Company Registered No. 1421481

VIKING UK GAS LIMITED

DIRECTOR'S REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2008

CONTENTS

DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

The director present his report and the audited financial statements of Viking UK Gas Limited for the year ended 31 December 2008.

Principal activities

The principal activity of the Company continues to be that of exploring for and developing gas assets in the United Kingdom. The Company also operates an electricity generating power station at Knapton, North Yorkshire on behalf of RGS Energy Limited, a fellow group company.

Review of the business

The Company supplied gas on a continuous basis from the start of the year through to September 2008. The well performance started to deteriorate in 2008 and it was determined that an additional well would need to be drilled to maintain the normal level of production. This well is currently being drilled. An improved supply of gas is expected in June 2009, subject to the successful completion of the new well.

Financial restructuring

In May 2009, as a part of a larger financial restructuring of the Company's parent undertakings and the group of which the Company is a subsidiary, the Company was the subject of a successful financial restructuring. The key elements of the financial restructuring were –

- The waiver, on 22 May 2009, of £2.6 million of intercompany liabilities owed to UK Energy Systems Limited and £0.5 million of intercompany liabilities owed to RGS Energy Limited;
- A cash injection of £8.5 million raised by the issue of additional share capital on 26 May 2009; and
- The waiver, on 26 May 2009, of £18.7 million of intercompany liabilities owed to UK Energy Systems Limited.

A 31 December 2008 pro-forma balance sheet, prepared assuming that the financial restructuring occurred on 31 December 2008 shows the Company to have pro-forma net assets of £7.5 million.

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 Company made a loss of £3.6 million in the year. At the balance sheet date, the Company had net current liabilities of £20.9 million, a shareholders' deficit of £22.8 million, and was reliant on the on-going financial support of its parent undertakings.

The director has reviewed the company's forecasts for the period to May 2010 and believes that, as a result of the financial restructuring referred to above, with the support of UK Energy Systems Limited, the Company can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on a going concern basis, for the foreseeable future.

In forming his opinion, the Director has (i) sought and received assurances from UK Energy Systems Limited that they are able to and will provide the required financial support to the Company and its immediate parent undertaking to enable a reliable and continuous supply of gas to be provided to RGS Energy Limited; and (ii) reviewed the UK Energy Systems Limited group's financial projections which support the assurances provided by UK Energy Systems Limited.

DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

The company is reliant on being able to provide a reliable, continuous supply of gas to RGS Energy Limited. While there is a proposed programme of work which would require a significant amount of capital investment funded by UK Energy Systems Limited there is still a significant risk on the future availability and reliability of the supply of gas.

If the adoption of the going concern basis was inappropriate, adjustments, which it is not practicable to quantify, would be required, including those to write down assets to their recoverable value, to reclassify fixed assets as current assets and to provide for any further liabilities that may arise.

Future developments
The Company will continue to explore and develop its gas assets in North Yorkshire.

The Company plans to drill a minimum of three new wells within the next twelve months to establish a robust and continuous supply of gas to RGS Energy Limited, thereby enabling RGS Energy Limited to maximise the full capacity of its gas turbine generating station. Although the Director expects the drilling program to be successful, the drilling of new wells has risks attached and there can be no certainty that the drilling program will deliver the volumes of gas that are anticipated.

Results and dividends
The results for the year are set out on page 6.

The director does not recommend the payment of a dividend.

Directors
The following directors have held office since 1 January 2008:

- Mr J. P. Reynolds
- Mr J.A. Lobban (resigned 30 November 2008)
- Mr J.B. Boffardi (resigned 5 January 2008)

Statement as to disclosure of information to the Auditor
The director who was in office on the date of approval of these financial statements has confirmed as far as he is aware that there is no relevant audit information of which the auditor is unaware. The director has confirmed that he has taken all the steps that ought to have been taken as a director in order to make himself aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor
Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Director's responsibilities
The director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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.

DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

In preparing these financial statements, the director is required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgments and estimates that are reasonable and prudent;
c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records that 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 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.

On behalf of the board

Joseph P. Reynolds 28 May 2009
J.P. Reynolds
Director

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

We have audited the financial statements on pages 6 to15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2008 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

28 May 2009

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	2007 £
TURNOVER	2	2,643,632	3,929,819
Cost of sales		(4,183,624)	(7,336,965)
GROSS LOSS		(1,539,992)	(3,407,146)
Administrative expenses		(483,316)	(1,041,634)
Impairment provision		(52,771)	(6,313,194)
OPERATING LOSS		(2,076,079)	(10,761,974)
Interest receivable	4	301,136	200,193
Interest payable	5	(1,806,722)	(1,210,486)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,581,665)	(11,772,267)
Tax on loss on ordinary activities	8	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	17	**(3,581,665)**	**(11,772,267)**

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 8 to 15 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	2008 £	2007 £
FIXED ASSETS			
Tangible assets	9	38,225	75,367
CURRENT ASSETS			
Stocks	10	270,892	251,085
Debtors	11	600,807	479,345
Cash at bank and in hand		261,554	338,882
		1,133,253	1,069,312
CREDITORS: amounts falling due within one year	12	(22,023,085)	(18,496,744)
NET CURRENT LIABILITIES		(20,889,832)	(17,427,432)
TOTAL ASSETS LESS CURRENT LIABILITIES		(20,851,607)	(17,352,065)
CREDITORS: amounts falling due after more than one year	13	(6,061)	(27,111)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(1,979,019)	(1,875,846)
NET LIABILITIES		**(22,836,687)**	**(19,255,022)**
CAPITAL AND RESERVES			
Called up share capital	16	3,100,000	3,100,000
Capital contribution	17	5,789,842	5,789,842
Profit and loss account (deficit)	17	(31,726,529)	(28,144,864)
SHAREHOLDERS' DEFICIT	18	**(22,836,687)**	**(19,255,022)**

The financial statements were approved and authorised for issue by the board of directors on 28 May 2009 and were signed on its behalf by:

Joseph P. Reynolds
J.P. Reynolds
Director

28 May 2009
Date

The notes on pages 8 to 15 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the prior year.

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 Company made a loss of £3.6 million in the year. At the balance sheet date, the Company had net current liabilities of £20.9 million, a shareholders' deficit of £22.8 million, and was reliant on the on-going financial support of its parent undertakings.

The director has reviewed the company's forecasts for the period to May 2010 and believes that, as a result of the financial restructuring referred to in note 20 to the financial statements, with the support of UK Energy Systems Limited, the Company can continue as a going concern, and has the necessary funding available to ensure that it continues to trade on a going concern basis, for the foreseeable future.

In forming his opinion, the Director has (i) sought and received assurances from UK Energy Systems Limited that they are able to and will provide the required financial support to the Company and its immediate parent undertaking to enable a reliable and continuous supply of gas to be provided to RGS Energy Limited; and (ii) reviewed the UK Energy Systems Limited group's financial projections which support the assurances provided by UK Energy Systems Limited.

The company is reliant on being able to provide a reliable, continuous supply of gas to RGS Energy Limited. While there is a proposed programme of work which would require a significant amount of capital investment funded by UK Energy Systems Limited there is still a significant risk on the future availability and reliability of the supply of gas.

If the adoption of the going concern basis was inappropriate, adjustments, which it is not practicable to quantify, would be required, including those to write down assets to their recoverable value, to reclassify fixed assets as current assets and to provide for any further liabilities that may arise.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with UK law and applicable accounting standards, and the Statement of Recommended Practices for accounting for oil and gas exploration, development, production and decommissioning activities (SORP 2001).

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 it is a wholly owned subsidiary whose financial results are consolidated in the financial statements of its ultimate parent company.

The parent undertaking of the largest group for which accounts are drawn up, and of which the Company is a member, is US Energy Systems, Inc., a company incorporated in Delaware, USA.

Turnover

Turnover represents amounts receivable for the Company's petroleum products, net of trade discounts and VAT.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Tangible fixed assets

(a) Exploration and development of discovery fields

Capitalisation of petroleum expenditure: The Company follows the full cost method of accounting under which costs relating to the acquisition, exploration, appraisal and development of petroleum interests are capitalised.

Depreciation 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.

(b) Other fixed assets

Fixtures, fittings & equipment, Plant and machinery and Motor vehicles 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	4 years	Straight line
Fixtures, fittings & equipment	3 years	Straight line
Plant and Machinery	3 to 15 years	Straight line
Decommissioning asset	3 to 10 years	Straight line

Impairment

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.

Stocks

Stocks comprise spare parts for the maintenance of the gas well sites, tubulars and drilling equipment. Stocks are valued at the lower of cost and net realisable value.

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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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.

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.

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.

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. Turnover
All of the Company's sales occur within the United Kingdom.

3. Operating loss

	2008	2007
	£	£
Operating loss is stated after charging:		
Fees for the audit of the Company	24,000	24,000
Depreciation of tangible fixed assets		
- owned assets	795,363	3,372,554
- leased assets	20,709	19,770
Operating leases – land and buildings	173,861	105,745
Impairment of tangible fixed assets	52,771	6,313,194

4. Interest receivable

	2008	2007
	£	£
Group undertakings	294,289	200,193
Other	6,847	-
	301,136	**200,193**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

5. Interest payable

	2008	2007
	£	£
Group undertakings	1,698,117	1,105,418
Interest on finance agreements	5,415	4,344
Bank overdraft	17	2,930
Discount on decommissioning provision	103,173	97,794
	1,806,722	**1,210,486**

6. Staff costs

	2008	2007
	£	£
Wages and salaries	900,046	1,076,742
Social security costs	100,578	125,111
Other pension costs	72,127	59,117
	1,072,751	**1,260,970**

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

	2008	2007
Management and administrative	6	6
Technical and operations	15	15
	21	**21**

7. Directors' remuneration

	2008	2007
	£	£
Emoluments	**154,248**	**239,691**

	2008	2007
	£	£
Company pension contributions to money purchase pension schemes	**12,375**	**13,500**

During the year retirement benefits were accruing to two directors (2007: two) in respect of money purchase pension schemes.

8. Tax on loss on ordinary activities

The tax charge is made up as follows:	2008	2007
	£	£
Current tax:		
UK corporation tax at the rate of 50% (2007: 50%)	-	-
Deferred tax:		
UK tax	-	-
Tax on loss on ordinary activities	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Factors affecting current tax charge:

	2008 £	2007 £
Loss on ordinary activities before tax	(3,581,665)	(11,762,267)
Loss on ordinary activities at the UK tax rate of 50% (2007: 50%)	(1,790,833)	(5,881,133)
Effect of:-		
Non deductible Impairment of fixed assets		3,156,597
Expenses / (income) not deductible for tax purposes	51,587	53,673
Ring fence expenditure supplement	(712,353)	(553,816)
Capital allowances and other timing differences	(349,227)	(3,619,533)
Tax losses carried forward	2,800,826	6,844,212
Current tax charge for the period	-	-

The Company has a deferred tax asset at 31 December 2008 of £19.7 million (2007: £17.6 million) consisting of tax losses and accelerated capital allowances. This asset has not been recognised under FRS19, as it is not certain that the Company will have sufficient taxable profits in the foreseeable future for these to be utilised.

The supplementary charge applicable to the company's oil and exploration activities has increased to 20% (previously 10%) for profits arising from 1 January 2006. This charge is in addition to the standard rate of corporation tax in the UK of 30%. The potential deferred tax asset has therefore been calculated at 50%, the rate at which the deferred tax assets would reverse in the future.

9. Tangible fixed assets

	Exploration and development of discovery fields £	Decomm-issioning asset £	Plant and machinery £	Motor vehicles £	Furniture, fittings and computers £	Total £
Cost						
At 1 January 2008	27,408,018	1,778,053	1,117,840	131,221	12,724	30,447,856
Additions	783,270	-	55,607	-	-	838,877
Disposals	-	-	-	(34,879)	-	(34,879)
At 31 December 2008	28,191,288	1,778,053	1,173,447	96,342	12,724	31,251,854
Depreciation						
At 1 January 2008	27,408,018	1,778,053	1,117,840	62,480	6,098	30,372,489
Impairment provision	-	-	52,771	-	-	52,771
Charge for the year	783,270	-	2,836	26,521	3,445	816,072
Disposals	-	-	-	(27,703)	-	(27,703)
At 31 December 2008	28,191,288	1,778,053	1,173,447	61,298	9,543	31,213,629
Net book amount at 31 December 2008	-	-	-	**35,044**	**3,181**	**38,225**
Net book amount at 31 December 2007	-	-	-	**68,741**	**6,626**	**75,367**

The net book value of motor vehicles includes £35,041 (2007: £61,248) in respect of assets held under finance leases. The depreciation charge for the year in respect of these assets was £20,709 (2007: £19,770).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

10. Stocks

	2008	2007
	£	£
Spare parts	119,102	94,615
Tubulars and drilling equipment	151,790	156,470
	270,892	**251,085**

11. Debtors

	2008	2007
	£	£
Amounts owed by group undertakings	-	34,001
Prepayments and accrued income	318,691	305,713
Other debtors	282,116	139,631
	600,807	**479,345**

12. Creditors: amounts falling due within one year

	2008	2007
	£	£
Bank overdraft	51	32
Obligations under finance lease	20,881	18,979
Trade creditors	80,864	254,898
Amounts owed to group undertakings	21,800,568	18,031,626
Taxation and social security	47,497	74,881
Other creditors	10,119	11,904
Accruals and deferred income	63,105	104,424
	22,023,085	**18,496,744**

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

	2008	2007
	£	£
Amounts due under finance leases	**6,061**	**27,111**

	2008	2007
Amounts repayable by instalments falling due:	£	£
In more than one but not more than two years	6,061	20,881
In more than two but not more than five years	-	6,230
	6,061	**27,111**

14. Securities and guarantees

On 7 August 2006, the Company entered into first and second legal mortgages, first and second fixed charges and first and second floating charges over all of its assets. These charges are entered into as security for loans to the Company's intermediate parent, GBGH LLC, certain of which loans were utilised by GBGH LLC to provide funding for the Company and other subsidiaries of GBGH LLC incorporated in England & Wales. The total amount of group borrowing on which these assets are charged at 31 December 2008 is $164.4 million (2007: $151.0 million).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

15. Provisions for liabilities and charges

	2008 £	2007 £
Decommissioning costs	1,979,019	1,875,846

16. Share capital

	2008 £	2007 £
Authorised		
3,100,000 Ordinary shares of £1 each	3,100,000	3,100,000
Allotted, issued and fully paid		
3,100,000 Ordinary shares of £1 each	3,100,000	3,100,000

On 26 May 2009, the Company issued 8,500,000 Ordinary shares of £1 each, at par, for cash consideration.

17. Reserves

	Profit & loss Account £	Capital Contribution £
At 1 January 2008	(28,144,864)	5,789,842
Loss for the year	(3,581,665)	-
At 31 December 2008	**(31,726,529)**	**5,789,842**

18. Shareholders' deficit

	2008 £	2007 £
Loss for the year	(3,581,665)	(11,772,267)
Opening shareholders' deficit	(19,255,022)	(7,482,755)
Closing shareholders' deficit	**(22,836,687)**	**(19,255,022)**

19. 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 Group Companies.

20. Post balance sheet events

In May 2009, as a part of a larger financial restructuring of the Company's parent undertakings and the group of which the Company is a subsidiary, the Company was the subject of a successful financial restructuring. The key elements of the financial restructuring were –

- The waiver, on 22 May 2009, of £2.6 million of intercompany liabilities owed to UK Energy Systems Limited and £0.5 million of intercompany liabilities owed to RGS Energy Limited;
- A cash injection of £8.5 million raised by the issue of additional share capital on 26 May 2009; and
- The waiver, on 26 May 2009, of £18.7 million of intercompany liabilities owed to UK Energy Systems Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

21. Ultimate parent company

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 US Energy Systems Inc., a company incorporated in the United States of America. Group accounts for US Energy Systems, Inc. may be obtained from: 40 Tower Lane, Avon, Connecticut 06001, USA.