The full potential liability for deferred corporation tax, calculated on the liability method at 35%, arises from-

	<u>1990</u>	<u>1989</u>
	<u>£'000</u>	<u>£'000</u>
Accelerated capital allowances	4,225	2,150
Inter-company interest payable	(376)	-
Losses	(1,947)	-
	<u>-----</u>	<u>-----</u>
Full potential liability	1,902	2,150
	<u>=====</u>	<u>=====</u>
Of which provided for in the accounts	-	-
	<u>=====</u>	<u>=====</u>

13. CALLED-UP SHARE CAPITAL:

Authorised, allotted, called-up and fully-paid ordinary shares of £1 each-

<u>1990</u>	<u>1989</u>
<u>£'000</u>	<u>£'000</u>
100	100
<u>=====</u>	<u>=====</u>

14. RESERVES:

	<u>Revaluation reserve</u>
	<u>£'000</u>
Beginning of the year	2,688
Amortisation of revaluation surplus	(142)
	<u>-----</u>
End of year	2,546
	<u>=====</u>