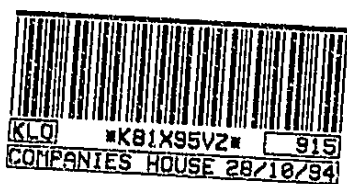


KELT U.K. LIMITED

ACCOUNTS - 31ST DECEMBER 1993

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

The company's registered number is 1421481



KELT U.K. LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 DECEMBER 1993

The directors submit their annual report on the affairs of the company together with the accounts and auditors' report for the nine month period ended 31 December 1993.

PRINCIPAL ACTIVITY

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 period are set out in the profit and loss account on page 4. The directors recommend that no dividend be paid in respect of the period ended 31 December 1993 (year to 31 March 1993-£Nil).

FIXED ASSETS

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

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were as follows :

R D Barrett Resigned 31st May 1994
R Fox
B James
R E Jones
P C Spink

The interests in the shares and share options of group companies of the directors who were also directors of the parent company, Kell Energy PLC, are disclosed in the report and accounts of that company.

DIRECTORS' REPORT (Continued)

At 31 December 1993 the following share options had been granted to directors under the Executive Share Option Scheme:

| | Exercise Price | Exercise Period | 31/12/93 Number | 31/3/93 Number |
|-------------|----------------|----------------------|-----------------|----------------|
| R D Barrett | 20p | Feb 1996 to Feb 2003 | 75,000 | 75,000 |
| | 11p | Mar 1995 to Mar 2002 | 40,000 | 40,000 |
| B James | 20p | Mar 1996 to Feb 2003 | 75,000 | 75,000 |
| | 11p | Mar 1995 to Mar 2002 | 50,000 | 50,000 |
| R E Jones | 20p | Feb 1996 to Feb 2003 | 100,000 | 100,000 |
| | 11p | Mar 1995 to Mar 2002 | 50,000 | 50,000 |
| | 37p | Nov 1992 to Nov 1999 | 2,000 | 2,000 |

The options exercisable at 37p have been divided by 50 as an adjustment arising from the financial reconstruction that took place in 1991.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- 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 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.

AUDITORS

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

130 Jermyn Street
London
SW1Y 4UJ

BY ORDER OF THE BOARD


A Eager
Secretary

Auditors' report to the Shareholders of Kelt UK Limited

We have audited the accounts on pages 4 to 13 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 6 to 8.

Respective responsibilities of directors and auditors

As described on page 2 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.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1993 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS

13 October 1994

KELT U.K. LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31ST DECEMBER 1993

| | <u>Notes</u> | <u>9 months to 31/12/93 £'000s</u> | <u>Year to 31/3/93 £'000s</u> |
|--|--------------|--|---------------------------------------|
| TURNOVER | 2 | 5,119 | 5,378 |
| Cost of sales | 3 | <u>(3,733)</u> | <u>(4,323)</u> |
| GROSS PROFIT | | 1,386 | 1,055 |
| Administrative expenses | | <u>(446)</u> | <u>(143)</u> |
| OPERATING PROFIT | 4 | 940 | 912 |
| Interest receivable | | 6 | 62 |
| Interest payable | 6 | <u>(1,038)</u> | <u>(1,620)</u> |
| LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION | | (92) | (646) |
| ACCUMULATED DEFICIT, brought forward | | <u>(1,115)</u> | <u>(469)</u> |
| ACCUMULATED DEFICIT, carried forward | | (1,207) | (1,115) |
| | | ===== | ===== |

There were no recognised gains or losses other than as shown above.

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

KELT U.K. LIMITED

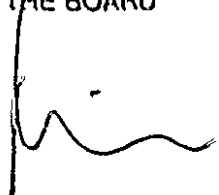
BALANCE SHEET - 31ST DECEMBER 1993

| | <u>Notes</u> | <u>31/12/93</u> <u>£'000s</u> | <u>31/3/93</u> <u>£'000s</u> |
|--|--------------|----------------------------------|---------------------------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | <u>14,369</u> | <u>14,694</u> |
| CURRENT ASSETS | | | |
| Stocks | | 20 | 12 |
| Debtors | 9 | 14,019 | 13,433 |
| Cash at bank | | <u>345</u> | <u>3</u> |
| | | 14,384 | 13,448 |
| CREDITORS: | | | |
| Amounts falling due within one year | 10 | <u>(9,325)</u> | <u>(8,875)</u> |
| NET CURRENT ASSETS | | <u>5,059</u> | <u>4,573</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 19,428 | 19,267 |
| CREDITORS: | | | |
| Amounts falling due after more than one year | 11 | (20,013) | (19,808) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 12 | <u>(522)</u> | <u>(474)</u> |
| NET LIABILITIES | | (1,107) | (1,015) |
| | | ===== | ===== |
| CAPITAL AND RESERVES | | | |
| Called-up share capital | 13 | 100 | 100 |
| Profit and loss account | | <u>(1,207)</u> | <u>(1,115)</u> |
| Shareholders' funds | 14 | (1,107) | (1,015) |
| | | ===== | ===== |

SIGNED ON BEHALF OF THE BOARD

P.C. Spink - Director

13 October 1994



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

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS - 31ST DECEMBER 1993

1. STATEMENT OF ACCOUNTING POLICIES

The following principal accounting policies, which have been applied consistently throughout the period 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 certain 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

Oil and gas properties are carried in a fixed asset pool established through valuations in 1988 and 1989 with subsequent additions at cost.

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 relating to these activities are capitalised. Interest costs are expensed insofar as they relate to borrowing associated with proved developed producing reserves.

Proceeds of disposal of licence interests are credited to the pool, and no gain nor loss is recognised.

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

d) Exploration and development costs (cont'd)

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.

Celling 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 over the estimated useful lives of assets 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.

KELT U.K LIMITED
NOTES TO THE ACCOUNTS (continued)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

h) Abandonment provision

Estimated abandonment costs are provided field by field on a unit of production basis.

i) Stocks

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

j) Cash flow statement

No cash flow statement has been prepared. The company's ultimate holding company, Kelt Energy PLC, prepared a consolidated cash flow statement in accordance with Financial Reporting Standard No. 1.

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 £2,631,000 (31/3/93 - £2,872,000) in respect of brokerage sales of third party oil.

3. COST OF SALES

| | <u>9 months to</u> <u>31/12/93</u> £'000s | <u>Year to</u> <u>31/3/93</u> £'000s |
|----------------------------------|---|--|
| Purchase of crude oil for resale | 2,358 | 2,629 |
| Other operating costs | 746 | 1,000 |
| Royalties | 10 | 18 |
| Depletion and amortisation | 571 | 574 |
| Abandonment | <u>48</u> | <u>102</u> |

3,733 4,323

4. OPERATING PROFIT

| | <u>9 months to</u> <u>31/12/93</u> £'000s | <u>Year to</u> <u>31/3/93</u> £'000s |
|---|---|--|
| Operating Profit is stated after crediting: | | |
| Profit on disposal of fixed assets | 6 | 17 |
| And after charging: | | |
| Depreciation | 93 | 102 |
| Hire of plant and machinery | 67 | 109 |
| Other operating lease rentals | 302 | 412 |
| Auditors' remuneration and expenses | | |
| - Audit fees | 25 | 24 |
| - Other fees (including tax) | 8 | 12 |
| Staff costs (Note 5) | 1,562 | 2,185 |
| | ===== | ===== |

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

| 5. STAFF COSTS | 9 months to <u>31/12/93</u> £'000's | Year to <u>31/3/93</u> £'000's |
|-----------------------|---|--------------------------------------|
| Wages and salaries | 1,305 | 1,863 |
| Social security costs | 127 | 189 |
| Other pension costs | <u>130</u> | <u>133</u> |
| | 1,562 | 2,185 |
| | ===== | ===== |

The average number of persons employed by the company during the year was 69 (31/3/93 - 75).

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

| | | |
|---|-----|-----|
| Emoluments, including pension contributions | 187 | 205 |
| | === | === |

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

| | | |
|-----------------------|-----|-----|
| Highest paid director | 70 | 90 |
| | === | === |

The company has no chairman.

Directors received emoluments (excluding pension contributions), in respect of their services for the company, in the following ranges:

| | <u>Number</u> | <u>Number</u> |
|-------------------|---------------|---------------|
| £0 - £5,000 | 2 | 4 |
| £5,001 - £10,000 | - | 1 |
| £15,001 - £50,000 | 2 | - |
| £50,001 - £55,000 | - | 1 |
| £55,001 - £60,000 | - | 1 |
| £70,001 - £75,000 | 1 | - |
| £85,001 - £90,000 | - | 1 |
| | = | = |

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

| | <u>9 months to</u> <u>31/12/93</u> £'000's | <u>Year to</u> <u>31/3/93</u> £'000's |
|--|--|---|
| 6. INTEREST PAYABLE | | |
| Interest to third parties | 1 | - |
| Interest on intercompany loans (Note 11) | 1,056 | 1,792 |
| Less amounts capitalised | <u>(19)</u> | <u>(172)</u> |
| | <u>1,038</u> | <u>1,620</u> |

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There was no tax charge for the period (31/3/93 - £Nil) as the company has unutilised tax losses carried forward.

8. TANGIBLE FIXED ASSETS

| | <u>Oil and gas</u> <u>properties</u> £000's | <u>Office equipment</u> <u>and motor vehicles</u> £000's | Total £000's |
|--------------------------|---|--|-----------------|
| COST OR VALUATION | | | |
| At 31 March 1993 | 21,229 | 1,028 | 22,257 |
| Additions | 630 | 27 | 657 |
| Disposals | <u>(300)</u> | <u>(46)</u> | <u>(346)</u> |
| As at 31 December 1993 | 21,559 ===== | 1,009 ===== | 22,568 ===== |
| DEPRECIATION | | | |
| At 31 March 1993 | 6,952 | 611 | 7,563 |
| Charge for the period | 571 | 93 | 664 |
| Disposals | <u>-</u> | <u>(28)</u> | <u>(28)</u> |
| As at 31 December 1993 | 7,523 ===== | 676 ===== | 8,199 ===== |
| NET BOOK VALUE | | | |
| At 31 December 1993 | 14,036 ===== | 333 ===== | 14,369 ===== |
| NET BOOK VALUE | | | |
| At 31 March 1993 | 14,277 ===== | 417 ===== | 14,694 ===== |

Expenditure capitalised during the period includes interest of £19,000 (31/3/93 - £172,000).

The 'full cost pool' of oil and gas properties includes properties carried at valuations established by the directors in 1988 and 1989 in conjunction with corporate acquisitions by the company's parent company.

KELT U.K. LIMITED

NOTES TO THE ACCOUNTS (continued)

9. DEBTORS

| Amounts falling due within one year | <u>31/12/93</u> £'000s | <u>31/3/93</u> £'000s |
|-------------------------------------|---------------------------|--------------------------|
| Trade debtors | 1,567 | 1,387 |
| Due from group undertakings | 12,291 | 11,938 |
| Prepayments and accrued income | <u>161</u> | <u>108</u> |
| | 14,019 | 13,433 |
| | ===== | ===== |

10. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

| | <u>31/12/93</u> £'000s | <u>31/3/93</u> £'000s |
|------------------------------------|---------------------------|--------------------------|
| Trade creditors | 858 | 1,621 |
| Amounts owed to group undertakings | 8,048 | 6,923 |
| VAT | 142 | 73 |
| Social security and PAYE | 84 | 53 |
| Accruals | <u>193</u> | <u>205</u> |
| | 9,325 | 8,875 |
| | ===== | ===== |

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

| | <u>31/12/93</u> £'000s | <u>31/3/93</u> £'000s |
|--|---------------------------|--------------------------|
| Amounts owed to immediate parent company | 20,013 | 19,808 |
| | ===== | ===== |

These loans have no fixed repayment date. The immediate parent company has indicated its intention that repayment will not be required for at least five years from the balance sheet date. Interest is charged at a rate equivalent to Lloyds Bank PLC deposit rate plus 1%.

KELT U.K. LIMITED
NOTES TO THE ACCOUNTS (continued)

12. PROVISIONS FOR LIABILITIES AND CHARGES

| | <u>Abandonment Costs</u> |
|-----------------------|------------------------------|
| | £000's |
| At 31 March 1993 | 474 |
| Charge for the period | <u>48</u> |
| At 31 December 1993 | 522 |
| | === |

The full potential liability for deferred corporation tax, calculated on the liability method at 33%, arising from accelerated capital allowances, is fully offset by intercompany interest accruals and tax losses carried forward.

13. CALLED-UP SHARE CAPITAL

| | <u>31/12/93</u> | <u>31/3/93</u> |
|---|-----------------|----------------|
| | £'000s | £'000s |
| Authorised, allotted, called-up and fully paid - Ordinary shares of £1 each | 100 | 100 |
| | === | === |

14. MOVEMENT ON SHAREHOLDERS' FUNDS

| | | |
|---------------------|--|-------------|
| At 31 March 1993 | | £'000s |
| Loss for the period | | (1,015) |
| | | <u>(92)</u> |
| At 31 December 1993 | | (1,107) |
| | | ===== |

15. NET LIABILITIES

The company has net liabilities of £1,107,000 at 31 December 1993 and is therefore technically insolvent. The company's parent company, Kelt Energy PLC, has undertaken to continue to make available to the company such financial support as is necessary to enable it to meet its obligations as they fall due. The accounts have therefore been prepared on the going concern basis.

16. CAPITAL COMMITMENTS

At 31 December 1993 the company was committed to the following expenditure (Kelt U.K. share) on exploration and development activities:

| | <u>31/12/93</u> | <u>31/3/93</u> |
|-----------------------------------|-----------------|----------------|
| | £'000s | £'000s |
| Contracted | 1,068 | 510 |
| Authorised but not contracted for | <u>510</u> | <u>394</u> |
| | 1,578 | 904 |
| | ===== | === |

These commitments are calculated to take into account the transaction set out in note 17.

KELT U.K. LIMITED
NOTES TO THE ACCOUNTS (continued)

17. SUBSEQUENT EVENTS

Subsequent to 31 December 1993 the Company has swapped its Southern England licences for an increased interest in acreage in the North of England plus cash consideration received of £4.2 million.

18. ULTIMATE PARENT COMPANY

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