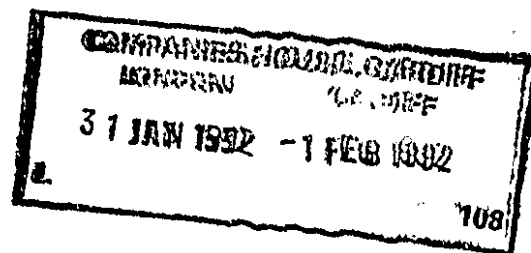


KELT U.K. LIMITED
=====

1421481

ACCOUNTS -- 31 MARCH 1991

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 1991

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 1991.

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 1991 (1990 - EN11).

FIXED ASSETS:

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

DIRECTORS AND THEIR INTERESTS:

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

	<u>Number of shares held</u>		<u>Share options</u>	
	<u>1991</u>	<u>1990</u>	<u>1991</u>	<u>1990</u>
D.M. Bizeau	12,316	12,316	250,000	250,000
E.P. Cameron (resigned 12 February 1991)	N/A	-	N/A	80,000
R.E. Jones	-	-	100,000	100,000
P.C. Spink	-	-	110,000	110,000
J.G. Crick	-	-	185,000	185,000
A.J. Shields	-	-	40,000	40,000
J.H.E. Butterfield	2,000	2,000	-	-
	=====	=====	=====	=====

D.M. Bizeau also held 1,470 (1990 - 1,470) 6% cumulative preference shares of the ultimate parent company, Kelt Energy PLC.

DIRECTORS' REPORT (Continued)

DIRECTORS AND THEIR INTERESTS (Continued):

All the share options above have been granted under the Kelt Energy PLC Executive Share Option Scheme at 37p and are exercisable between November 1992 and November 1999. Following the financial restructuring of the group, in July 1991, the number of share options held by the directors was reduced by a factor of 49/50.

DIRECTORS' INTERESTS IN CONTRACTS:

No director who held office during 1990/91 had an interest in any contract or arrangement of a material nature with the company, its fellow subsidiaries, its parent or its ultimate parent company.

SUBSEQUENT EVENT:

On 1 August 1991 Kelt Energy PLC, the company's ultimate parent undertaking, concluded an agreement with a syndicate of banks for, inter alia, the transfer to them of the interests in 6 offshore licences held by Kelt U.K. Limited but, in the case of 5 of the licences, operated by other companies.

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

31 October 1991

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 as at 31 March 1991 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 £3,015,000 as at 31 March 1991. 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 parent company, Kelt Energy PLC.

Arthur Andersen + Co

Chartered Accountants and Registered Auditor
31 October 1991

KELT U.K. LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 1991

	<u>Notes</u>	<u>1991</u> £'000	<u>1990</u> £'000
TURNOVER	2	18,126	82
Cost of sales	3	(17,851)	(85)
GROSS PROFIT (LOSS)		275	(3)
Administration expenses	4	(619)	(337)
OPERATING LOSS		(344)	(340)
Interest receivable		25	4
Interest payable	6	(515)	(130)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(834)	(466)
Tax on loss on ordinary activities	7	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(834)	(466)
ACCUMULATED DEFICIT, brought forward		(895)	(571)
Transfer from revaluation reserve	14	142	142
ACCUMULATED DEFICIT, carried forward		(1,587)	(895)
		=====	=====

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

KELT U.K. LIMITED

BALANCE SHEET -- 31 MARCH 1991

	<u>Notes</u>	<u>1991</u> £'000	<u>1990</u> £'000
FIXED ASSETS			
Tangible assets	8	18,293	15,120
CURRENT ASSETS			
Stocks		346	-
Debtors	9	3,782	1,489
Cash at bank		29	1
		4,157	1,490
CREDITORS: Amounts falling due within one year	10	(7,172)	(3,245)
NET CURRENT LIABILITIES		(3,015)	(1,755)
TOTAL ASSETS LESS CURRENT LIABILITIES		15,278	13,365
CREDITORS: Amounts falling due after more than one year	11	(14,096)	(11,444)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(265)	(170)
NET ASSETS		917	1,751
CAPITAL AND RESERVES			
Called-up share capital	13	100	100
Revaluation reserve	14	2,404	2,546
Profit and loss account		(1,587)	(895)
		917	1,751

APPROVED BY THE BOARD ON 31 OCTOBER 1991

A.J. Shields

- Director



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

KELT U.K. LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 MARCH 1991

	<u>1991</u> £'000	<u>1990</u> £'000
SOURCE OF FUNDS		
Loss on ordinary activities before taxation	(834)	(466)
Adjustment for items not involving the movement of funds:		
- depreciation, depletion and amortisation	981	235
- provision for abandonment cost	95	170
- (profit) loss on disposal of tangible fixed assets	(33)	20
	-----	-----
Funds generated (absorbed) by operations	209	(41)
FUNDS FROM OTHER SOURCES		
Increase in creditors due after more than one year	2,652	7,229
Proceeds from the disposal of tangible fixed assets	115	-
Decrease in working capital, as shown below	1,260	741
	-----	-----
	4,236	7,929
	=====	=====
APPLICATION OF FUNDS		
Expenditure on tangible fixed assets	4,236	7,929
	=====	=====
INCREASE (DECREASE) IN WORKING CAPITAL		
Stocks	346	-
Debtors	2,293	955
Creditors falling due within one year	(5,362)	(734)
	-----	-----
	(2,723)	221
Movement in net liquid funds		
- cash at bank and in hand	1,463	(962)
	-----	-----
	(1,260)	(741)
	=====	=====

The accompanying notes are an integral part of this statement.

KELT U.K. LIMITED

NOTES TO ACCOUNTS -- 31 MARCH 1991

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 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 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.

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.

i) Stocks

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

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 £1,547,000 (1990 - £Nil) in respect of brokerage sales of third party oil.

NOTES TO ACCOUNTS (Continued)

3. COST OF SALES:

	<u>1991</u> £'000	<u>1990</u> £'000
Intercompany purchases	14,815	-
Third party purchases	1,470	-
Other operating costs	623	19
Royalties	14	1
Depletion and amortisation	834	65
Abandonment	95	-
	<u>17,851</u>	<u>85</u>
	=====	=====

4. ADMINISTRATION EXPENSES:

Administration expenses include-

	<u>1991</u> £'000	<u>1990</u> £'000
Depreciation	147	170
Auditors' remuneration	15	15
(Profit) loss on disposal of sundry fixed assets	(33)	20
	<u>=====</u>	<u>=====</u>

5. STAFF COSTS:

Particulars of employees, including directors, are as follows-

	<u>1991</u> £'000	<u>1990</u> £'000
Employee costs during the year amounted to-		
Wages and salaries	1,173	1,120
Social security costs	111	112
Other pension costs	72	103
	<u>1,356</u>	<u>1,335</u>
	=====	=====

The average number of persons employed by the company during the year was 74 (1990 - 47).

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

	<u>30</u>	<u>-</u>
Compensation for loss of office	285	220
Emoluments, including pension contributions	<u>315</u>	<u>220</u>
	=====	=====

NOTES TO ACCOUNTS (Continued)

5. STAFF COSTS (Continued):

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

	<u>1991</u> £'000	<u>1990</u> £'000
Chairman	- =====	- =====
Highest paid director	78 =====	73 =====

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

	<u>Number</u>	<u>Number</u>
£ 0 - £ 5,000	2	3
£20,001 - £25,000	-	1
£50,001 - £55,000	-	2
£60,001 - £65,000	1	-
£70,001 - £75,000	2	-
	===	===

6. INTEREST PAYABLE:

	<u>1991</u> £'000	<u>1990</u> £'000
Interest on bank overdraft	81	25
Interest on intercompany loans (Note 12)	1,973	875
Less amounts capitalised	(1,539)	(770)
	----- 515 =====	----- 130 =====

7. TAX ON LOSS ON ORDINARY ACTIVITIES:

There was no tax charge for the year (1990 - £Nil) as the company has unutilised tax losses carried forward.

NOTES TO ACCOUNTS (Continued)

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 1990	19,776	965	20,741
Additions	4,195	41	4,236
Disposals	-	(179)	(179)
	-----	-----	-----
At 31 March 1991	23,971	827	24,798
	-----	-----	-----
DEPRECIATION-			
At 31 March 1990	5,231	390	5,621
Charge for the year	834	147	981
Disposals	-	(97)	(97)
	-----	-----	-----
At 31 March 1991	6,065	440	6,505
	-----	-----	-----
NET BOOK VALUE			
At 31 March 1991	17,906	387	18,293
	=====	=====	=====
NET BOOK VALUE			
At 31 March 1990	14,545	575	15,120
	=====	=====	=====

Expenditure capitalised during the year includes interest of £1,539,000 (1990 - £770,000).

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>1991</u> £'000	<u>1990</u> £'000
Original cost	6,356	6,356
Depreciation based on cost	(5,307)	(5,103)
	-----	-----
	1,049	1,253
	=====	=====

NOTES TO ACCOUNTS (Continued)

9. DEBTORS:

Amounts falling due within one year-

	<u>1991</u> £'000	<u>1990</u> £'000
Trade debtors	3,093	945
Due from group undertakings	541	344
Other debtors	49	125
Prepayments and accrued income	99	75
	<u>3,782</u>	<u>1,489</u>
	=====	=====

10. CREDITORS- AMOUNTS FALLING DUE WITHIN ONE YEAR:

	<u>1991</u> £'000	<u>1990</u> £'000
Bank overdraft (unsecured)	-	1,435
Trade creditors	507	120
Amounts owed to group undertakings	6,105	1,274
Taxation and social security	245	53
Accruals	315	363
	<u>7,172</u>	<u>3,245</u>
	=====	=====

The company had net current liabilities of £3,015,000 at 31 March 1991. The directors of the ultimate parent company have confirmed that sufficient funds will be made available to the company over the next year to enable it to meet its liabilities as they fall due.

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

	<u>1991</u> £'000	<u>1990</u> £'000
Amounts owed to a group undertaking	14,096	11,444
	=====	=====

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. PROVISIONS FOR LIABILITIES AND CHARGES:

	<u>Abandonment costs</u> £'000
At 31 March 1990	170
Charge for the year	95

	265
At 31 March 1991	=====

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

	<u>1991</u> £'000	<u>1990</u> £'000
Accelerated capital allowances	3,693	4,225
Inter-company interest payable	(432)	(375)
Losses	(905)	(1,947)
	-----	-----
Full potential liability	2,356	1,902
	=====	=====
Of which provided for in the accounts	-	-
	=====	=====

13. CALLED-UP SHARE CAPITAL:

	<u>1991</u> £'000	<u>1990</u> £'000
Authorised, allotted, called-up and fully-paid- Ordinary shares of £1 each	100	100
	=====	=====

14. RESERVES:

	<u>Revaluation reserve</u> £'000
Beginning of the year	2,546
Transfer to profit and loss account	(142)

End of year	2,404
	=====

NOTES TO ACCOUNTS (Continued)

15. CAPITAL COMMITMENTS:

At year-end the company was committed to the following expenditure (Kelt Share) on exploration and development activities-

	<u>1991</u> <u>£'000</u>	<u>1990</u> <u>£'000</u>
Contracted	2,610	276
Authorised but not contracted for	3,717	905
	<u>-----</u>	<u>-----</u>
	6,327	1,181
	<u>=====</u>	<u>=====</u>

16. CONTINGENT LIABILITIES:

At 31 March 1991, the company, jointly with other group companies, had guaranteed all liabilities of its ultimate parent company in favour of the American Express Bank Ltd (as agent and trustee for a syndicate of banks). Subsequent to 31 March 1991 the company has been wholly released from these guarantees.

17. ULTIMATE PARENT COMPANY:

The company's ultimate parent company is Kelt Energy PLC, registered in England. 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.