DOMINION ENERGY PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE FIRST PERIOD TO
30 June 2001

REGISTERED NUMBER 03986182

**DOMINION ENERGY PLC**

HEAD OFFICE
77 South Audley Street
London
W1K 1JG

**DOMINION ENERGY PLC**

**COMPANY INFORMATION**

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**Directors**
Mr M Alikhani *(Executive Director)*
Mr H Jelsma *(Chief Executive)*
Mr R Stubbs *(Executive Director)*
Mr G Verspyck *(Non-executive Director)*

**Company Secretary**
Mr K Sodha

**Registered Office**
77 South Audley Street
London
W1K 1JG

**Auditors**

Henderson & Co.
87 Devonshire Road
Palmers Green
London
N13 4QU

**DOMINION ENERGY PLC**

**DIRECTORS REPORT**

The Directors present their report and the financial statements of the Company for the first period from incorporation on 28 April 2000 to 30 June 2001.

**PRINCIPAL ACTIVITY**

Dominion Oil USA Corporation was acquired on 20 September 2000 from the parent undertaking, Tecteon PLC. Since that date the Company has been engaged in the acquisition, development and production of reserves of oil and natural gas in the United States of America.

**REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

During the year overall oil production was higher than the previous year with average price achieved almost similar. The gas production was considerably down. However, an increase in gas prices resulted in a higher turnover compared with prior year.

For the next financial year an increase in production in both oil and gas with also an increase in gas prices is expected to offset the recent decline in the oil prices.

**RESULTS AND DIVIDENDS**

The results for the year are set out in the group profit and loss account on page 6. The directors do not recommend the payment of a dividend on the ordinary shares.

**DIRECTORS AND THEIR INTERESTS**

The Directors in office during the period were as follows:

| | |
|---|---|
| Mr M Alikhani *(Executive Director)* | (appointed 28 April 2000) |
| Mr H Jelsma *(Chief Executive)* | (appointed 15 February 2001) |
| Mr R Stubbs *(Executive Director)* | (appointed 15 February 2001) |
| Mr G Verspyck *(Non-executive Director)* | (appointed 28 April 2000) |

In accordance with the Articles of Association, Mr. Alikhani retires and, being eligible, offers himself for re-election. None of the directors standing for re-election has a service contract with the Company.

The interests (as defined in the Companies Act 1985) of the directors holding office at 30 June 2001 in the share capital of Dominion Energy PLC are shown below.

| | Ordinary shares of 1p<br>30 June 01 |
|---|---|
| Henk Jelsma | 1,382,200 |
| Masoud Alikhani | 573,000 |
| Robert Stubbs | 416,667 |

The interests (as defined in the Companies Act 1985) of the directors in the holding company at 30 June 2001 are shown in the accounts of the holding company, Tecteon PLC.

**DOMINION ENERGY PLC**

**DIRECTORS REPORT**

**Share options**

Directors' options over ordinary shares outstanding at 30 June 2001 are disclosed in note 13 to the financial statements.

**ENVIRONMENTAL MATTERS**

The group undertakes a review of the environmental matters prior to deciding to proceed with an investment in a new operation. Once an investment is made the environmental implications are monitored on a regular basis and where necessary improvements are proposed.

**CREDITOR PAYMENT POLICY**

The Company doers not follow any formal payment code but agrees terms with suppliers when opening an account, to ensure is made aware of these terms and to comply with payment terms agreed.

**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 as at the end of the financial year and of the profit and loss of the company for that period. In preparing those financial statements, the Directors confirm:

- suitable accounting policies have been selected and applied them consistently;
- judgements and estimates made are reasonable and prudent;
- applicable accounting standards have been followed,
- the financial statements have been prepared on a going concern basis

The Directors are also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group to enable them to ensure that the financial statements comply with the stated accounting policies. They are also responsible for safeguarding the assets of the Company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**DOMINION ENERGY PLC**

**DIRECTORS REPORT**

**AUDITORS**

A resolution proposing the re-appointment of Henderson & Co. as auditors will be put to the shareholders at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by

M. Alikhani
Director
77 South Audley Street
London W1K 1JG

14 December 2001

**DOMINION ENERGY PLC**

**REPORT OF THE AUDITORS**
**to the members of Dominion Energy PLC.**

We have audited the financial statements on pages 6 to 8, which have been prepared under the historical cost convention and on the basis of the accounting policies as set out on pages 9 and 10.

**Respective responsibilities of directors and auditors**

As described on page 3, 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 financial 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 relating 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 of the state of affairs of the company and of the group as at 30 June 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Henderson & Co.

Henderson & Co.
Chartered Accountants & Registered Auditors
87 Devonshire Road
London
N13 4QU

21 December 2001

**DOMINION ENERGY PLC**

## GROUP PROFIT AND LOSS ACCOUNT
**for the period to 30 June 2001**

| | | Notes | 30.06.01 |
|---|---|---|---|
| TURNOVER | | 2 | 205,551 |
| Depreciation and amortisation | 40,612 | | |
| Goodwill on consolidation written back | ( 24,000) | | 16,612 |
| Other cost of sales | | | 144,875 |
| GROSS PROFIT | | | 44,064 |
| Administrative expenses | | | (142,414) |
| OPERATING LOSS | | | ( 98,350) |
| Interest receivable and similar income | | 4 | 42 |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | 3 | ( 98,308) |
| Tax on loss on ordinary activities | | 5 | 0 |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | | ( 98,308) |
| Loss per share | | 6 | 0.126p |

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
**for the period to 30 June 2001**

| | |
|---|---|
| Loss for the financial year | ( 98,308) |
| Exchange differences on translation into sterling of net assets of subsidiary undertaking | ( 1,354) |
| Total gains and losses recognised in the financial year | ( 99,662) |

During the period the Company acquired the subsidiary, Dominion Oil USA Corporation, on 20 September 2000 from the parent undertaking, Tecteon PLC. The above profit and loss account incorporates the results of the subsidiary from 21 September 2000 to 30 June 2001.
The whole of the Group's turnover relates to the acquired subsidiary.

All activities of the Company are continuing.

**DOMINION ENERGY PLC**

**GROUP BALANCE SHEET**
**as at 30 June 2001**

| | Notes | 30.06.01 £ |
|---|---|---|
| **FIXED ASSETS** | | |
| Intangible assets | 8 | ( 135,299) |
| Tangible assets | 9 | 807,225 |
| | | 671,926 |
| **CURRENT ASSETS** | | |
| Debtors | 11 | 81,970 |
| Cash at bank and in hand | | 9,598 |
| | | 91,568 |
| **CREDITORS** | | |
| Amounts falling due within one year | 12 | ( 12,987) |
| **NET CURRENT LIABILITIES** | | 78,581 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 750,507 |
| **CAPITAL AND RESERVES** | | |
| Called up share capital | 13 | 782,732 |
| Share premium account | 14 | 67,437 |
| Exchange reserves | 14 | ( 1,354) |
| Profit and loss account | 14 | ( 98,308) |
| **SHAREHOLDERS' FUNDS** | | 750,507 |

These financial statements were approved by the Board of Directors on 14 December 2001 and signed on behalf of the Board of Directors.

M. Alikhani

**DOMINION ENERGY PLC**

**COMPANY BALANCE SHEET**
**as at 30 June 2001**

| | Notes | 30.06.01 £ |
|---|---|---|
| **FIXED ASSETS** | | |
| Investment in subsidiary undertaking | 10 | 736,513 |
| | | 736,513 |
| **CURRENT ASSETS** | | |
| Debtors | 11 | 46,606 |
| Cash at bank and in hand | | 1,662 |
| | | 48,268 |
| **CREDITORS** | | |
| Amounts falling due within one year | 12 | ( 9,140) |
| **NET CURRENT ASSETS** | | 39,128 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 775,641 |
| **CAPITAL AND RESERVES** | | |
| Called up share capital | 13 | 782,732 |
| Share premium account | 14 | 67,437 |
| Profit and loss account | 14 | ( 74,528) |
| **SHAREHOLDERS' FUNDS** | | 775,641 |

These financial statements were approved by the Board of Directors on 14 December 2001 and signed on behalf of the Board of Directors.

M. Alikhani

DOMINION ENERGY PLC

## NOTES TO THE FINANCIAL STATEMENTS
**for the period to 30 June 2001**

### 1 ACCOUNTING POLICIES

*Basis of Accounting*

The financial statements have been drawn up under the historic cost convention, in accordance with applicable accounting standards and on the going concern basis since the directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which demonstrate that the Company will be able to continue to trade and to meet its liabilities as they fall due.

*Basis of consolidation*

The group financial statements consolidate the financial statements of the Company and its operating subsidiary undertaking. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

*Foreign Exchange*

Transactions of UK companies denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of transaction. Any foreign exchange differences are taken to the profit and loss account. Balances at the year end denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

Assets and liabilities of foreign currency subsidiary undertakings are translated into sterling at closing rates of exchange; profit and loss financial statements are translated at average rates of exchange. The exchange differences resulting from the translation at closing rates of net investments in foreign currency subsidiary undertakings, together with the differences between profit and loss statements translated at average rates and at closing rates, are taken to reserves and separately identified as an Exchange Reserve.

*Investments*

Investments held as fixed assets are stated at cost less provision for any impairment to their carrying values.

# NOTES TO THE FINANCIAL STATEMENTS
**for the period to 30 June 2001**

**(Accounting Policies - continued)**

*Tangible fixed asset*
Costs of acquiring undeveloped acreage and of successful exploration and appraisal activity are capitalised. Unsuccessful exploration and appraisal activity and geology and geophysical costs are expensed.

Costs of acquiring developed acreage, drilling and equipping productive wells, including development dry holes, related production facilities and related pre-production interest are capitalised. All capitalised exploration and development costs are classified as tangible assets.

*Depreciation and amortisation*
The acquisition costs of acreage for which there are no developed plans are amortised over the lives of the related leases or such shorter periods as necessary to fully depreciate the acreage. Depreciation and amortisation of successful exploration and appraisal acreage, wells and oil and gas production equipment is determined under the unit of production method based on the estimated proven producing oil and gas reserves by field. Under the unit or production method, the effects of any changes in estimates are dealt with prospectively. Additional depreciation charges are provided for field assets where the directors consider that there has been an indicator of impairment and the test, carried out in accordance with FRS11, results in an impairment of the asset. Depreciation of other minor fixed assets is determined under the straight line method using various rates of up to 20 per cent., designed to write assets off over their estimated useful lives.

*Deferred taxation*
Deferred taxation is provided at the anticipated tax rates on 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 probable that a liability or asset will crystallise in the future.

DOMINION ENERGY PLC

**NOTES TO THE FINANCIAL STATEMENTS**
**for the period to 30 June 2001 (continued)**

## 2 TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the amount of goods sold and services provided during the year stated net of any value added tax or any royalty interests to external customers. All of the group's turnover is derived from the production and sale of oil and natural gas in the United States of America.

| | Profit (Loss) analysis 30.06.01 £ | Asset (liability) analysis 30.06.01 £ |
|---|---|---|
| US activities | ( 47,780) | 838,742 |
| UK Head office | ( 50,570) | ( 97,833) |
| Loss on ordinary activities | ( 98,350) | 740,909 |
| | | |
| US net interest expense | 0 | |
| UK net interest income | 42 | |
| Loss on ordinary activities before taxation | ( 98,308) | |
| | | |
| Total operating assets | | 740,909 |
| Cash | | 9,598 |
| Total net assets | | 750,507 |

## 3 OPERATING LOSS

| | | 30.06.01 £ |
|---|---|---|
| Operating loss is stated after charging: | | |
| In cost of sales: | | |
| Depreciation | | 40,612 |
| Goodwill written back | | ( 24,000) |
| In administrative expenses: | | |
| Auditors' remuneration | - audit services | 2,000 |
| | - non audit services | 3,000 |

## 4 INTEREST

| | 30.06.01 £ |
|---|---|
| Interest receivable | 42 |
| Interest payable | 0 |
| Net interest receivable | 42 |

DOMINION ENERGY PLC

NOTES TO THE FINANCIAL STATEMENTS
for the period to 30 June 2001 (continued)

## 5 TAXATION

No liability to U.K. Corporation Tax or US Federal Tax arises based on the results for the period. The group is carrying tax losses in both the UK and the US, available for relief against future taxable profits.

## 6 (LOSS)/EARNINGS PER ORDINARY SHARE

The loss per share of 0.126 pence has been calculated on the loss of £98,308 and on 78,273,167 ordinary shares, being the weighted average number of ordinary shares issued during the year ended 30 June 2001

## 7 DIRECTORS AND STAFF

The emoluments and remunerations for the period for Directors and staff is as follows:

| | 30.06.01 |
|---|---|
| | £ |
| Highest paid director | 53,640 |
| Staff costs including directors | |
| Wages and salaries | 53,640 |
| | 53,640 |

The average monthly number of persons employed by the group during the period, including executive directors

| | 30.06.01 |
|---|---|
| Management | 1 |

## 8 INTANGIBLE ASSETS - GOODWILL

| | |
|---|---|
| *Group* | |
| *Cost* | |
| Additions during the period | ( 159,299) |
| Released to profit and loss account | 24,000 |
| As at 30 June 2001 | ( 135,299) |

The negative goodwill arises as a result of the price paid for acquiring the subsidiary being less than the aggregate fair value of the subsidiary's net total assets.
Negative goodwill arose in respect of non-monetary assets and will be released to profit and loss account on a basis consistent with the declining reserves. Reserves are considered to decline considerably within 5 years, over which period the negative goodwill will be adjusted on a straight-line basis.

**NOTES TO THE FINANCIAL STATEMENTS**
**for the period to 30 June 2001 (continued)**

## 9 TANGIBLE ASSETS

| *Group* | Producing fields £ |
|---|---|
| *Cost:* | |
| Subsidiary acquired during the period | 5,814,812 |
| At 30 June 2001 | 5,814,812 |
| *Depreciation and amortisation* | |
| Subsidiary acquired during the period | 4,966,975 |
| Charge for the period | 40,612 |
| at 30 June 2001 | 5,007,587 |
| *Net book value* | |
| At 30 June 2001 | 807,225 |

## 10 INVESTMENTS

| *Company* | *Loans* |
|---|---|
| *Cost:* | £ |
| Loan | 736,513 |
| At 30 June 2001 | 736,513 |
| *Carrying amount:* | |
| At 30 June 2001 | 736,513 |

*Subsidiary undertakings:*
The Company owns 100 per cent of the ordinary share capital of Dominion Oil USA Corp. which is a US company incorporated in Texas, whose principal activity is the acquisition, development and production of oil and gas in the United States of America.

The investment represents loans to the subsidiary company acquired during the period.

**DOMINION ENERGY PLC**

**NOTES TO THE FINANCIAL STATEMENTS**
**for the period to 30 June 2001 (continued)**

## 11 DEBTORS

| | Group | Company |
|---|---|---|
| | £ | £ |
| Amount due to parent undertaking | 81,522 | 46,156 |
| Other debtors | 448 | 450 |
| | 81,970 | 46,606 |

## 12 CREDITORS

| - amounts falling due within one year | Group | Company |
|---|---|---|
| | £ | £ |
| Trade creditors | 7,504 | 3,657 |
| Accruals | 5,483 | 5,483 |
| | 12,987 | 9,140 |

## 13 SHARE CAPITAL

| | No. | £ |
|---|---|---|
| Authorised: | | |
| Ordinary shares of 1p each | 200,000,000 | 2,000,000 |
| | 200,000,000 | 2,000,000 |
| Issued and fully paid: | | |
| Ordinary shares of 1p each | 78,273,167 | 782,732 |
| | 78,273,167 | 782,732 |

The following is a summary of the changes in the issued share capital of the Company since incorporation.

* At the date of incorporation, 28 April 2000, two ordinary shares were allotted at a subscription price of £1 each.
* On 26 April 2001, the authorised share capital of the Company was sub-divided from 1,000 shares of £1 each to 100,000 shares of 1p each.
* On 27 April 2001, the authorised share capital of the Company was increased from £1,000 to £2,000,000 by the creation of a further 199,900,000 shares of 1p ranking pari passu with the existing 1p shares. Also, on 27 April 2001, 4,999,800 shares were allotted to Tecteon PLC (formerly Startup Station PLC).
* On 27th June 2001, a further 69,901,300 shares were allotted to Tecteon PLC, in consideration of the release of an inter-company debt. These shares and the shares allotted on 27 April 2001 were fully paid up at that date.
* On 29th June 2001, 3,371,867 shares were issued to certain Directors and consultants in lieu of services rendered by them and fully paid up.

## 13 SHARE CAPITAL (continued)

During the year, the following share options were granted to the Directors and employees or consultants of the company over an aggregate number of ordinary shares which is not more than 10% of the issued share capital

| Name | Number of options |
|---|---|
| M Alikhani | 1,764,706 |
| P Edmonds | 441,176 |
| H Jelsma | 1,764,706 |
| R Stubbs | 1,323,529 |
| K Sodha | 1,323,529 |
| G Verspyck | 441,176 |
| Support staff from Tecteon PLC | 441,178 |
| | 7,500,000 |

Note: Mr P Edmunds acts as a consultant to the Company from time to time and has been instrumental in developing the Company's business relations with Iran.

The above options are all exercisable as follows:

| Percentage of options | Exercise date | Exercise price |
|---|---|---|
| 50% | 6th July 2003 | 3p |
| 50% | 6th July 2004 | 5p |

DOMINION ENERGY PLC

**NOTES TO THE FINANCIAL STATEMENTS**
**for the period to 30 June 2001 (continued)**

## 14 RESERVES

*Group*

| | Share premium £ | Exchange reserve £ | Profit and loss account £ |
|---|---|---|---|
| Foreign currency translation differences | - | 1,354 | - |
| Retained loss for the year | - | - | 98,308 |
| Issue of shares | 67,437 | - | - |
| At 30 June 2001 | 67,437 | 1,354 | 98,308 |

*Company*

| | Share premium £ | Profit and loss account £ |
|---|---|---|
| Retained loss for the year | - | 74,528 |
| Issue of shares | 67,437 | - |
| At 30 June 2001 | 67,437 | 74,528 |

## 15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Jun-01 £ |
|---|---|
| Total recognised gains and losses | ( 99,662) |
| Issue of shares | 2 |
| Conversion of loan to shares | 850,167 |
| At 30 June 2001 | 750,507 |

## 16 FINANCIAL INSTRUMENTS

In reporting financial instruments, the group has taken advantage of the exemption available under FRS13 not to provide numerical disclosures in relation to short term debtors and creditors.

The group's financial instruments comprise borrowings and cash. The main purpose of those financial instruments is to provide financing for the group's operations. The group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations.

It is, and has been throughout the period under review, the group's policy that no dealing in financial instruments shall be undertaken, except for the purpose of hedging the group's financial risks.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board considers each of these risks on a regular basis and the group's policy stance towards each of these risks has remained unchanged during the year.

*Interest rate risk*
The group finances its operations through a mixture of equity capital, cash, bank overdraft and bank borrowings. The group has financed its acquisitions primarily through the issue of shares and share warrants. The group borrows in the desired currencies mainly at floating rates of interest, to manage the group's exposure to interest rate fluctuations.

*Foreign currency risk*
Although the group is based in the UK, it has significant investment in the US. As a result, the group's sterling balance sheet can be affected by movements in the US Dollar exchange rate although movements in the year have not been material.

## 17 RELATED PARTY TRANSACTIONS

There were no related party transactions during the period.

## 18 Parent undertaking and controller

Tectecon PLC (formerly Startup Station PLC), a company registered in the United Kingdom, is the Company's parent undertaking. No shareholder has overall control over Tecteon PLC.