

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO. SC

DNO Offshore Limited

Financial statements 31 December 1995
together with directors' and auditors' reports

Registered number: 1483729



Directors' report

For the year ended 31 December 1995

The directors present their report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 1995.

Principal activities and business review

The principal activity of the company continues to be the exploration for and extraction and production of hydrocarbons.

Results and dividends

The net profit for the year before taxation amounted to £228,000 (1994 - £379,000). No dividend can be paid (1994 - £nil).

Directors and their interests

The directors who held office during the year and up to the date of this report were as follows:

Torstein Hagen	
Anders Hvide	(appointed 9 January 1995)
Roar Tessem	(resigned 30 June 1995)
Tor Olav Troim	(resigned 9 January 1995)

No director has any beneficial interest in the shares of the company requiring disclosure under the Companies Act 1985.

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 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:

- 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 financial statements; and
- 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.

Directors' report (continued)

Changes in fixed assets

Changes in the year are shown in note 5 to the financial statements.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing the reappointment of Arthur Andersen as auditors of the company will be put to the annual general meeting.

21 Holborn Viaduct
London
EC1A 2DY

By order of the Board,



T. Hagen
Director

14 March 1996

Auditors' report

London

To the Shareholders of DNO Offshore Limited:

We have audited the financial statements on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 circumstances of the company, 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.

Fundamental uncertainty - going concern

At 31 December 1995 the company had net liabilities of £263,000. As explained in note 1b), the net liabilities of the company continue to be funded by loans from the parent company, DNO ASA. The directors have taken the view that requests for repayment of these loans will continue to be limited to the amount of available free cash flow arising in the company. Accordingly the financial statements are prepared on the going concern basis. Our opinion is not qualified in this respect.

Auditors' report (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 1995 and of its profit for the year 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

14 March 1996

Profit and loss account

For the year ended 31 December 1995

	Notes	1995 £'000	1994 £'000
Turnover	1g & 2	3,576	3,409
Production costs		(2,142)	(2,089)
Depletion	5	(917)	(866)
Gross profit		517	454
Release of exploration cost provision		20	-
Administration costs	3	(28)	(52)
Operating profit		509	402
Exchange (loss)/gain		(15)	242
Interest receivable		13	12
Interest payable and similar charges	8	(279)	(277)
Profit on ordinary activities before taxation	3	228	379
Taxation	4	(90)	(2)
Profit on ordinary activities after taxation		138	377
Accumulated deficit, at beginning of year		(6,841)	(7,218)
Accumulated deficit, at end of year		(6,703)	(6,841)

There were no recognised gains or losses during either year other than the profit for the year.

There were no movements in shareholders' funds other than the profit for the year.

The accompanying notes to the financial statements are an integral part of these financial statements.

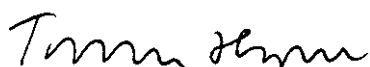
Balance sheet

31 December 1995

	Notes	1995 £'000	1994 £'000
Fixed assets			
Oil and gas properties	5	5,932	5,845
		<u>5,932</u>	<u>5,845</u>
Current assets			
Crude oil stocks		45	51
Debtors	6	530	494
Cash at bank and in hand		-	407
		<u>575</u>	<u>952</u>
Creditors: Amounts falling due within one year	7	(4,047)	(3,794)
Net current liabilities		<u>(3,472)</u>	<u>(2,842)</u>
Total assets less current liabilities		2,460	3,003
Creditors: Amounts falling due after more than one year	8	(2,069)	(2,963)
Provisions for liabilities and charges	9	(654)	(441)
Net liabilities		<u>(263)</u>	<u>(401)</u>
Capital and reserves			
All equity:			
Called-up share capital	10	6,440	6,440
Profit and loss account		<u>(6,703)</u>	<u>(6,841)</u>
Total shareholders' funds		<u>(263)</u>	<u>(401)</u>

Signed on behalf of the Board

T. Hagen



Director

14 March 1996

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to financial statements

31 December 1995

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

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

b) Going concern

The financial statements are prepared on the going concern basis of accounting. The net liabilities of the company continue to be funded by loans from the immediate parent company and from DNO ASA.

These intercompany loans are interest free and are repayable on demand. However, based on informal assurances from the management of the immediate parent company and from DNO ASA, the directors, in adopting the going concern basis of preparation of these financial statements, continue to take the view that requests for repayments will continue to be limited to the amount of available free cash flow arising in the company.

c) Foreign currencies

Balances denominated in foreign currencies are translated at the rate ruling at the balance sheet date. Transactions during the year are translated at the rate prevailing on the date of the transaction. Gains or losses on translation are credited or charged to the profit and loss account.

d) Oil and gas interests

Exploration and development costs are accounted for under the successful efforts method, as set out in the Statement of Recommended Practice "Accounting for oil and gas exploration and development activities" published by the Oil Industry Accounting Committee. In particular:

- i. All costs, including direct labour costs, relating to licence and data acquisition, exploration, appraisal and development costs are initially capitalised on a field by field basis.

Such costs are carried forward provided that either they are expected to be recouped through successful development, or by disposal of the related interests, or if the exploration and evaluation activities have not, at the balance sheet date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations are continuing. To the extent that the directors believe such costs will not be recouped, they are written off.

- ii. Capitalised costs are depleted using the unit of production method based on estimates of proven and probable reserves on a field by field basis. Any changes in estimates are accounted for prospectively.
- iii. Costs relating to well maintenance are charged to expense as incurred.

Notes to financial statements (continued)

1 Accounting policies (continued)

e) Abandonment costs

Provision for site restoration costs is made on a unit of production basis over the life of each field.

f) Taxation

Corporation tax payable is provided on taxable profit at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Provision is made for Petroleum Revenue Tax ("PRT") over the expected life of each field on a unit of production basis. Credit is taken for available reliefs. Any changes in estimates are accounted for prospectively.

g) Turnover

Sales of oil and gas production represent the company's share of production for the year based on sales of crude oil adjusted for production underlift or overlift.

h) Stocks

Crude stocks are stated at market value as at the balance sheet date, as recommended by the Oil Industry Accounting Committee's Statements of Recommended Practice.

i) Cash flow statement

In accordance with Financial Reporting Standard No.1 ("FRS 1"), the company is exempt from the requirements of this Standard to provide a cash flow statement since a consolidated statement which meets the requirements of FRS 1 is given in the accounts of the company's immediate parent company, DNO Onshore Limited.

2 Turnover

	1995 £'000	1994 £'000
By destination:		
Sales within the UK	1,670	1,556
Sales to Europe	1,906	1,853
	<hr/> 3,576	<hr/> 3,409

All turnover originates in the UK.

Notes to financial statements (continued)

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1995 £'000	1994 £'000
Depletion of oil and gas properties	917	866
Depreciation of other fixed assets	-	1
Provision for abandonment	125	108
Auditors' remuneration:		
i. audit fees	19	15
ii. other	14	28

The company has no employees and has therefore incurred no staff costs in either year.

There were no emoluments paid or payable to any director in either year.

4 Taxation

Corporation Tax

The company has no liability to current corporation tax, other than £4,000 (1994 - £2,000) in respect of bank deposit interest, nor any potential deferred corporation tax liability, due to the availability of cumulative corporation tax losses available for offset against future profits of the same trade.

Petroleum Revenue Tax

Provision of £88,000 (1994 - £nil) has been made during the year for deferred PRT, calculated on a life of field unit of production basis. A cash repayment of £2,000 was received during the year (1994 - £nil) in respect of previous years.

Notes to financial statements (continued)

5 Fixed assets

	Oil and gas proved properties £'000
Cost	
At 1 January 1995	10,749
Additions	1,004
At 31 December 1995	<u>11,753</u>
Depletion and depreciation	
At 1 January 1995	4,904
Charge for the year	917
At 31 December 1995	<u>5,821</u>
Net book value	
At 1 January 1995	<u>5,845</u>
At 31 December 1995	<u>5,932</u>

6 Debtors

	1995 £'000	1994 £'000
Amounts falling due within one year:		
Trade debtors	508	478
Due from group undertaking	5	-
VAT	6	4
Prepayments and accrued income	11	12
	<u>530</u>	<u>494</u>

Notes to financial statements (continued)

7 Creditors: Amounts falling due within one year

	1995 £'000	1994 £'000
Bank loan (see note 8)	917	910
Trade creditors	478	376
Amounts due to other group undertakings	1,870	1,464
Amount due to immediate parent company	551	888
Accruals and other creditors	231	156
	<u>4,047</u>	<u>3,794</u>

The amounts due to the immediate parent company, DNO Onshore Limited, and to other group undertakings, are interest free and have no fixed repayment date.

8 Creditors: Amounts falling due after more than one year

	1995 £'000	1994 £'000
Bank loan	<u>2,069</u>	<u>2,963</u>

The bank loan is the amount drawn down in US dollars against an \$8.2 million (1994 - \$8.2 million) loan facility provided by Christiania Bank OG Kreditkasse.

The loan is secured by fixed and floating charges over the company's interests in the Markham and Claymore fields and is repayable quarterly in variable instalments to 31 December 1998 depending on the progress of the Markham development. The loan is subject to a guarantee provided by the intermediate parent company, DNO ASA.

Interest on the loan is payable at US dollar LIBOR plus up to 2%. All interest payable in each year is in respect of this loan.

9 Provisions for liabilities and charges

	Deferred PRT £'000	Abandonment £'000	Total £'000
Provision at 1 January 1995	-	441	441
Charge for the year	<u>88</u>	<u>125</u>	<u>213</u>
Provisions 31 December 1995	<u>88</u>	<u>566</u>	<u>654</u>

The company's share of estimated total abandonment costs is £1.5 million.

Notes to financial statements (continued)

10 Called-up share capital

	1995 £'000	1994 £'000
<i>Authorised</i>		
12,175,000 ordinary shares of £1 each	12,175	12,175
16,100,000 ordinary shares of £0.40 each	6,440	6,440
	<hr/> 18,615	<hr/> 18,615
<i>Allotted and fully-paid</i>		
16,100,000 ordinary shares of £0.40 each	<hr/> 6,440	<hr/> 6,440

11 Capital commitments

At 31 December 1995, the company's capital commitments totalled approximately £600,000 (1994 - £2.1 million) in outstanding obligations for exploration and development activities.

The company has certain obligations to perform minimum exploration work and expend minimum amounts of money on such work in petroleum exploration permits, production and related licence areas. These obligations may be varied from time to time subject to approval and are expected to be fulfilled in the normal course of operations of the company.

12 Ultimate parent company

The company's ultimate parent company is Marine Investments S.A., a company incorporated in Luxembourg. The accounts of this company are not available to the public.

The largest group into which the accounts of the company are consolidated is headed by DNO ASA, a company incorporated in Norway, and whose registered office is at Stranden 1 - Aker Brygge, 0250 Oslo 2, Norway. The smallest group into which they are consolidated is that headed by its immediate parent company, DNO Onshore Limited, whose registered office is at 21 Holborn Viaduct, London EC1A 2DY. Accounts for these companies are available to the public at the given addresses.