

Lovat Investments Limited

Report and Accounts

31 May 1996

 ERNST & YOUNG

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Lovat Investments Limited

Registered No. 81199

DIRECTORS

The Hon Kim I M Fraser
Malcolm Fraser

SECRETARY

Innes & MacKay
19 Union Street
Inverness
IV1 1PT

AUDITORS

Ernst & Young
Moray House
16 Bank Street
Inverness
IV1 1QY

BANKERS


Royal Bank of Scotland
High Street
Beauly
IV4 7BT

SOLICITORS

Innes & MacKay
19 Union Street
Inverness
IV1 1PT

REGISTERED OFFICE

Lovat Estates Office
Beauly
IV4 7DA

 **ERNST & YOUNG**

Lovat Investments Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 May 1996.

RESULTS AND DIVIDENDS

The profit for the year amounts to £159,259 and is dealt with as shown in the profit and loss account.

No dividend is proposed.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company continued to hold investments mainly in oil related companies.

During the year the company's holding in Gulfstream Resources Canada Limited increased in value by £2,530,665. No additions or disposals were made to this holding. The directors continue to view the prospects of Gulfstream Resources Canada Limited with some optimism.

The principal asset of the company at the year end was the holding in Gulfstream Resources Canada Limited. This investment is shown in the accounts at purchase cost. The market value of the investment was £3,124,511 greater than purchase cost at the year end.

Following the death of the former chairman The Hon Simon Fraser, in 1994, it was the intention of the new board of directors to wind up the company. The position and prospects of the company have continued to improve since then and, as noted above, in the last year there has been a significant increase in the value of the company's principal asset. Accordingly, the directors no longer consider that it is in the best interests of the shareholders for the company to be wound up in the foreseeable future. The directors are continuing to review the options available to the company in the current environment.

POST BALANCE SHEET EVENTS

The company sold 114,000 shares in Gulfstream Resources Canada Limited, representing 6.2% of the year end shareholding, after the year end resulting in a gain of £428,035.

DIRECTORS AND THEIR INTERESTS

The directors at 31 May 1996 and their interests in the share capital of the company were as follows:

	<i>At 31 May 1996 Ordinary shares</i>	<i>At 1 June 1995 Ordinary shares</i>
The Hon Kim I M Fraser	6,000	6,000
Malcolm Fraser	-	-

In terms of the Articles of Association of the company no director is required to retire by rotation.

Lovat Investments Limited

DIRECTORS' REPORT

PRINCIPAL SHAREHOLDER

The majority shareholder in the company is Highlands and Islands Oil and Gas Company Limited. At 31 May 1996 that company held 75.96% of the ordinary share capital. At 31 October 1996 the holding was 77.78%.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board

James MacKay

Secretaries

21-11-96

Lovat Investments Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which 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 accounts, 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 accounts 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 accounts 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.

REPORT OF THE AUDITORS
to the members of Lovat Investments Limited

We have audited the accounts on pages 7 to 12 which have been prepared on the accounting bases and policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

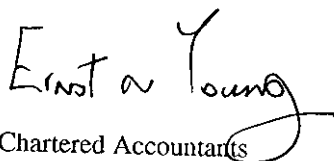
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Qualified opinion arising from disagreement about accounting treatment.

Debtors shown on the balance sheet represent amounts due from the company's parent undertaking of £2,721,769. The parent undertaking's draft accounts at 31 May 1996 indicate an excess of liabilities over assets of more than £2 million. Lovat Investments Limited has no security for this debt. In our opinion there is sufficient doubt concerning the recoverability of this balance such that a provision of up to £2,721,769 should have been made reducing net assets by the amount of the provision.

Except for the absence of this provision, in our opinion the accounts give a true and fair view of the state of affairs of the company at 31 May 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Registered Auditor
Inverness

20/11/96

Lovat Investments Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 May 1996

	Notes	1996 £	1995 £
TURNOVER		-	-
Other operating income	2	-	353,438
Operating costs	3	175	11,916
OPERATING (LOSS)/PROFIT		<u>175</u>	<u>341,522</u>
Other income	5	159,434	149,143
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>159,259</u>	<u>490,665</u>
Taxation	6	-	-
PROFIT FOR THE YEAR	12	<u><u>£159,259</u></u>	<u><u>£490,665</u></u>

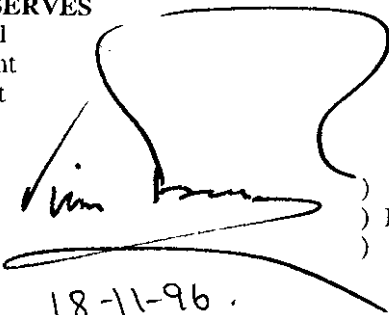
RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £159,259 in the year ended 31 May 1996 and the profit of £490,665 in the year ended 31 May 1995.

Lovat Investments Limited

BALANCE SHEET

as at 31 May 1996

	Notes	1996 £	1995 £
FIXED ASSETS		-	-
CURRENT ASSETS			
Investments	7	1,143,554	1,143,554
Debtors	8	2,721,769	2,579,140
Cash at bank and in hand		23	1,066
		<u>3,865,346</u>	<u>3,723,760</u>
CREDITORS: amounts falling due within one year	9	5,448	23,121
NET CURRENT ASSETS		<u>3,859,898</u>	<u>3,700,639</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£3,859,898</u>	<u>£3,700,639</u>
CAPITAL AND RESERVES			
Called up share capital	11	7,168,830	7,168,830
Share premium account		10,773,999	10,773,999
Profit and loss account	12	(14,082,931)	(14,242,190)
			
) Director	
		18-11-96.	
EQUITY SHAREHOLDERS' FUNDS		<u>£3,859,898</u>	<u>£3,700,639</u>

NOTES TO THE ACCOUNTS
at 31 May 1996

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention. In the prior year the accounts were prepared on a break-up basis reflecting the directors intention at that time to wind up the company possibly within twelve months of the date of signing the accounts. A provision of £15,000 which was made in previous years in respect of the costs of liquidating the company has now been released.

Investments

Current asset investments are included in the accounts at the lower of cost and market value.

2. OTHER OPERATING INCOME

	1996	1995
Release of provision against investment	£ -	£353,438
	<u> </u>	<u> </u>

3. OPERATING COSTS

	1996	1995
	£	£
Auditor's remuneration	2,000	2,000
Other external charges	13,175	9,705
Released exchange loss	-	211
Release of provision	(15,000)	-
	<u>£175</u>	<u>£11,916</u>
	<u> </u>	<u> </u>

4. STAFF NUMBERS AND DIRECTORS' EMOLUMENTS

Other than the company's directors, the company had no employees during the year (1995 - Nil). The directors of the company did not receive any emoluments for their services to the company.

Lovat Investments Limited

NOTES TO THE ACCOUNTS

at 31 May 1996

5. OTHER INCOME

	1996 £	1995 £
Bank interest	-	22
Loan interest from parent undertaking	159,434	149,121
	<u>£159,434</u>	<u>£149,143</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

No provision for current corporation tax is considered necessary due to losses brought forward.

7. CURRENT ASSET INVESTMENTS

	1996 £	1995 £
Shares at cost/market value		
At 1 June 1995	1,143,554	790,116
Revaluation	-	353,438
At 31 May 1996	<u>£1,143,554</u>	<u>£1,143,554</u>

Of the above investments, shown at cost less provisions, £3,000 are listed in Eire (market value 1996 - £5,532, 1995 - £5,200), and £1,140,554 are listed in Vancouver (market value 1996 - £4,265,065, 1995 - £1,734,400).

The market value as at 31 October 1996 of the remaining investments listed in Vancouver is £8,213,452. Over the previous twelve months the share price has fluctuated between £1.80 and £4.85.

The associated undertaking included at 31 May 1996 was:

<i>Associated undertaking</i>	<i>Country of incorporation</i>	<i>Nature of business</i>	<i>Proportion of ordinary shares held</i>
LMWS Limited	Scotland	Mineral water supplier	30.8%

LMWS Limited is no longer trading and the directors have provided in full for this investment. An application to have the company struck off has been made subsequent to the year end.

Lovat Investments Limited

NOTES TO THE ACCOUNTS at 31 May 1996

8. DEBTORS

	1996	1995
Amount due from parent undertaking	<u>£2,721,769</u>	<u>£2,579,140</u>

9. CREDITORS: amounts falling due within one year

	1996	1995
Accruals	<u>£5,448</u>	<u>£23,121</u>

10. BANK OVERDRAFT

In security of the overdraft which arises from time to time the bank holds letters of pledge covering all the company's investments.

11. SHARE CAPITAL

	1996 No.	Authorised 1995 No.	1996	Allotted, called up and fully paid 1995
Ordinary shares of 20p each	<u>100,000,000</u>	<u>100,000,000</u>	<u>£7,168,830</u>	<u>£7,168,830</u>

12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 June 1994	7,168,830	10,773,999	(14,732,855)	3,209,974
Profit for the year	-	-	490,665	490,665
At 1 June 1995	<u>7,168,830</u>	<u>10,773,999</u>	<u>(14,242,190)</u>	<u>3,700,639</u>
Profit for the year	-	-	159,259	159,259
At 31 May 1996	<u>£7,168,830</u>	<u>£10,773,999</u>	<u>£(14,082,931)</u>	<u>£3,859,898</u>

NOTES TO THE ACCOUNTS

at 31 May 1996

13. PARTICULARS OF TRANSACTIONS INVOLVING DIRECTORS

The directors had interests in the following transactions.

Included in debtors is a loan to Highlands and Islands Oil and Gas Company Limited of £2,274,895 (1995 - £2,284,658). This loan bears interest at one-half per cent above the Royal Bank of Scotland base rate, and is repayable on demand. At the year end the interest accrued on the loan was £446,874 (1995 - £287,441).

The Hon K I M Fraser and Malcolm Fraser were directors in Highlands and Islands Oil and Gas Company Limited during the year ended 31 May 1996.

14. PARENT UNDERTAKING

The parent undertaking of the group of undertakings of which the company is a member is Highlands and Islands Oil and Gas Company Limited, a company registered in Scotland. At 31 May 1996 Highlands and Islands Oil and Gas Company Limited owned 75.96% of the share capital of the company.