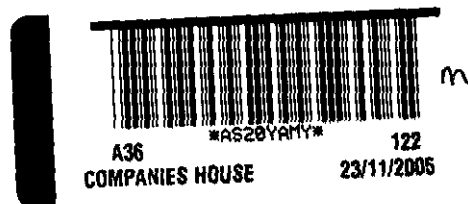


**VIKING UK GAS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
31 DECEMBER 2004**



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## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and the audited financial statements of Viking UK Gas Limited for the year ended 31 December 2004.

### Principal activities and review of the business

The principal activity of the company continued to be that of gas exploration and production in the United Kingdom. The company also operates an electricity generating power station at Knapton, North Yorkshire, on behalf of Scottish Power PLC.

### Results and dividends

The results for the year are set out on page 7.

The directors do not recommend the payment of a dividend.

### Directors

The following directors have held office since 1 January 2004:

- Mr. L.D.J. Erasmus (appointed 2 February 2004)
- Mr. J.A. Lobban (appointed 14 March 2005)
- Mr. G.G. Emms (resigned 28 February 2005)
- Mr. R.D. McVeigh (resigned 15 March 2005)
- Mr. B. Cociancig (appointed 7 January 2004-resigned 13 September 2004)
- Mr. T.A. Clarence-Smith (appointed 13 September 2004-resigned 31 January 2005)

### Directors' interests

The directors' have no interests in the shares of the company and have no rights granted to or exercised to subscribe to or for shares.

Beneficial interests of directors in the shares of the company's ultimate parent undertaking, Viking International Petroleum PLC, at 31 December 2004, are set out below:

|                    | Ordinary shares of 0.25p<br>each |                   | Percentage holding  |                   |
|--------------------|----------------------------------|-------------------|---------------------|-------------------|
|                    | 31 December<br>2004              | 1 January<br>2004 | 31 December<br>2004 | 1 January<br>2004 |
| Mr. G.G. Emms      | 5,500,000                        | 5,500,000         | 17.16               | 17.16             |
| Mr. R.D. McVeigh   | 1,000,000                        | 1,000,000         | 3.12                | 3.12              |
| Mr. L.D.J. Erasmus | 1,000,000                        | -                 | 3.12                | -                 |

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2004****Policy and practice on payment of creditors**

The Company's policy in respect of its suppliers is to establish terms of payment when agreeing the terms of business transactions and to abide by the terms of payment.

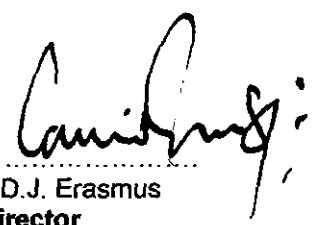
**Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state 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:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- 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 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.

By order of the board

  
.....  
L.D.J. Erasmus  
Director

18-11-05  
.....  
Date

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
VIKING UK GAS LIMITED****Independent auditors' report to the members of Viking UK Gas Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in group shareholders funds and the related notes.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practice Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you, if in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

**Basis of audit opinion**

We concluded 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
VIKING UK GAS LIMITED**

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company at 31 December 2004 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1.1 of the financial statements concerning the uncertainty over the possible outcome of Management's deferral of certain scheduled interest payments and the ability to raise additional funds from its primary lender and largest shareholder. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

*PricewaterhouseCoopers LLP*  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
18 November 2005

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2004**

|   | Notes     | 2004<br>£          | 2003<br>£        |
|---|-----------|--------------------|------------------|
| <b>TURNOVER</b>   | <b>2</b>  | 828,681            | 782,002          |
| Cost of sales   | <b>3</b>  | (1,640,330)        | (985,878)        |
| <b>GROSS LOSS</b>   |           | (811,649)          | (203,876)        |
| Administrative expenses   |           | (213,373)          | (303,654)        |
| Other operating income  |           | -                  | 8,498,607        |
| <b>OPERATING (LOSS) / PROFIT</b>                                  | <b>4</b>  | (1,025,022)        | 7,991,077        |
| Interest receivable   |           | 672                | -                |
| Interest payable  | <b>5</b>  | (126,249)          | (60,101)         |
| <b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b> |           | (1,150,599)        | 7,930,976        |
| Tax on (loss) / profit on ordinary activities                     | <b>7</b>  | -                  | -                |
| <b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES<br/>AFTER TAXATION</b>  | <b>15</b> | <b>(1,150,599)</b> | <b>7,930,976</b> |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

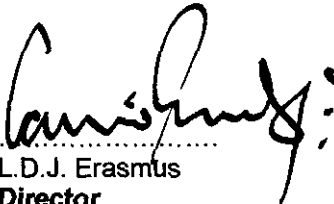
The company has no other recognised gains or losses other than those passing through the profit and loss account.

The notes on pages 9 to 15 form part of these financial statements.

**BALANCE SHEET  
AS AT 31 DECEMBER 2004**

|   | Notes | 2004<br>£               | 2003<br>£               |
|---|-------|-------------------------|-------------------------|
| <b>FIXED ASSETS</b>                                   |       |                         |                         |
| Tangible assets                                       | 8     | 7,170,593               | 5,289,149               |
| <b>CURRENT ASSETS</b>                                 |       |                         |                         |
| Stocks  | 9     | 98,243                  | 47,946                  |
| Debtors   | 10    | 156,563                 | 290,738                 |
| Cash at bank and in hand                              |       | 17,474                  | -                       |
|   |       | <u>272,280</u>          | <u>338,684</u>          |
| <b>CREDITORS: amounts falling due within one year</b> | 11    | (2,746,629)             | (201,597)               |
| <b>NET CURRENT (LIABILITIES) / ASSETS</b>             |       | <u>(2,474,349)</u>      | <u>137,087</u>          |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       | <u>4,696,244</u>        | <u>5,426,236</u>        |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>         | 12    | (512,600)               | (91,993)                |
| <b>NET ASSETS</b>                                     |       | <u><b>4,183,644</b></u> | <u><b>5,334,243</b></u> |
| <b>CAPITAL AND RESERVES</b>                           |       |                         |                         |
| Called up share capital                               | 13    | 3,100,000               | 3,100,000               |
| Profit and loss account                               | 14    | 1,083,644               | 2,234,243               |
| <b>SHAREHOLDERS' FUNDS (equity interests)</b>         | 15    | <u><b>4,183,644</b></u> | <u><b>5,334,243</b></u> |

The financial statements were approved by the board of directors on 18.11.05 and were signed on its behalf by:

  
L.D.J. Erasmus  
Director

18.11.2005  
Date

The notes on pages 9 to 15 form part of these financial statements.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 1. Accounting policies

#### 1.1 Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the next twelve months following the signing of these financial statements by the Directors.

The validity of this assumption depends on the company continuing to meet its day to day working capital requirements through advances made from the Group's senior lender and largest single shareholder, the Trust Company of the West ("TCW").

The Directors believe that an agreement with TCW to reschedule the interest payments due to them on the Group's borrowings can be reached and, therefore, that the advances currently committed to by TCW are sufficient to support the company over the next twelve months. The Group has had TCW's unwritten support to arrange or provide additional funds as required for the Group to continue its business. Over the past twelve months, TCW has on three separate occasions either provided or arranged additional funds for the Group. On this basis the Directors have concluded that it is appropriate for the financial statements to be prepared on the going concern basis.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cashflow statement on the grounds that the consolidated financial statements are prepared by the ultimate parent company.

#### 1.2 Turnover

Turnover represents the invoiced sales values (excluding VAT) of the company's petroleum products to a third party customer. The company sells all of its gas produced at the Semay-A gas fields under a long-term supply contract to ScottishPower in the UK at a fixed price that is not reflective of gas prices traded on the International Petroleum Exchange.

#### 1.3 Fixed assets

##### i. Exploration and development discovery fields

- (a) **Capitalisation of petroleum expenditure:** The Company follows the full cost method of accounting under which all expenditure relating to the acquisition, exploration, appraisal and development of petroleum interests is capitalised.
- (b) **Depreciation:** Amortisation of capitalised expenditure 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. Depreciation on other fixed assets is provided on a straight line basis to write them off over their estimated useful lives.
- (c) **Impairment of value:** 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.

**1. Accounting policies****1.3 Fixed assets (cont)**

- (d) **Decommissioning:** Provision for decommissioning is recognised in full at the commencement of production. The amount recognised is the present value of the estimated future expenditure. A corresponding tangible fixed asset is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to interest expense.

**ii. Other fixed assets**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets less their estimated residual value, over their expected useful lives on the following basis:

|                |   |                   |
|----------------|---|-------------------|
| Motor vehicles | - | 25% Straight line |
|----------------|---|-------------------|

**1.4 Stock**

Stock comprises spare parts for the maintenance of the gas turbine at the Knapton generating station and also tubulars and drilling equipment. Stock is valued at the lower of cost or net realisable value.

**1.5 Leasing and hire purchase commitments**

Rentals payable for assets under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

**1.6 Translation of foreign currencies**

Transactions denominated in foreign currencies are translated into sterling at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

**1.7 Pensions**

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

**1.8 Corporation tax**

Corporation tax is provided on taxable profits, if any, at the current tax rate.

**1.9 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 have occurred at that date which will result in an obligation to pay more, or a right to pay less, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**1.10 Changes in estimates**

The effects of changes in estimated costs and commercial reserves or other factors affecting the unit of production calculations for depletion and site restoration costs do not give rise to prior year adjustments and are dealt with prospectively over the estimated remaining commercial reserves of each field. While the Company uses its best estimates and judgements, actual results could differ from these estimates.

**2. Turnover**

All of the company's sales occur within the United Kingdom.

**3. Cost of sales****Impairments**

Cost of sales includes £432,758 for the impairment of a Compressor which forms part of "exploration and development discovery fields" in tangible fixed assets. This cost is a non-recurring item.

**4. Operating (loss) / profit**

|   | 2004<br>£ | 2003<br>£ |
|---|-----------|-----------|
| Operating (loss) / profit is stated after charging:   |           |           |
| Auditors' remuneration - audit services               | 10,000    | 11,000    |
| Auditors' remuneration - non-audit services           | 10,667    | -         |
| Depreciation of tangible fixed assets                 | 117,435   | 72,597    |
| Impairment of tangible fixed assets                   | 432,758   | -         |
| Difference on foreign exchange on parent company loan | -         | 303,227   |
|   | <hr/>     | <hr/>     |

**5. Interest payable**

|                    | 2004<br>£      | 2003<br>£     |
|--------------------|----------------|---------------|
| Group undertakings | 126,249        | -             |
| Term loans         | -              | 60,101        |
|                    | <hr/>          | <hr/>         |
|                    | <b>126,249</b> | <b>60,101</b> |

**6. Employee costs**

|                       | 2004<br>£      | 2003<br>£      |
|-----------------------|----------------|----------------|
| Wages and salaries    | 474,498        | 398,167        |
| Social security costs | 48,030         | 44,233         |
| Other pension costs   | 24,967         | 28,360         |
|                       | <hr/>          | <hr/>          |
|                       | <b>547,495</b> | <b>470,760</b> |

The average number of employees, excluding directors, during the year was as follows:

|                               | 2004      | 2003      |
|-------------------------------|-----------|-----------|
| Management and administrative | 3         | 3         |
| Technical and operations      | 12        | 12        |
|                               | <hr/>     | <hr/>     |
|                               | <b>15</b> | <b>15</b> |

The directors did not receive any remuneration during the period.

**7. Tax on (loss) / profit on ordinary activities**

|   | 2004<br>£ | 2003<br>£ |
|---|-----------|-----------|
| <b>Current tax:</b>                         |           |           |
| UK corporation tax at the rate of 30%       | -         | -         |
| <b>Deferred tax:</b>                        |           |           |
| UK tax                                      | -         | -         |
| <b>Tax on profit on ordinary activities</b> | <u>-</u>  | <u>-</u>  |

Factors affecting tax charge are as follows:-

|  | 2004<br>£   | 2003<br>£   |
|--|-------------|-------------|
| (Loss) / profit on ordinary activities before tax                | (1,150,599) | 7,930,976   |
| (Loss) / profit on ordinary activities at the UK tax rate of 30% | (345,180)   | 2,379,293   |
| Effect of:-  |             |             |
| Expenses not deductible for tax purposes                         | 1,093       | 4,341       |
| Loan write-offs  | -           | (3,258,387) |
| Accelerated capital allowances and other timing differences      | 479,157     | 135,711     |
| Current year loss surrendered by way of group relief             | -           | -           |
| Utilisation of brought forward loss                              | (24,618)    | (40,436)    |
| Supplementary corporation tax at the rate of 10%                 | (110,452)   | 779,478     |
| <b>Current tax charge for the period</b>                         | <u>-</u>    | <u>-</u>    |

The company has a deferred tax asset at 31 December 2004 of £1,302,389 (2003 - £1,275,491) consisting of tax losses and accelerated capital allowances. This asset has not been recognised under FRS19, as it is not likely that the company will have sufficient profits in the future for these to be utilised.

**8. Tangible fixed assets**

|  | Exploration<br>and<br>Development<br>Discovery<br>Fields<br>£ | Motor<br>Vehicles<br>£ | Total<br>£       |
|--|---|------------------------|------------------|
| <b>Cost</b>                                |   |                        |                  |
| At 1 January 2004                          | 7,327,341   | -                      | 7,327,341        |
| Additions                                  | 2,385,224   | 46,413                 | 2,431,637        |
| At 31 December 2004                        | <u>9,712,565</u>  | <u>46,413</u>          | <u>9,758,978</u> |
| <b>Depreciation</b>                        |   |                        |                  |
| At 1 January 2004                          | 2,038,192   | -                      | 2,038,192        |
| Charge for the year                        | 113,328   | 4,107                  | 117,435          |
| Impairment                                 | 432,758   | -                      | 432,758          |
| At 31 December 2004                        | <u>2,584,278</u>  | <u>4,107</u>           | <u>2,588,385</u> |
| <b>Net book amount at 31 December 2004</b> | <u>7,128,287</u>  | <u>42,306</u>          | <u>7,170,593</u> |
| <b>Net book amount at 31 December 2003</b> | <u>5,289,149</u>  | <u>-</u>               | <u>5,289,149</u> |

**9. Stock**

|                                 | 2004          | 2003          |
|---------------------------------|---------------|---------------|
|                                 | £             | £             |
| Spare parts for gas turbine     | 49,420        | 47,946        |
| Tubulars and drilling equipment | 48,823        | -             |
|                                 | <u>98,243</u> | <u>47,946</u> |

**10. Debtors**

|                                | 2004           | 2003           |
|--------------------------------|----------------|----------------|
|                                | £              | £              |
| Trade debtors                  | 41,681         | 180,156        |
| Prepayments and accrued income | 114,882        | 110,582        |
|                                | <u>156,563</u> | <u>290,738</u> |

**11. Creditors: amounts falling due within one year**

|                                       | 2004             | 2003           |
|---------------------------------------|------------------|----------------|
|                                       | £                | £              |
| Bank loans and overdraft              | -                | 19,519         |
| Trade creditors                       | 61,893           | 83,683         |
| Social security costs and other taxes | -                | 20,313         |
| Amounts owed to group undertakings    | 2,603,961        | 78,082         |
| Accruals and deferred income          | 80,775           | -              |
|                                       | <u>2,746,629</u> | <u>201,597</u> |

**12. Provisions for liabilities and charges**

|                       | 2004           | 2003          |
|-----------------------|----------------|---------------|
|                       | £              | £             |
| Decommissioning costs | <u>512,600</u> | <u>91,993</u> |

The provisions for liabilities and charges relate to the decommissioning costs of the Semay-A gas fields, which are provisionally expected to be incurred between 2006 and 2016.

**13. Share capital**

|  | 2004             | 2003             |
|--|------------------|------------------|
|  | £                | £                |
| Authorised, allotted, called up and fully paid |                  |                  |
| 3,100,000 Ordinary shares of £1 each           | <u>3,100,000</u> | <u>3,100,000</u> |

**14. Reserves**

|                            | Profit & loss<br>account |
|----------------------------|--------------------------|
|                            | £                        |
| At 1 January 2004          | 2,234,243                |
| Retained loss for the year | (1,150,599)              |
| At 31 December 2004        | <u>1,083,644</u>         |

**15. Shareholders' funds**

|   | 2004<br>£        | 2003<br>£        |
|---|------------------|------------------|
| (Loss) / profit for the year            | (1,150,599)      | 7,930,976        |
| Opening shareholders' funds / (deficit) | 5,334,243        | (2,596,733)      |
| <b>Closing shareholders' funds</b>      | <b>4,183,644</b> | <b>5,334,243</b> |

**16. Operating lease commitments**

At 31 December 2004 the company has lease arrangements in respect of vehicles for which the payments extend over a number of years.

|   | 2004<br>£    | 2003<br>£     |
|---|--------------|---------------|
| Annual commitments under non-cancellable operating leases expiring: |              |               |
| Within one year   | 7,597        | 20,000        |
| Within two to five years  | -            | 8,000         |
|   | <b>7,597</b> | <b>28,000</b> |

**17. Capital and other financial commitments**

|  | 2004<br>£ | 2003<br>£ |
|--|-----------|-----------|
| Contracts placed for future capital expenditure not provided in the financial statements | -         | 1,230,000 |

This amount represents 60% of the capital commitment for work on the gas wells. The other 40% is the responsibility of the company's parent company, Viking Petroleum UK Limited.

**18. Related party transactions**

The company has taken advantage of the exemption in Financial Reporting Standard No 8 from the requirement to disclose transactions with group companies on the grounds that the consolidated financial statements are prepared by the ultimate parent company.

**19. Ultimate parent company**

The immediate parent company is Viking Petroleum UK Limited by virtue of its 100% interest in the voting shares of the company.

The ultimate parent company is Viking International Petroleum Plc, a company registered in England and Wales. Viking International Petroleum Plc prepares group financial statements, copies of which can be obtained from Brookfield House, 44 Davies Street, London, W1K 5JA.

Viking International Petroleum PLC relinquished 74% of its shares in Viking Petroleum UK Limited on 15 March 2005, the directors consider that from this date Viking Petroleum UK Limited is the company's immediate and ultimate parent company.

The directors consider that there is no ultimate controlling party.

**20. Post balance sheet events**

On 5 January 2005 the Viking Group completed a transaction with Western Nevada Acceptance Corporation, an investor in the TCW funds, for an additional long term loan of \$2.5 million on terms substantially similar to the original TCW facility. These funds were used to fund operating losses and administrative costs in the interim period while the Group sought a refinancing or a sale of the business.

A refinancing was agreed with TCW in conjunction with a reorganisation that occurred on 15 March 2005. Viking International Petroleum PLC ("VIP") exchanged 74% of the equity in VIP for cancellation of its debt guarantees, share pledges and warrants with its debt provider, the Trust Company of the West. TCW invested additional funds in the Viking entities at the closing of the reorganisation and again in August 2005. Subsequent to this transaction TCW owned 74% of VIP and its subsidiaries which include Viking UK Gas Limited.

The Group has drawn down additional advances, through Viking Petroleum BV, under its long-term 10% loan note with its senior lender, TCW : on 17 March 2005 an additional advance of USD 3 million was drawn down; on 19 August 2005 an additional USD 350 thousand was drawn down; on 12 September 2005 an additional USD 900 thousand was drawn down; on 7 October 2005 an additional USD 288,000 thousand was drawn down; and on 3 November 2005 an additional USD 350 thousand was drawn down.