Company Registered No. 1421481

VIKING UK GAS LIMITED
(FORMERLY TULLOW UK GAS LIMITED)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2003

CONTENTS

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2003

The directors present their report and the audited financial statements of Viking UK Gas Limited for the year ended 31 December 2003.

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.

The name of the company was changed to Viking UK Gas Limited (formerly Tullow UK Gas Limited) on 11 December 2003.

The directors consider the results for the year to be in line with expectations. The company will be making further investments in its existing gas wells and will be drilling new gas wells over the next year, to increase production capacity and sales of gas to Scottish Power.

Results and dividends

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

The directors do not recommend the payment of a dividend.

Impact of International Financial Reporting Standards (IFRS)

It is the company's objective to report its financial statements fully under IFRS by 2005. The company is not aware of any major differences likely to arise between its current accounting policies under UK GAAP and the accounting policies that it knows with sufficient certainty will apply under IFRS.

Directors

The following directors have held office since 1 January 2003:

- Mr. G.G. Emms (appointed 28 November 2003)
- Mr. R.D. McVeigh (appointed 28 November 2003)
- Mr. B. Cociancig (appointed 7 January 2004 - resigned 13 September 2004)
- Mr. L.D.J. Erasmus (appointed 2 February 2004)
- Mr. T.A. Clarence-Smith (appointed 13 September 2004)
- Mr. A.J. Heavey (resigned 28 November 2003)
- Mr. T.G. Hickey (resigned 28 November 2003)
- Mr. A.G. Martin (resigned 28 November 2003)
- Mr. M.J. O'Donoghue (resigned 28 November 2003)

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2003

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 holding office at the year-end in the ordinary shares of the company's ultimate parent undertaking, Viking International Petroleum PLC, are set out below:

	Ordinary shares	Percentage holding
• Mr. G.G. Emms	5,500,000	17.16
• Mr. R.D. McVeigh	1,000,000	3.12

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.

Auditors

During the year PricewaterhouseCoopers LLP were appointed auditors to the company and have expressed their willingness to be re-appointed as auditors of the company.

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

27.10.04
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 and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the Statement of Accounting Policies.

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.

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 Practices 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 are 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 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 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

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

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
27th October 2004

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
TURNOVER	3	782,002	1,007,332
Cost of sales		(985,878)	(1,061,715)
GROSS LOSS		(203,876)	(54,383)
Administrative expenses		(303,654)	(269,982)
Other operating income	4	8,498,607	0
OPERATING PROFIT / (LOSS)	5	7,991,077	(324,365)
Interest payable	6	(60,101)	(119,837)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		7,930,976	(444,202)
Tax on profit / (loss) on ordinary activities	8	0	0
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	16	**7,930,976**	**(444,202)**

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 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	9	5,289,149	5,358,024
CURRENT ASSETS			
Stocks	10	47,946	0
Debtors	11	290,738	493,139
Cash at bank and in hand		0	70,447
		338,684	563,586
CREDITORS: amounts falling due within one year	12	(201,597)	(1,174,556)
NET CURRENT ASSETS / (LIABILITIES)		137,087	(610,970)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,426,236	4,747,054
CREDITORS: amounts falling due after more than one year	13	0	(7,251,794)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(91,993)	(91,993)
NET ASSETS / (LIABILITIES)		**5,334,243**	**(2,596,733)**
CAPITAL AND RESERVES			
Called up share capital	15	3,100,000	3,100,000
Profit and loss account	16	2,234,243	(5,696,733)
SHAREHOLDERS' FUNDS / (DEFICIT) (equity interests)	17	**5,334,243**	**(2,596,733)**

The financial statements were approved by the board of directors on 27.10.'04 and were signed on its behalf by:

L.D.J. Erasmus
Director

27.10.04
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 2003

1. Accounting policies

1.1 Basis of preparation of 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 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
(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.

(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.

1.4 Stock
Stock comprises spare parts for the maintenance of the gas turbine at the Knapton generating station and 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

1. Accounting policies (cont)

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. Prior year adjustment

The exchange movement on the parent company loan has previously been taken straight to the profit and loss account reserve. As per SSAP 20 any such exchange differences on long-term monetary assets should be reported as part of the profit or loss for the year.

The prior years figures have been amended by removing an exchange loss on the parent company loan of £257,897 from the Statement of Total Recognised Gains and Loses, and placing the figure in administrative expenses in the profit and loss account.

The retained profit figures as at 31 December 2003 and 31 December 2002 have not changed as a result of this reclassification.

3. Turnover

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

4. Other operating income – exceptional items

Other operating income comprises the following non-recurring items: (a) a loan to Tullow Oil (previous parent company) of £8,110,609 and a loan to Edinburgh Oil and Gas (previous joint venture partner) of £35,359, which where written off in the year prior to the sale of the company to Viking Petroleum UK Limited; and (b) the reversal of a provision for the payment of royalties of £352,639.

5. Operating loss

	2003 £	2002 £
Operating profit / (loss) is stated after charging:		
Auditors' remuneration - audit services	11,000	6,500
Depreciation of tangible fixed assets	72,597	168,826
Difference on foreign exchange on parent company loan	303,227	257,897

6. Interest payable

	2003 £	2002 £
Term loans	**60,101**	**119,837**

7. Employee costs

	2003 £	2002 £
Employee costs:		
Wages and salaries	398,167	419,474
Social security costs	44,233	34,433
Other pension costs	28,360	27,418
	470,760	**481,325**

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

	2003	2002
Management and administrative	3	3
Technical and operations	12	13
	15	**16**

The directors did not receive any remuneration during the period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

8. Tax on profit on ordinary activities

	2003 £	2002 £
Current tax:		
UK corporation tax at the rate of 30%	0	0
Deferred tax:		
UK tax	0	0
Tax on profit on ordinary activities	**0**	**0**

Factors affecting tax charge are as follows:-

	2003 £	2002 £
Profit / (loss) on ordinary activities before tax	7,930,976	(444,202)
Profit / (loss) on ordinary activities at the UK tax rate of 30%	2,379,293	(133,261)
Effect of:-		
Expenses not deductible for tax purposes	4,341	0
Loan write-offs	(3,258,387)	0
Accelerated capital allowances and other timing differences	135,711	88,215
Current year loss surrendered by way of group relief	0	88,900
Utilisation of brought forward loss	*(40,436)*	*0*
Supplementary corporation tax at the rate of 10%	779,478	(43,854)
Current tax charge for the period	**0**	**0**

The company has a deferred tax asset at 31 December 2003 of £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.

9. Tangible fixed assets

	Exploration and Development Discovery Fields £
Cost	
At 1 January 2003	7,323,619
Additions	11,804
Disposals	(8,082)
At 31 December 2003	7,327,341
Depreciation	
At 1 January 2003	1,965,595
Charge for the year	72,597
At 31 December 2003	2,038,192
Net book amount at 31 December 2003	**5,289,149**
Net book amount at 31 December 2002	**5,358,024**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

10. Stock

	2003	2002
	£	£
Spare parts for gas turbine	**47,946**	**0**

11. Debtors

	2003	2002
	£	£
Trade debtors	180,156	348,000
Other debtors	0	100,697
Prepayments and accrued income	110,582	44,442
	290,738	**493,139**

12. Creditors: amounts falling due within one year

	2003	2002
	£	£
Bank loans and overdraft	19,519	612,720
Trade creditors	83,683	181,755
Social security costs and other taxes	20,313	6,480
Amounts owed to group undertakings	78,082	0
Accruals and deferred income	0	373,601
	201,597	**1,174,556**

13. Creditors: amounts falling due after more than one year

	2003	2002
	£	£
Bank loans and overdraft	0	920,920
Amounts owed to parent company	0	6,330,874
	0	**7,251,794**

The term loan was paid back during the year.

	2003	2002
	£	£
Amounts falling due within one year:		
Term Loan	0	612,720
Amounts falling due after one year:		
Term Loan	0	920,920
Total borrowings	**0**	**1,533,640**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

13. Creditors: amounts falling due after more than one year (cont)

	2003	2002
	£	£
Borrowings analysed by maturity:		
Amounts falling due:		
Within one year	0	612,720
In more than one year but not more than four years	0	920,920
Total borrowings	**0**	**1,533,640**

14. Provisions for liabilities and charges

	£
At 1 January 2003 and 31 December 2003	91,993

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 2005 and 2008.

15. Share capital

	2003	2003
	£	£
Authorised, allotted, called up and fully paid		
3,100,000 Ordinary shares of £1 each	**3,100,000**	**3,100,000**

16. Reserves

	Profit & loss account
	£
At 1 January 2003	(5,696,733)
Retained profit for the year	7,930,976
At 31 December 2003	**2,234,243**

17. Shareholders' funds

	2003	2002
	£	£
Profit / (Loss) for the year	7,930,976	(444,202)
Opening shareholders' deficit	(2,596,733)	(2,152,532)
Closing shareholders' funds / (deficit)	**5,334,243**	**(2,596,733)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

18. Operating lease commitments

At 31 December 2003 the company has lease arrangements in respect of vehicles for which the payments extend over a number of years.

	2003 £	2002 £
Annual commitments under non-cancellable operating leases expiring:		
Within one year	20,000	0
Within two to five years	8,000	0
	28,000	**0**

19. Capital and other financial commitments

	2003 £	2002 £
Contracts placed for future capital expenditure not provided in the financial statements	**1,230,000**	**0**

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.

Under the terms of an agreement with its customer, the company may be entitled to receive a reimbursement of up to 50% of the total costs incurred in connection with the instalment of a compressor at the company's gas fields.

20. 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.

21. Control

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.

The directors consider that there is no ultimate controlling party.