Viking UK Gas Limited

Financial Statements

for the year ended 31 December 2012

Company Registration No 01421481

Viking UK Gas Limited
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for the year ended 31 December 2012

Viking UK Gas Limited
Company information
for the year ended 31 December 2012

Directors	R Valand JAG Dewar DJ Robottom
Secretary	MD Secretaries Limited
Registered office	Knapton Generating Station East Knapton Malton North Yorkshire YO17 8JF
Registered number	01421481
Independent auditor	KPMG LLP 8 Salisbury Square London EC4Y 8BB

The directors submit their report and the financial statements of Viking UK Gas Limited for the year ended 31 December 2012

Principal activities

The principal activity of the Company continues to be that of the appraisal and development of gas assets in the United Kingdom The gas produced is sold to RGS Energy Limited, a fellow subsidiary of Third Energy Holdings Limited

Review of the business

The Group has continued to improve its understanding of its gas assets in North Yorkshire The reprocessing of the existing seismic data and workovers of existing wells to improve production and provide further information have been undertaken In the Ebberston Moor field, the Group has finished the reprocessing of the existing seismic data and acquired further data

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 continues to assess and develop its gas assets in the Vale of Pickering and is currently drilling one well with a view to establishing a more reliable supply of gas

The Company is currently building on its improved understanding of the geology and reservoir in the Ebberston Moor area to draw up a Field Development Plan to enable it to commercially develop the gas in this area With this in mind, the Company is currently drilling one well on Ebberston Moor and has submitted a planning application covering its plans to bring this gas to market

Principal risks and uncertainties

The Company is part of a Group of companies with its parent company being Third Energy Holdings 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 mitigates 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 interest-free loans from its parent company and other group companies with no fixed terms for repayment

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 have reviewed the Group's forecasts for the period to September 2014 and believe that, with the continued support of its immediate group parent company, Third Energy Holdings 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 reasonably foreseeable future

Directors

The directors who have held office since 1st January 2012 are set out below

Mr R Valand	
Mr JAG Dewar	
Mr DJ Robottom	(appointed 12th March 2012)

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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office

On behalf of the Board

David Robottom
Director

26th September 2013

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 to the members of Viking UK Gas Limited

Company Registration No 01421481

We have audited the financial statements of Viking UK Gas Limited (the Company) for the year ended 31 December 2012 set out 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/auditscopeukprivate

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 2012 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

Adrian Wilcox
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
30th September 2013

Viking UK Gas Limited

Profit and loss account

for the year ended 31 December 2012

Company Registration No 01421481

	Notes	2012	2011
		£	£
Turnover	*1*	826,624	1,315,129
Cost of sales		(4,922,548)	(4,560,276)
Gross Loss		(4,095,924)	(3,245,147)
Administration expenses		(2,043,603)	(1,777,663)
Operating loss	*2 & 3*	(6,139,527)	(5,022,810)
Profit on sale of fixed assets		665	5,348
Interest receivable and similar income	*4*	1,326	4,474
Interest payable and similar charges	*5*	(218,249)	(122,405)
Loss on ordinary activities before taxation		(6,355,785)	(5,135,393)
Tax on loss on ordinary activities	*6*	-	-
Loss for the financial year	*13*	(6,355,785)	(5,135,393)

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

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

Viking UK Gas Limited
Balance Sheet
31 December 2012 Company Registration No 01421481

	Notes	2012	2011
		£	£
Fixed Assets			
Intangible assets	7	4,143,919	342,145
Tangible assets	8	537,348	621,765
		4,681,267	963,910
Current Assets			
Debtors	9	1,222,253	1,082,693
Cash at bank and in hand		398,683	565,235
		1,620,936	1,647,928
Creditors Amounts falling due within one year	10	(14,092,966)	(4,486,216)
Net Current Liabilities		(12,472,030)	(2,838,288)
Total Assets less Current Liabilities		(7,790,763)	(1,874,378)
Provisions for liabilities	11	(2,763,240)	(2,323,840)
Net Liabilities		(10,554,003)	(4,198,218)
Capital and reserves			
Called up share capital	12	11,600,000	11,600,000
Capital contribution		5,789,842	5,789,842
Profit and loss account - (deficit)	13	(27,943,845)	(21,588,060)
Deficit on shareholders' funds	14	(10,554,003)	(4,198,218)

The financial statements were approved by the board of directors and authorised for issue on 26th September 2013 and are signed on its behalf by

David Robottom
Director

Viking UK Gas Limited

Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable UK accounting standards including the Statement of Recommended Practice "Accounting for oil and gas exploration, development, production and decommissioning activity" (SORP), published by the Oil Industry Accounting Committee, except where explicitly disclosed otherwise

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 Third Energy Holdings Limited (TEHL)

Going concern

The financial statements have been prepared on the going concern basis notwithstanding net current liabilities of £12,472,030 (2011 £2,838,288) which assumes that the Company will continue in operational existence for the foreseeable future

The directors have reviewed the Company's forecasts for the period to September 2014 and believe that, with the continued support of its parent company, Third Energy Holdings 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 and to enable it to meet its financial obligations as they fall due

As with any company placing reliance on another group company for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Taxation

Corporation tax payable is provided on taxable profits at the current rate

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

Exploration and appraisal assets
Exploration and appraisal costs are accounted for on the "successful efforts" basis as set out in the SORP (see "Basis of preparation" on page 8)

Exploration and appraisal cost incurred prior to having secured the legal rights to explore an area and general seismic data and other costs not specifically directed to an identified exploration licence are expensed directly to the profit and loss account as they are incurred

Costs of exploration and development are initially capitalised as exploration assets Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible exploration assets

Intangible exploration assets are not amortised prior to the conclusion of appraisal activities but are carried forward until the existence of commercial reserves has been determined If commercial reserves are determined to exist, the carrying value of the relevant exploration asset is then reclassified as a development and production asset If commercial reserves are determined not to exist, the capitalised costs that had previously been carried in intangible assets are charged to the profit and loss account as exploration expense, as soon as that determination has been made The status of such prospects is reviewed regularly by the directors

Development and production assets
Development and production assets are accumulated on a field by field basis and represent the cost of developing the commercial reserves and bringing them to production, together with the exploration assets incurred in finding commercial reserves as described above

Development and production assets also includes the cost of items purchased to be used on gas assets but held in stock to be used in future A provision is made to ensure that the carrying value of these items does not exceed the value in use

The cost of producing assets is depreciated using the unit of production method The unit of production method is a means of computing the portion to be charged for the current period out of the total costs yet to be charged to the profit and loss account That portion is represented by the ratio of production in the year and the estimated commercial reserves relating to that asset, taking into account future development expenditure necessary to bring those reserves to production

Commercial reserves
Commercial reserves are defined as proved oil and gas reserves as set out in the SORP (see "Basis of preparation" on page 8)

Where unit of production calculations are required to be made in arriving at amounts stated within these financial statements, only commercial developed resources are used and not proved developed and undeveloped reserves as recommended by the SORP The directors consider such method to reflect a more appropriate approach to the unit of production calculations In this context, developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods

Impairment of development and production assets
An impairment test is performed whenever a change in expectations indicates that the carrying value of a development or production asset, or group of assets, may be greater than the returns expected to be generated from that asset or group of assets

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be generated from the commercial reserves associated with that asset The recoverable amount is assumed to be the higher of estimated net realisable value or value in use Value in use is calculated for each fixed asset and represents the present value of future net revenues to be derived from estimated reserves If the net cash flows of a number of assets are interdependent, then the net cash flows of all interdependent assets are included in the impairment calculation

Any impairment identified is charged to the profit and loss account as additional depreciation If the conditions leading to the impairment change and the impairment test suggests that impairment previously charged should be reversed then a credit is taken to the profit and loss account, net of any depreciation that would have been charged since the impairment charge was made

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

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 gas to its fellow subsidiary Turnover is recognised at the point and time of delivery, net of trade discounts and VAT

1 Turnover

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

2 **Operating loss**	2012	2011
	£	£
Operating loss is stated after charging/(crediting)		
Depreciation of tangible assets		
- owned assets	371,473	1,101,319
Impairment	-	2,597,989
Auditor's remuneration	13,218	14,028
Operating leases - land and buildings	253,066	208,745

3 **Staff costs**	2012	2011
	£	£
Wages and salaries	523,875	524,104
Social security costs	57,080	56,440
Pension costs	32,914	37,685
	613,869	618,229

The directors' remuneration is paid by Third Energy Holdings Limited The directors do not believe it is practical to apportion the remuneration between their services to this company and their services as directors of the parent company and fellow subsidiary companies

The average monthly number of employees during the year was as follows	2012	2011
	No	No
Management and administration	4	4
Technical and operations	11	11
	15	15

4 **Interest receivable**	2012	2011
	£	£
Bank interest receivable	1,326	4,474

5 **Interest payable and similar charges**	2012	2011
	£	£
Unwinding of discount on decommissioning provision	213,425	121,140
Interest on finance lease agreements	4,824	1,265
	218,249	122,405

6 Taxation

	2012	2011
	£	£
Analysis of charge in the period		
Current tax - UK corporation tax on profits for the period	-	-
Deferred tax - origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	-
Factors affecting tax charge in the period		
Loss on ordinary activities before taxation	(6,355,785)	(5,135,393)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 62% (2010 59 3%)	(3,940,587)	(3,045,499)
Expenses not deductible for tax purposes (primarily amortisation)	-	73,372
Capital allowances in excess of depreciation	(3,019,536)	(33,847)
Other timing differences	106,713	-
Interest not deductible for SCT	1,544	-
Ring fence expenditure supplement	(3,045,626)	(1,412,697)
Losses generated in the period	9,897,492	4,418,671
Current tax charge	-	-

The effective rate of tax in 2011 was 62% (2010 59 3%) This is due to the increase in the supplementary charge from 20% to 32% with effect from 24th March 2011 In addition, the rate at which abandonment expenditures are deductible decreased to 50% from March 2012 onwards

The Company has a potential deferred tax asset at 31 December 2012 of £40 4m (2011 £33 9m) consisting of accumulated tax losses and accelerated capital allowances of £65 2m (2011 £54 6m) This asset has not been recognised under FRS19 as it is not certain that the Company will have sufficient taxable profits for the losses to be utilised in the foreseeable future

7 Intangible fixed assets

	Exploration and development	Total
	£	£
Cost		
At 1 January 2012	342,145	342,145
Additions	7,582,466	7,582,466
At 31 December 2012	7,924,611	7,924,611
Depreciation		
Impairment	3,780,692	3,780,692
At 31 December 2012	3,780,692	3,780,692
Net book value		
At 31 December 2012	4,143,919	4,143,919
At 31 December 2011	342,145	342,145

8 Tangible fixed assets

	Gas develop ment and production	Decommiss- ioning asset	Plant and machinery	Motor vehicles and equipment	Total
	£	£	£	£	£
Cost					
At 1 January 2012	9,524,447	1,778,053	########	72,212	12,548,159
Additions	59,082	225,975	-	2,000	287,057
Disposals	-	-	-	(16,895)	(16,895)
At 31 December 2012	9,583,529	2,004,028	########	57,317	12,818,321
Depreciation					
At 1 January 2012	8,909,796	1,778,053	########	65,098	11,926,394
Charge for the year	367,624	-	-	3,849	371,473
Removed on disposal	-	-	-	(16,894)	(16,894)
At 31 December 2012	9,277,420	1,778,053	########	52,053	12,280,973
Net book value					
At 31 December 2012	306,109	225,975	-	5,264	537,348
At 31 December 2011	614,651	-	-	7,114	621,765

9 Debtors

	2012	2011
	£	£
Amounts owed by group companies	-	449,243
Prepayments and other income	441,455	413,367
Other debtors	780,798	220,083
	1,222,253	1,082,693

10 Creditors: amounts falling due within one year

	2012	2011
	£	£
Trade creditors	849,779	146,274
Amounts owed to group undertakings	13,162,127	4,280,606
Taxation and social security costs	25,306	26,298
Other creditors	17,635	3,499
Accruals and deferred income	38,119	29,539
	14,092,966	4,486,216

11 Provisions for liabilities

	2012	2011
	£	£
Decommissioning costs		
At 1 January	2,323,840	2,202,700
Addition to provision	225,975	-
Unwinding of discount to profit and loss account	213,425	121,140
At 31 December	2,763,240	2,323,840

12 Called up share capital

	2012	2011
Ordinary shares of £1 each	No	No
Authorised	11,600,000	11,600,000
	£	£
Allotted, issued and fully paid	11,600,000	11,600,000

13 Statement of movement on reserves

	Profit and loss account
	£
Deficit at 1st January 2012	(21,588,060)
Loss for the financial year	(6,355,785)
Deficit at 31 December 2012	(27,943,845)

14 Reconciliation of movement in shareholders' funds

	2012	2011
	£	£
Deficit on shareholders' funds as at 31 January 2012	(4,198,218)	937,175
Loss for the financial year	(6,355,785)	(5,135,393)
Deficit on shareholders' funds as at 31 December 2012	(10,554,003)	(4,198,218)

15 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 2012 was £nil (2011 £nil)

16 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

17 Ultimate parent company

The Company's immediate parent company is Viking Petroleum UK Limited The smallest and largest group into which the Company is consolidated is Third Energy Holdings Limited Copies of the accounts of Third Energy Holdings Limited can be obtained from 66 Chiltern Street, London W1U 4JT

In the opinion of the directors, the ultimate parent company of Third Energy Holdings Limited is Barclays PLC There is no ultimate controlling party