

Fife Energy Limited
Director's report and financial statements
for the year ended 31 December 2002

Registered Number 137656



Fife Energy Limited

Director's report and financial statements

for the year ended 31 December 2002

Contents

Director and Advisors for the year ended 31 December 2002.....	1
Director's report for the year ended 31 December 2002	2
Independent auditors' report to the members of Fife Energy Limited	3
Profit and loss account for the year ended 31 December 2002.....	5
Balance sheet as at 31 December 2002.....	6
Notes to the financial statements for the year ended 31 December 2002	7

Fife Energy Limited

Director and Advisors for the year ended 31 December 2002

Director

H H Graves (USA)

Secretary

Burness

50 Lothian Road

Festival Square

EDINBURGH

EH3 9WJ

Auditors

PricewaterhouseCoopers LLP

32 Albyn Place

ABERDEEN

AB10 1YL

Bankers

Bank of Scotland

9 Falkland Gate

GLENROTHES

KY7 5LW

Registered Office

Westfield Development Centre

Cardenden

FIFE

KY5 0HP

Fife Energy Limited

Director's report for the year ended 31 December 2002

The director presents his report and the audited financial statements of the company for the year ended 31 December 2002.

Principal activities and review of the business

The principal activity of the company is the development of synthetic gas and power production facilities at its Westfield site in Fife, Scotland.

Results and dividends

The profit and loss account for the year is set out on page 5. The loss for the financial year amounted to £76,929 (2001 - £275,684) and has been transferred from reserves. The director does not recommend payment of a dividend (2001 £nil).

Directors and his interests

The director who held office during the year is detailed on page 1.

H H Graves 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 financial statements of that company.

Statement of director's responsibilities

Company law requires the director to prepare financial statements for each financial year that 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. The director is also required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business for the foreseeable future.

The director confirms that suitable accounting policies have been used and applied consistently. He also confirms that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The director is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enables him to ensure that the financial statements comply with the Companies Act 1985. He is 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.

By order of the Board



Director

Fife Energy Limited

Independent auditors' report to the members of Fife Energy Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

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 judgments 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. However, the evidence available to us was limited because we have been unable to obtain sufficient information and explanation regarding the amounts owed to the parent undertaking. While the amounts recorded in the books of the parent undertaking have been adjusted to bring them in line with those of the company, we have been unable to satisfy ourselves that the balances are properly stated.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fife Energy Limited

Fundamental uncertainty and going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the ongoing funding of the company. Should the company be unable to secure adequate funding, the company may well be unable to continue trading. Details relating to these fundamental uncertainties are described in Note 1 on page 7. In particular your attention is drawn to the need for the other group companies to achieve further development targets and financial closure of other phases prior to being able to make any distribution to shareholders.

In view of the significance of these uncertainties, we consider that they should be drawn to your attention but our opinion is not qualified in this respect.

Qualified opinion arising from limitation in audit scope

Except for any adjustment that might have been found to be necessary had we been able to obtain sufficient evidence concerning the amounts owed to the parent undertaking, in our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2002 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to the amounts owed to the parent undertaking and referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purposes of our audit
- we were unable to determine whether proper accounting records had been kept.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Aberdeen

Fife Energy Limited

Profit and loss account for the year ended 31 December 2002

	Note	2002 £	2001 £
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(191,989)	(105,554)
Other operating income		214,257	278,122
Operating profit		22,268	172,568
Interest receivable and similar income	6	245,258	495
Interest payable and similar charges	7	(344,455)	(448,747)
Loss on ordinary activities before taxation	3	(76,929)	(275,684)
Taxation	8	-	-
Loss for the financial year	16	(76,929)	(275,684)
Retained loss brought forward		(1,888,168)	(1,612,484)
Retained loss carried forward		(1,965,097)	(1,888,168)

All items dealt with in arriving at the loss for the financial year relate to continuing operations.

The company has no recognised gains and losses in the year other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

Fife Energy Limited

Balance sheet as at 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
Fixed assets					
Intangible assets	9		-		-
Tangible assets	10		792,028		792,028
Investments	11		2		2
			792,030		792,030
Current assets					
Debtors	12	2,278,757		2,265,244	
Cash at bank and in hand		3,603		1,025	
		2,282,360		2,266,269	
Creditors: amounts falling due within one year	13	(4,817,411)		(4,724,391)	
Net current liabilities			(2,535,051)		(2,458,122)
Net liabilities			(1,743,021)		(1,666,092)
Capital and reserves					
Called up share capital	15		56,588		56,588
Share premium account			165,488		165,488
Profit and loss account – deficit			(1,965,097)		(1,888,168)
Total shareholders' deficit	16		(1,743,021)		(1,666,092)

Approved by the director on 6 JULY 2005

Director



Fife Energy Limited

Notes to the financial statements for the year ended 31 December 2002

1 Fundamental Uncertainty and Going Concern

At 31 December 2002, the company had a deficit on its profit and loss account of £1,965,097 and net liabilities of £1,743,021.

The ultimate parent company has confirmed that it intends to provide sufficient funds to enable the company to discharge its liabilities over the next 12 months.

A 400MW project is being developed by Fife Electric Limited, a related company. The director believes that financial closure of that project by Fife Electric Limited will occur now that the Section 36 approval to construct has been received. The closure of that project would enable Fife Electric Limited to exercise an option to purchase the land and relevant generating licence from Fife Energy Limited. This will provide additional funds for the company to meet its liabilities.

The financial statements for this company have been prepared on the going concern basis on the assumption that:

- The parent undertaking will provide working capital to meet the liabilities and ongoing expenses of the company.
- Fife Electric Limited will achieve financial closure of the 400 MW project, exercise the option and provide a revenue stream to the company. After discharging Fife Energy Limited's liabilities, any surplus funds would enable a distribution to be made to shareholders.

In the absence of future revenues from the subsidiaries and ongoing support by the parent undertaking, the company may be unable to continue trading and adjustments to the value of assets to their recoverable amount and provision of further liabilities would have to be made. The financial statements do not include any adjustments that would result from the company's inability to meet its liabilities.

2 Accounting policies

Basis of accounting

The financial statements 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 from the commencement of operations.

Fife Energy Limited

Tangible fixed assets and depreciation

Development costs which the director believes can be matched by future related revenues are capitalised within assets under development.

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.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured on a non-discounted basis.

Foreign exchange

Transactions undertaken in foreign currencies are translated using the exchange rate 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.

3 Loss on ordinary activities before taxation

	2002	2001
	£	£
<hr/>		
The loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
- for audit services	6,000	6,000
Intercompany balances written off	-	162,686
Intangible assets written off	-	1,062,949
Tangible assets written off	-	7,600,000
Fixed asset creditor written off	-	(8,429,088)
Interest accruals written off	-	(559,454)
<hr/>		

Fife Energy Limited

4 Employee costs

	2002 £	2001 £
Wages and salaries	43,876	103,306
Social security costs	4,607	10,641
Staff costs	48,483	113,947
Average number of employees during the year	2	3

In addition, the company has incurred costs of £26,500 (2001 : £39,527) in respect of an employee of a fellow group company.

5 Director's emoluments

During 2002, the director received emoluments of £nil in respect of services to the company (2001 : £nil).

6 Interest receivable and similar income

	2002 £	2001 £
Bank interest	194	495
Exchange gain	245,064	-
	245,258	495

7 Interest payable and similar charges

	2002 £	2001 £
Interest on promissory note	344,455	381,214
Exchange losses	-	67,533
	344,455	448,747

Fife Energy Limited

8 Taxation

	2002	2001
	£	£
UK corporation tax	-	-

The tax assessed for the period differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002	2001
	£	£
Loss on ordinary activities before tax	76,929	275,684
Loss on ordinary activities multiplied by the standard rate in the UK 30% (2001 : 30%)	23,079	82,705
Effects of:		
Losses not utilised	(23,079)	(82,705)
Current tax charge/credit for the year	-	-

9 Intangible fixed assets

	£
Cost	
At 1 January and 31 December	1,062,949
Aggregate amortisation	
At 1 January and 31 December	1,062,949
Net book amount	
At 1 January and 31 December	-

Fife Energy Limited

10 Tangible fixed assets

	Assets under development	Office equipment	Total
	£	£	£
Cost			
At 1 January 2002 and 31 December 2002	8,392,028	7,000	8,399,028
Depreciation			
At 1 January 2002 and 31 December 2002	7,600,000	7,000	7,607,000
Net book amount			
At 31 December 2002	792,028	-	792,028
At 31 December 2001	792,028	-	792,028

The principal components of tangible and intangible assets at 31 December 2002 comprise:

	2002 £million	2001 £million
Westfield site	0.79	0.79
Addition for gasification capability	-	-
Intangible asset payments	-	-
Liability on Financial Closure		
- intangible asset	-	-
- assets under development	-	-
	0.79	0.79

Fife Energy Limited

11 Investment

The company's wholly owned subsidiary undertaking is as follows:

Name	Country of registration	Class of share held
Fife Limited	Scotland	Ordinary

Fife Limited is a holding company with a 50% interest in Fife Power, a company registered in Scotland.

12 Debtors

	2002 £	2001 £
Amounts due from group undertakings	2,264,265	2,243,123
Trade debtors	-	2,350
Prepayments and accrued income	14,492	19,771
	2,278,757	2,265,244

13 Creditors – Amounts falling due within one year

	2002 £	2001 £
Amounts owed to subsidiary undertakings	448,247	448,247
Amounts owed to parent undertaking	112,641	112,641
Trade creditors	358,759	367,569
<i>Promissory note and interest</i>	3,826,875	3,727,484
Other creditors	50,002	50,002
Other taxes	3,931	8,936
Accruals	16,956	9,512
	4,817,411	4,724,391

El Paso Energy International Company holds security over the whole site.

Fife Energy Limited

14 Deferred tax

The potential deferred tax asset at 30% (2000 : 30%) which has not been recognised in the financial statements is as follows:

	2002	2001
	£	£
Losses	385,784	362,705

No deferred tax asset has been recognised in respect of the losses as there is uncertainty over the level of future taxable profits.

15 Called up share capital

	2002	2001
	£	£
Authorised:		
Equity		
Ordinary shares of £1 each	53,192	53,192
Non equity		
Special shares of £0.0001	3,398	3,398
	56,590	56,590
Allotted and fully paid:		
Equity		
Ordinary shares of £1 each	53,192	53,192
Non equity		
Special shares of £0.0001	3,396	3,396
	56,588	56,588

Rights

The holders of the special shares are not entitled to participate in the distribution of any profits other than the profits arising from the options with Fife Electric Limited and Global Environmental Limited.

On a return of assets on liquidation or otherwise, the surplus assets of the company remaining after payment of its liabilities shall be distributed as follows:

- in paying or assigning the relevant sum to the holders of the special shares

Fife Energy Limited

- and thereafter, any such surplus assets shall be distributed among the holders of the ordinary shares

The relevant sum shall mean:

- if at the date on which the said return on assets is made by the company (or, if the said return is made in more than one payment, the last date) (the “return date”) the holders of the special shares shall have received both the Fife Electric payment and the Global Environmental payment, the sum of £1,000;
- if at the return date the Fife Electric payment but not the Global Environmental payment shall have been received by the holders of the special shares, a distribution in specie of a right to participate in 28% of the Global Environmental payment;
- if at the return date the Global Environmental payment but not the Fife Electric payment shall have been received by the holders of the special shares, a distribution in specie of a right to participate in 28% of the Fife Electric payment;
- if at the return date neither the Fife Electric payment nor the Global Environmental payment shall have been received by the holders of the special shares, a distribution in specie of a right to participate in 28% of both such payments.

On receipt by the company of the payment from Fife Electric under the option, 28% of this receipt, after deduction of reasonable expenses and taxation, shall, without the need for any declaration by the directors or any resolution of the company, be distributed by way of dividend among the holders of the special shares.

On receipt by the company of the payment from Global Environmental under the option, 28% of this receipt, after deductions of reasonable expenses and tax, shall, without the need for any declaration by the directors or any resolution of the company, be distributed by way of dividend among the holders of the special shares.

In the event that, at the date the Fife Electric payment and/or the Global Environmental payment is to be distributed, the company is prohibited from making such a distribution by virtue of the Companies Act 1985, the following provisions shall apply:

- a) on the date the company shall pay to the holders of the special shares on account of the relevant payment the maximum sum (if any) which can then properly be paid by the company;
- b) the company shall pay to the holders of the special shares on account of the balance of the relevant payment for the time being remaining outstanding, and until the relevant payment shall have been paid in full, the maximum sum (if any) which can properly be paid by the company as soon as such sum can lawfully be paid by the company.

Following the receipt of either the Fife Electric payment and/or the Global Environmental payment, the company shall pay no dividends to its ordinary shareholders, until such time as the dividends to the special shares have been paid in full.

Voting

Holders of special shares are entitled to receive notice of and to attend and address all general meetings and to receive copies of all circulars sent to holders of shares or debentures in the company and of all resolutions of the company in general meeting but shall not be entitled to vote at any general meeting.

Fife Energy Limited

16 Reconciliation of movements in shareholders' deficit

	2002 £	2001 £
Loss for the financial year	(76,929)	(275,684)
Net reduction to shareholders' deficit	(76,929)	(275,684)
Opening shareholders' deficit	(1,666,092)	(1,390,408)
Closing shareholders' deficit	(1,743,021)	(1,666,092)
Analysed as follows:		
Equity shareholders' deficit	(1,746,417)	(1,666,488)
Non equity shareholders' funds	3,396	3,396
	(1,743,021)	(1,666,092)

17 Related party transactions

The company has taken advantage of the exemptions permitted by FRS8 not to disclose transactions with group companies.

18 Cash flow statement

The company 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 Section 246 to Section 249 of the Companies Act 1985.

19 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.