FIFE ENERGY LIMITED
(Registered Number : 137656)

DIRECTOR'S REPORT AND ACCOUNTS

31 DECEMBER 1995

## FIFE ENERGY LIMITED

## DIRECTOR'S REPORT AND ACCOUNTS
## 31 DECEMBER 1995

**Directors**

| | |
|---|---|
| HH Graves (USA) | (resigned 13 December 1995, reappointed 15 December 1995) |
| JE Scott | (appointed 12 December 1995, resigned 18 December 1995) |

**Bankers**

Bank of Scotland
9 Falkland Gate
Glenrothes
KY7 5LW

**Auditors**

Price Waterhouse
Albany House
58 Albany Street
Edinburgh
EH1 3QR

**Secretary**

W & J Burness WS
16 Hope Street
Edinburgh
EH2 4DD

**Registered Office**

Westfield Development Centre
Cardenden
Fife
KY5 0HP

## FIFE ENERGY LIMITED

## DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 1995

The director submits his report and audited accounts for the year ended 31 December 1995.

### TRADING RESULTS

The results for the year are set out in the profit and loss account on page 6. The loss for the year of £26,097 (1994: loss £631,157) has been taken to reserves. The director is unable to recommend the payment of a dividend (1994: £Nil).

### PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company is the development of an Integrated Gasification Combined Cycle power station in Fife, Scotland. As the initial stage of this development project, the company has acquired a coal gasification plant at Westfield in Fife, Scotland. This will be used to provide gas for a power station which is to be built on the site. During the year the company continued negotiations with a number of interested parties on contracts relevant to the 75MW and 350MW development projects. The director is confident that agreements for the purchase of gas supplies and the construction of the power station will be reached in 1996.

### FIXED ASSETS

Information relating to fixed assets is given in Notes 8 and 9 to the accounts.

### DIRECTORS AND THEIR INTERESTS

The directors of the company who held office during the year are shown on page 1.

The director has no interests in the shares of the company. Details of his interests in the company's parent company, Global Energy Europe Limited, are set out in the accounts of that company.

### SHARE CAPITAL

Details of the company's share capital are disclosed in Note 12.

### DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts 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 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;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## FIFE ENERGY LIMITED

## DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

### DIRECTORS' RESPONSIBILITIES (CONTINUED)

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 accounts 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

Price Waterhouse have indicated their willingness to continue in office. A resolution regarding their reappointment will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

17 ~~8~~ May 1996

W & J Burness WS
16 Hope Street
Edinburgh
EH2 4DD

Albany House
58 Albany Street
Edinburgh
EH1 3QR

Telephone: 0131-557-9900
Telex: 884657 PRIWAT G
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*Price Waterhouse*

## AUDITORS' REPORT TO THE MEMBERS OF FIFE ENERGY LIMITED

We have audited the accounts on pages 6 to 18 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

### Respective responsibilities of directors and auditors

As described on pages 2 and 3 the company's directors are responsible for the preparation of 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 director 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.

### Fundamental uncertainty and going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the continuation of the company's bank overdraft and loan facility and the possible outcome of negotiations on project development funding for the company. Should the company be unable to successfully conclude negotiations relevant to the funding of its main development project, the company may be unable to continue trading. Details relating to this fundamental uncertainty are described in Note 1 on pages 8 and 9. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

### Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

17 ~~8~~ May 1996

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58 Albany Street
Edinburgh
EH1 3QR

Telephone: 0131-557-9900
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*Price Waterhouse*

## AUDITORS' REPORT TO THE DIRECTORS OF FIFE ENERGY LIMITED PURSUANT TO SECTION 248 (3) OF THE COMPANIES ACT 1985

We have examined the financial statements of the company and its subsidiary for the year ended 31 December 1995.

**Basis of opinion**

The scope of our work for the purpose of this report was limited to confirming that the company is entitled to exemption from preparing group financial statements.

**Opinion**

In our opinion the company is entitled to the exemption from preparing group financial statements conferred by Section 248 of the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

17 ~~8~~ May 1996

## FIFE ENERGY LIMITED

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 1995

| | Note | 1995<br>£ | 1994<br>£ |
|---|---|---|---|
| Turnover | | - | - |
| Cost of sales | | - | - |
| **GROSS PROFIT** | | - | - |
| Administrative expenses | | (481,233) | (541,632) |
| Other operating income | | 4,084 | 16,699 |
| **OPERATING LOSS** | | (477,149) | (524,933) |
| Profit on sale of land | 9 | 1,000,000 | - |
| Interest receivable | | 10,729 | 8,028 |
| Interest payable | 6 | (324,472) | (112,245) |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | 3 | 209,108 | (629,150) |
| Taxation | 7 | (235,205) | (2,007) |
| **LOSS FOR THE FINANCIAL YEAR** | | (26,097) | (631,157) |
| **RETAINED LOSS BROUGHT FORWARD** | | (1,372,004) | (740,847) |
| **RETAINED LOSS CARRIED FORWARD** | | (1,398,101) | (1,372,004) |

There were no recognised gains or losses other than the loss for the financial year (1994: £Nil). All results arose from continuing operations.

The notes on pages 8 to 18 form part of these accounts.

## FIFE ENERGY LIMITED

## BALANCE SHEET AT 31 DECEMBER 1995

| | Note | | 1995 | | 1994 |
|---|---|---|---|---|---|
| | | | £ | | £ |
| **FIXED ASSETS** | | | | | |
| Intangible assets | 8 | | 1,062,949 | | 1,000,000 |
| Tangible assets | 9 | | 11,271,201 | | 10,864,739 |
| Investment in subsidiary undertaking | 19 | | 2 | | - |
| | | | 12,334,152 | | 11,864,739 |
| **CURRENT ASSETS** | | | | | |
| Other debtors | | 172,278 | | 36,011 | |
| Cash at bank | | - | | 110,862 | |
| | | 172,278 | | 146,873 | |
| **CREDITORS (amounts falling due within one year)** | 10 | (5,903,367) | | (4,376,902) | |
| **NET CURRENT LIABILITIES** | | | (5,731,089) | | (4,230,029) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | 6,603,063 | | 7,634,710 |
| **CREDITORS (amounts falling due after more than one year)** | 11 | | (7,779,088) | | (8,784,638) |
| | | | (1,176,025) | | (1,149,928) |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | 12 | | 56,588 | | 56,588 |
| Share premium | | | 165,488 | | 165,488 |
| Profit and loss account | | | (1,398,101) | | (1,372,004) |
| Shareholders' funds | 18 | | (1,176,025) | | (1,149,928) |

The notes on pages 8 to 18 form part of these accounts.
APPROVED BY THE DIRECTOR ON 8 MAY 1996

HH Graves
DIRECTOR

## 1 FUNDAMENTAL UNCERTAINTY AND GOING CONCERN

During 1995, the company met its day to day working capital requirements through bank loan and overdraft facilities, both of which are now repayable on demand, and from funding from Energy Investors Fund (EIF). At 31 December 1995 the company had exceeded its overdraft limit of £600,000 and had fully utilised its loan facility.

The company's principal activity is the development of an Integrated Gasification Combined Cycle (IGCC) power station in Fife, Scotland ("the Fife Development Project"). Funding for the development of the 75MW and 350MW projects has not yet been obtained. Prior to any provision of funding, the bankers require the company to enter into satisfactory contracts with counterparties acceptable to the syndicate for:

- the engineering procurement and construction (EPC) of the IGCC power station
- the operation and maintenance of the power station
- the off-take of power
- fuel feedstock components including sludge powder and a carbon source.

The bankers will then seek syndicated funding, which will be subject to satisfactory completion of due diligence procedures and a facility agreement.

The company is currently engaged in negotiations for these contracts and the director is confident that these will be in place and the project funding facility secured (achieving "Financial Closure") by 30 September 1996. However, at present, the bank funding arrangement in relation to the Fife Development Project is not a definitive funding commitment.

On 8 December 1994, the company secured a US $1 million loan facility to enable it to continue to meet specified day to day working capital requirements through to 31 August 1995. As explained more fully in Note 14, the availability of US $550,000 of this funding was conditional on the company achieving certain targets in relation to the Fife Development Project which have not yet been achieved. The funds however have been made available. The US $1 million facility is repayable on the earlier of Financial Closure and the 8 May 1996. The director is satisfied that there will be continued support from this loan facility but no extension has been formally agreed. On 10 August 1995, a further facility of US $525,000 was made available by EIF. Drawdown was conditional on the achievement of certain targets. These have not been met but the funds have been made available. This additional loan facility is repayable on the earlier of Financial Closure or 8 June 1996.

The Fife Development Project will involve the use of certain technology and intellectual property rights owned by third parties. Contractual arrangements for the use of these rights have not yet been finalised.

These accounts have been prepared on the going concern basis on the assumption that the company's bankers will continue to extend the existing loan and overdraft facilities and that the project development funding referred to above will be secured. The continued availability of the US $1 million and the US $525,000 loan facilities and the technology and intellectual property rights are also assumed.

## 1 FUNDAMENTAL UNCERTAINTY AND GOING CONCERN (CONTINUED)

Should the bank withdraw existing facilities, or the contracts and consequential bank funding for the development project not be secured by 30 September 1996, or the US $1,525,000 loan facilities be withdrawn, or the technology and intellectual property rights not be made available, the company may be unable to continue trading. Should the company be unable to continue trading, adjustments would have to be made to reduce the value of certain assets to their recoverable amount, to provide for any further liabilities which might arise, and to reclassify fixed assets and long term liabilities as current assets and liabilities.

The accounts do not include any adjustments that would result from the withdrawal of the current bank loan and overdraft facilities by the company's bankers or the unavailability of project development funding, the additional loan facility or the technology and intellectual property rights.

## 2 ACCOUNTING POLICIES

### Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

### Intangible fixed assets

Intangible fixed assets relating to licence agreements are stated at cost less amortisation. Intangible fixed assets are amortised over the period of the licence agreement to which they relate.

### Tangible fixed assets and depreciation

Tangible fixed assets including capitalised development costs are stated at cost less depreciation.

No depreciation is provided on assets under development. Depreciation of other fixed assets is provided by equal annual instalments to write off their book value over their estimated useful lives.

The depreciation basis for office equipment is 25% straight line.

### Deferred taxation

Provision for deferred taxation is made in respect of timing differences, only if a liability or asset is likely to arise in the foreseeable future. Provision is made at the corporation tax rates at which such timing differences are expected to reverse.

### Foreign exchange

Transactions undertaken in foreign currencies are translated using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities at the balance sheet date are translated at the closing rate. Exchange differences arising are reported as part of the results for the year.

### Cash flow statement

A cash flow statement has not been prepared as the company is a small company as explained in Note 17.

FIFE ENERGY LIMITED

# NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

## 3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

| The loss on ordinary activities before taxation is stated after charging/(crediting): | 1995 £ | 1994 £ |
|---|---|---|
| Employment agency costs | 6,100 | 77,971 |
| Depreciation | 1,750 | 1,750 |
| Auditors' remuneration - for audit services | 10,000 | 23,859 |
| Gain on disposal of assets | (4,084) | (16,699) |
| Exchange loss on EIF loan | 2,074 | - |

## 4 EMPLOYEE COSTS

| | £ | £ |
|---|---|---|
| Wages and salaries | 173,508 | 66,465 |
| Social security costs | 21,791 | 6,776 |
| Pension costs | - | - |
| | 195,299 | 73,241 |
| The average number of employees during the year was | 6 | 6 |

In addition £53,186 (1994 : £32,960) was recharged to the company by the parent company for services provided by their employee.

## 5 DIRECTORS' EMOLUMENTS

No emoluments were received by any director during the period in respect of services to the company. The management services of the director have been charged to the company by the parent company as detailed in Note 13.

## 6 INTEREST PAYABLE

| | | 1995 £ | 1994 £ |
|---|---|---|---|
| Interest on bank overdraft | | 85,300 | 69,427 |
| Interest on bank loan | | 216,199 | 173,543 |
| Interest on capital creditor in the year | | 284,333 | 402,150 |
| | | 585,832 | 645,120 |
| Interest waived under agreement with creditor: | 1995 | (261,360) | - |
| | 1994 | - | (354,750) |
| | 1993 | - | (178,125) |
| | | 324,472 | 112,245 |

## 6 INTEREST PAYABLE (CONTINUED)

Included within interest on capital creditor is an amount of £261,360 (1994: £354,750) relating to a capital creditor of £5,750,000 (included within Note 11) which was payable under the 1992 agreement with British Gas plc when certain aspects of the development project were satisfactorily completed. As more fully explained in Note 9, an agreement with British Gas plc was signed on the 5 June 1995 which substantially amended the terms and conditions under the original agreement. This included a waiver of the £261,360 of interest charges due on the capital creditor of £5,750,000 which had fallen due by 5 June 1995 for the current year.

## 7 TAXATION

| | 1995<br>£ | 1994<br>£ |
|---|---|---|
| UK corporation tax @ 33% (1994: 33%) | 235,205 | 2,007 |

No provision for deferred taxation is considered necessary due to the availability of tax losses.

## 8 INTANGIBLE FIXED ASSETS

During 1992 the company entered into an agreement whereby it was entitled to make use of certain licensed processes on payment of £1 million to British Gas plc. As more fully explained in Note 9, payment of the £1 million had been deferred in 1993 until the occurrence of certain events. Under the new agreement with British Gas plc, a payment of £200,000 is required by 31 March 1996. This payment has not been made but British Gas plc have provided an extension for payment until 30 June 1996. If the default continues, British Gas plc would be entitled to enter the premises and remove all proprietary equipment. The balance of £800,000 is contingent on Financial Closure and test runs being completed satisfactorily. The full amount of £1 million has been recorded in the accounts as the director is confident that Financial Closure will be achieved.

In addition, in 1995 the company paid $100,000 directly to Global Energy Inc, the ultimate parent company, in respect of a technology licence agreement between the company and Global Energy Europe Limited and a similar licence agreement between Global Energy Europe Limited and Global Energy Inc. This payment is a non refundable advance payment. An agreement, which will require the company to pay 2% of the future revenue stream, is currently being renegotiated to a payment of £1 million for the licence. This renegotiation has not yet been formally documented by the parties. The existing agreement is wholly contingent on the achievement of Financial Closure. This additional liability has not, therefore, been recorded in these accounts.

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

### 9 TANGIBLE FIXED ASSETS

| | Assets under development | Office Equipment | Total |
|---|---|---|---|
| **Cost** | £ | £ | £ |
| At 1 January 1995 | 10,861,531 | 7,000 | 10,868,531 |
| Additions | 408,212 | - | 408,212 |
| At 31 December 1995 | 11,269,743 | 7,000 | 11,276,743 |
| **Depreciation** | | | |
| At 1 January 1995 | - | 3,792 | 3,792 |
| Charge for the period | - | 1,750 | 1,750 |
| At 31 December 1995 | - | 5,542 | 5,542 |
| **Net Book Amount** | | | |
| At 31 December 1995 | 11,269,743 | 1,458 | 11,271,201 |
| At 31 December 1994 | 10,861,531 | 3,208 | 10,864,739 |

Assets under development represent costs incurred in relation to the Fife Development Project to develop the IGCC power station in Fife, Scotland. The principal element of the costs incurred to date relates to the Westfield Development Centre.

During 1992, the company entered into an agreement to acquire a 125 year leasehold interest in the Westfield Development Centre from British Gas plc. The cost of the leasehold interest in the Westfield Development Centre and certain licences (included in intangible fixed assets) was £10 million.

Under the terms of the agreement with British Gas plc, the company paid £1.8 million to British Gas plc on entry to the premises, with a further £0.5 million falling due on completion of certain aspects of the power generation development project or on the sale of the company's interest in the Westfield Development Centre.

Under the 1992 agreement, a further £7.7 million, including £1 million relating to the licences referred to in Note 8, were payable to British Gas plc when certain other aspects of the development project were satisfactorily completed. In addition, the company had an option to purchase the Westfield Development Centre after settling the £10 million for the leasehold interest.

On 5 June 1995, a supplementary agreement with British Gas plc was signed by the company which amended the terms of the 1992 agreement. Under the new agreement, the liability of £7.7m has been split into two components: £200,000 initial payment for the licence, and £7.5m balance. The liability of £7.7m is now contingent on achievement of Financial Closure and test runs being completed satisfactorily. The director is confident that Financial Closure will be achieved and that this project will occur. These liabilities have therefore been recognised in the balance sheet at 31 December 1995.

## 9 TANGIBLE FIXED ASSETS (CONTINUED)

The charge of £0.5 million and 50% of the accrued interest was settled in December 1995. The balance of interest is due to British Gas plc by 30 April 1998. This enabled the company to purchase the freehold title to the Westfield Development Centre. The company obtained clear title to the site with the exception that British Gas plc reserve the right to enter and remove the proprietary equipment relating to the gasification process.

The 1995 agreement requires that the payment of £200,000 for licences is made no later than 31 March 1996. This payment has not been made but British Gas plc have provided an extension for payment until 30 June 1996. If the default continues, British Gas plc would be entitled to enter the premises and remove all proprietary equipment. The proprietary equipment has an effective scrap value but is essential for operation of the development projects. This liability and the rights arising from default have not yet been renegotiated.

The principal components of tangible and intangible assets at 31 December 1995 comprise:

| | £million |
|---|---|
| Payment made on entry to the premises | 1.80 |
| Final charge | 0.50 |
| Additional miscellaneous costs of development (1992 - 1995) | 2.22 |
| Intangible asset payment | 0.26 |
| Liability on Financial Closure: | |
| - intangible asset | 0.80 |
| - assets under development | 6.75 |
| | 12.33 |

The director is of the opinion that the value of the site and associated assets is significantly greater than the carrying value in the accounts.

In December 1995, the company sold for £1 million, six acres of the Westfield Development site for use as a 10 MW Biomass facility. The consideration was paid in two payments: £865,000 in December 1995 and £135,000 in January 1996. This has been disclosed in the profit and loss account as an exceptional item as the transaction is not in the course of normal operating activities. The deferred payment has been included in debtors at the year end.

## 10 CREDITORS (amounts falling due within one year)

| | 1995<br>£ | 1994<br>£ |
|---|---|---|
| Bank loan | 2,355,602 | 2,139,403 |
| Bank overdraft | 513,711 | 652,778 |
| Amounts owed to parent company | 746,209 | 675,196 |
| Trade creditors | 218,647 | 215,867 |
| EIF loan facility | 966,290 | 287,632 |
| EIF convertible loan stock (Note 14) | 307,105 | 303,611 |
| Accruals | 59,705 | 48,890 |
| Other creditors | 50,002 | 50,000 |
| Corporation tax | 238,730 | 3,525 |
| Amounts owed to ultimate parent company (Note 13) | 447,366 | - |
| | 5,903,367 | 4,376,902 |

## 10 CREDITORS (amounts falling due within one year) (CONTINUED)

The bank loan is now secured by way of a bond and floating charge over the assets of the company and a standard security against the company's freehold and leasehold interest in the Westfield Development Centre, following the purchase of the freehold title in December 1995. £1 million of the loan was repayable on 11 February 1994 with the remainder due by 11 November 1994. These repayment terms were not met and the company is currently negotiating an extension of its existing banking facilities as part of the overall financing arrangements for the Fife Development Project.

The company received £50,000 during the year as a deposit for purchase of part of the site under an option agreement between the company and Global Environmental Limited. The option agreement is intended to allow certain Fife assets to be sold to Global Environmental Limited for £2 million.

## 11 CREDITORS (amounts falling due after more than one year)

| | 1995<br>£ | 1994<br>£ |
|---|---|---|
| Capital creditor | 8,040,448 | 8,858,990 |
| Waiver of interest on capital creditor under 1995 agreement | (261,360) | (532,875) |
| Amounts due to Global Energy Inc. | - | 458,523 |
| | 7,779,088 | 8,784,638 |

The capital creditor relates to the acquisition cost of the Westfield Development Centre and certain licences plus accrued interest thereon. Payment of £500,000 of this amount plus interest at the Bank of Scotland base rate plus 4% was deferred in a 1992 agreement with British Gas plc until certain aspects of the development project are complete or the Westfield Development Centre was sold to a third party. The £500,000 was secured by way of a standard security charge over the company's leasehold interest in the Westfield Development Centre in favour of British Gas plc. As explained in more detail in Note 9, a subsequent agreement with British Gas plc was signed by the company which waived the interest on the remainder of the purchase consideration of £7.5m. In addition, the liability of £7.5m has become partly contingent on Financial Closure and completion of the test run and as the director is confident that this project will achieve Financial Closure and satisfactory test runs, the liability has been recorded in the accounts. The charge of £500,000 plus £70,000 of the accrued interest was settled in December 1995 enabling the company to obtain freehold title to the property. The balance of interest is due to British Gas plc by 30 April 1998.

The amount due to Global Energy Inc has been deferred by agreement until the company achieves Financial Closure (defined in Note 1) on the Fife Development Project. The exchange difference arising on translation of the year end balance has been recorded as a development cost within Note 9.

## 12 SHARE CAPITAL

| | 1995 £ | 1994 £ |
|---|---|---|
| Authorised | | |
| Ordinary £1 shares | 56,587 | 56,587 |
| A ordinary £0.0001 shares | 3 | 3 |
| | 56,590 | 56,590 |
| Allotted and fully paid | | |
| Ordinary shares of £1 each | 56,587 | 56,587 |
| A ordinary shares of £0.0001 | 1 | 1 |
| | 56,588 | 56,588 |

At an extraordinary general meeting on 7 January 1994, a resolution was approved increasing the authorised share capital of the company to 100,000 ordinary shares of £1 each.

On 12 September 1994, 3,192 ordinary shares of £1 each were issued for a cash consideration of £168,680. On 4 October 1994, 3,395 ordinary shares were issued at £1 per share in respect of the funding agreement detailed in Note 14.

At an extraordinary general meeting on 8 December 1994, special resolutions were passed whereby 3 unissued ordinary shares of the company of £1 each were each sub-divided into 10,000 A ordinary shares of £0.0001 each and 43,410 unissued ordinary shares of £1 each were cancelled. The A ordinary shares are to rank pari passu with the other ordinary shares of the company. On 8 December 1994, 9,986 A ordinary shares of £0.0001 each were issued at £0.0001 per share in respect of the funding agreement detailed in Note 14.

## 13 RELATED PARTY TRANSACTIONS

During the year ended 31 December 1995, the company incurred costs amounting to £251,873 (1994: £257,094) in respect of technical and advisory services provided by Global Energy Inc in relation to the Fife Development Project. These costs have been capitalised as assets under development within tangible fixed assets.

By agreement, £447,366 of these costs recorded in creditors (1994: £458,523) will become payable upon the company achieving Financial Closure on the Fife Development Project. This element is included within creditors due within one year as the director is confident Financial Closure will be achieved in 1996.

## 14 FUNDING AGREEMENTS

Under an agreement dated 7 January 1994, the company issued £240,000 of secured loan stock to Murray Ventures PLC. The loan stock was interest free, redeemable at par on ninety days notice, served at any time on or after 7 July 1994, or on demand at any time on the occurrence of an event of default. The loan stock was secured by a floating charge over the property and assets of the company. Under an agreement dated 4 October 1994, the £240,000 of secured loan stock was redeemed at par and the floating charge cancelled.

## 14 FUNDING AGREEMENTS (CONTINUED)

On 4 October 1994, the company entered into an agreement with Energy Investors Fund II LP (EIF) to issue US $475,000 of convertible secured loan stock and 3,395 ordinary shares of £1 each for cash. The loan stock is interest free, convertible to a 7% interest in the ordinary shares of the company at Financial Closure on the Fife Development Project (defined in Note 1) and is secured by way of a floating charge over the property and assets of the company. The loan stock is redeemable at par on the earlier of the company achieving Financial Closure on the Fife Development Project or 8 May 1996. The loan stock holder is currently considering conversion of the loan stock to ordinary shares.

Under a development loan and subscription agreement dated 8 December 1994, EIF provided a further loan facility of US $1 million to the company and subscribed for 9,986 A ordinary shares of £0.0001 each for £1 in cash.

The loan facility granted under this agreement is available to the company as follows:

- US $450,000 on 8 December 1994
- US $350,000 on the company completing a power purchase agreement and agreements for the supply of sludge powder feedstock in relation to the Fife Development Project.
- US $200,000 on the company securing a definitive commitment letter in respect of the bank funding facility for the Fife Development Project.

The loan drawn down at any time under this agreement is interest free until it becomes repayable under the terms of the agreement, thereafter interest accrues at 17% per annum. The amount of the loan drawn at any time is secured by a floating charge over the property and assets of the company and becomes repayable on the earlier of the company achieving Financial Closure (defined in Note 1) in respect of the Fife Development Project or 8 May 1996. The director is satisfied that there will be continued support from this loan facility but no extension has been formally agreed.

The entire principal of the loan outstanding at any time can be converted, at the option of the lender, into A ordinary shares of the company of £0.0001 each at a rate equivalent to ¾% of the existing issued ordinary share capital of the company at the date of conversion per US $50,000 of loan outstanding.

On 10 August 1995, the company secured an additional facility of US $525,000 for developing the Fife Development Project until the earlier of the date of the closing of the senior project financing or 8 June 1996. Drawdown of elements of both facilities was conditional on achieving particular project targets by 1 October 1995 and 1 November 1995. These project targets were not achieved but EIF have not restricted the funds. This facility was varied by agreement in January 1996 and the facility increased from $525,000 to $750,000.

## 15 PARENT COMPANY

The company's immediate parent company is Global Energy Europe Limited, a company registered in England. The company's ultimate parent company is Global Energy Inc, a company incorporated in the USA.

FIFE ENERGY LIMITED

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1995 (CONTINUED)

### 16 CONTINGENT LIABILITIES AND CLAIMS

An interdict against the company was obtained on 10 June 1994 by a shareholder in the company's parent company and subsequently revoked.

As detailed in Notes 8 and 9, the company has entered into a new agreement with British Gas plc under which the £7.5m of costs payable to British Gas plc for the Westfield Development Centre have become payable on Financial Closure and completion of specific test runs. These costs have been included in the 1994 and 1995 accounts as the director is confident that Financial Closure and test runs will be achieved satisfactorily.

In addition to an accrual for electricity, there is a further disputed amount of £18,000 in respect of metering charges. Management consider that this payment is not justified. Accordingly this amount has not been recognised in these accounts.

EIF have provided funding as detailed in Note 14. In addition they have the right to payment on Financial Closure of up to £250,000 in respect of funding and legal costs incurred in providing these facilities. The director expects that this right will be exercised in full at Financial Closure, although there are no details at present as to the extent of the liability. This liability has not, therefore, been recorded in the accounts.

The company has negotiated an agreement for a technology licence. As highlighted in Note 8, a $100,000 non refundable payment has been made in the year in respect of this licence. The renegotiation of this licence has not yet been formally documented by the parties. The existing agreement is wholly contingent on the achievement of Financial Closure. This additional liability has not, therefore, been recorded in these accounts.

The company is currently negotiating EPC contracts for development of the site. The director estimates that the combined contract value may exceed £60 million. This liability has not yet been formally contracted, will be wholly contingent on Financial Closure and has not, therefore, been recorded in the accounts.

### 17 CASH FLOW STATEMENT

The director has taken advantage of the exemption conferred by FRS1 from the need to prepare a cash flow statement on the grounds that the company is small as defined in S246 to S249 of the Companies Act 1985.

### 18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 1995 | 1994 |
|---|---|---|
| | £ | £ |
| Loss for the financial year | (26,097) | (631,157) |
| Issue of share capital | - | 6,588 |
| Share premium on issue of shares | - | 165,488 |
| Opening shareholders' funds | (1,149,928) | (690,847) |
| Closing shareholders' funds | (1,176,025) | (1,149,928) |

## 19 SUBSIDIARY UNDERTAKING

In December 1995, the company purchased 100% of the share capital of Fife Electric Limited, a company registered in Scotland which has elected not to trade.

This is a single member company with an issued share capital of £2. These shares have not yet been paid for and the amount due is included within other creditors in Note 10.

Financial information is presented about the parent company, Fife Energy Limited, as an individual undertaking and not about its group. The director has taken advantage of the exemption conferred by S248 of the Companies Act 1985 from the need to prepare group accounts on the grounds that the group is small.

## 20 GUARANTEE AND SECURITIES

The company has provided to The Bank of Scotland a cross guarantee between Fife Electric Limited and Fife Energy Limited. The charge on a cash deposit of £100,000 was released by The British Linen Bank Limited during the year.