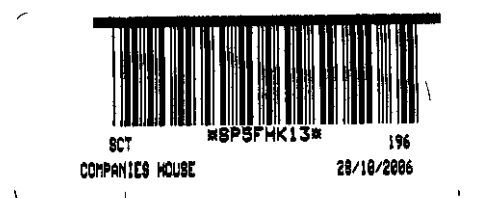


Fife Energy Limited

Director's report and financial statements
for the year ended 31 December 2005

Registered Number 137656



Fife Energy Limited

Director's report and financial statements for the year ended 31 December 2005

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Fife Energy Limited

Director and Advisors for the year ended 31 December 2005

Director

H H Graves (USA)

Secretary

Burness

50 Lothian Road

Festival Square

EDINBURGH

EH3 9WJ

Solicitors

Burness

50 Lothian Road

Festival Square

EDINBURGH

EH3 9WJ

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 2005

The director presents his report and the financial statements of the company for the year ended 31 December 2005

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 3. The loss for the financial year amounted to £1,277,977 (2004 £191,342 as restated) and has been transferred from reserves. The director does not recommend payment of a dividend (2004 £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 2005 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

Profit and loss account for the year ended 31st December 2005

	Note	2005	2004
		£	As restated £
Administrative expenses		126,823	(154,647)
Other operating income		106,611	170,748
		233,434	16,101
Interest receivable and similar income	6	606	519,327
Interest payable and similar charges	7	(1,512,017)	(726,770)
Loss for the financial year		(1,277,977)	(191,342)

Recognised gains and losses in the year are shown on the accompanying statement

Fife Energy Limited

Statement of total recognised gains and losses for the year ended 31st December 2005

	Note	2005	2004
			As restated
		£	£
Loss for the financial year		(1,277,977)	(191,342)
Prior year adjustment	8	(752,117)	
Total gains and losses recognised since last report		<u>(2,030,094)</u>	<u>(191,342)</u>

Fife Energy Limited

Balance sheet as at 31 December 2005

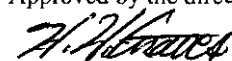
	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	10		798,049		792,028
Investments			2		2
			798,051		792,030
Current assets					
Debtors	11	1,599,592		1,720,284	
Cash at bank and in hand		24,080		9,121	
		1,623,672		1,729,405	
Creditors' amounts falling due within one year	12	(6,358,400)		(5,180,135)	
Net current liabilities			(4,734,728)		(3,450,730)
Net liabilities			(3,936,677)		(2,658,700)
Capital and reserves					
Called up share capital	14		56,588		56,588
Share premium account			165,488		165,488
Profit and loss account – deficit			(4,158,753)		(2,880,776)
Total shareholders' deficit	16		(3,936,677)		(2,658,700)

The directors have taken advantage of the exemption conferred by Section 249A (1) not to have these financial statements audited and confirm that no notice has been deposited under Section 249B (2) of the Companies Act 1985. The directors acknowledge their responsibilities for ensuring that

- (i) The company keeps accounting records which comply with section 221 of the Companies Act 1985
- (ii) The financial statements give a true and fair view of the state of affairs of the company as at 31 December 2005 and of its profit or loss for the year then ended in accordance with the requirements of Section 226, and which otherwise comply with the requirements of the Companies Act 1985 relating to financial statements, so far as applicable to the company

The financial statements have been prepared in accordance with the special provision of Part VII of the Companies Act 1985 relating to small companies

Approved by the director on 25 October 2006



Director

Fife Energy Limited

Notes to the financial statements for the year ended 31 December 2004

1 Fundamental Uncertainty and Going Concern

At 31 December 2005, the company had a deficit on its profit and loss account of £4,158,753 and net liabilities of £3,936,677

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

Following the increase in natural gas prices in the UK it is planned to refurbish existing gasification assets at Westfield, and build additional capacity to produce synthesis gas, and synthetic natural gas from sewage sludge powder, refuse derived fuel, and coal. The use of proprietary advanced fuel technology will create an environmentally friendly, integrated gasification combined cycle (AFT IGCC) power plant at Westfield. The expansion programme will encompass current consents for a 400MW combined cycle gas turbine which will be configured to run on synthesis gas produced on site

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 Energy Ltd will construct, own and operate AFT IGCC facilities at Westfield

In the absence of 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

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

	2005	2004
	£	£
<hr/>		
The loss on ordinary activities before taxation is stated after		
Exchange rate gain/(loss)	(593,062)	519,171
<hr/>		

Fife Energy Limited

4 Employee costs

	2005	2004
	£	£
Wages and salaries	108,107	60,190
Social security costs	15,511	3,781
Staff costs	123,618	63,971
Average number of employees during the year	3	2

5 Director's emoluments

During 2005, the director received emoluments of £nil in respect of services to the company (2004 £nil)

6 Interest receivable and similar income

	2005	2004
	£	£
Bank interest	606	156
Exchange gain	0	519,171
	606	519,327

7 Interest payable and similar charges

	2005	2004
	£	£
		As restated
Interest on promissory note	918,814	726,770
Exchange Loss	593,062	0
Bank Charges	141	0
	1,512,017	726,770

Fife Energy Limited

8 Prior Year Adjustment

Interest on the promissory note had been incorrectly calculated in previous years and a prior year charge of £752,117 has been made to correct the position. The comparative figures in the primary statements and notes have been restated to reflect this adjustment

9 Taxation

	2005	2004
	£	£
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

	2005	2004
	£	£
Loss on ordinary activities before tax	1,277,977	191,342
Loss on ordinary activities multiplied by the standard rate in the UK 30% (2004 30%)	383,393	57,403
Effects of		
Losses not utilised	383,393	57,403
Current tax charge/credit for the year		

Fife Energy Limited

10 Tangible fixed assets

	Assets under development	Office equipment	Total
	£	£	£
Cost			
At 1 January 2005 and 31 December 2005	792,028	15,030	807,058
Depreciation			
At 1 January 2005 and 31 December 2005	0	9,010	9,010
Net book amount			
At 31 December 2005	792,028	6,020	798,048
At 31 December 2004	792,028		792,028

The principal components of tangible and intangible assets at 31 December 2005 comprise

	2005 £million	2004 £million
Westfield site	0.79	0.79

11 Debtors

	2005 £	2004 £
Amounts due from group undertakings	1,585,678	1,712,697
Prepayments and accrued income	13,914	7,587
	1,599,592	1,720,284

Fife Energy Limited

12 Creditors – Amounts falling due within one year

	2005	2004
	£	£
		As restated
Trade creditors	0	283,129
Promissory note and interest	6,323,602	4,811,726
Other creditors	10,447	50,002
Other taxes	1,982	7,219
Accruals	22,369	28,059
	6,358,400	5,180,135

El Paso Energy International Company holds security over the whole site

Fife Energy Limited

13 Deferred tax

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

14 Called up share capital

	2005 £	2004 £
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
- 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,

Fife Energy Limited

- 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

15 Profit and loss account

	£
At 31 st December 2004 as previously stated	(2,128,659)
Prior year adjustment	(752,117)
At 1 st January 2005 as restated	(2,880,776)
Loss for the year	(1,277,977)
At 31 st December 2005	(4,158,753)

16 Reconciliation of movements in shareholders' deficit

	2005 £	2004 £
		As restated
Loss for the financial year	(1,277,977)	(191,342)
Opening shareholders' deficit	(2,658,700)	(2,467,358)
Closing shareholders' deficit	(3,936,677)	(2,658,700)
Analysed as follows		
Equity shareholders' deficit	(3,940,073)	(2,662,096)
Non equity shareholders' funds	3,396	3,396
	(3,936,677)	(2,658,700)

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

Fife Energy Limited

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.