

FIFE ENERGY LIMITED
(Registered Number : 137656)

DIRECTOR'S REPORT AND ACCOUNTS

31 DECEMBER 1994

A handwritten signature in black ink, consisting of a large loop and a trailing flourish, positioned above the barcode.

FIFE ENERGY LIMITED

DIRECTOR'S REPORT AND ACCOUNTS

31 DECEMBER 1994

Directors

HH Graves (USA)

RA Hammond-Chambers (resigned 29 April 1994)

JC Rafferty (appointed 7 January 1994, resigned 29 April 1994)

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 1994

The director submits his report and audited accounts for the year ended 31 December 1994.

TRADING RESULTS

The results for the year are set out in the profit and loss account on page 5. The loss for the year of £631,157 has been taken to reserves. The director is unable to recommend the payment of a dividend.

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

Movements in share capital are disclosed in Note 13.

DIRECTOR'S RESPONSIBILITIES

The director is required by the Companies Act 1985 to prepare accounts 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 or loss for the financial year.

The director considers that in preparing the accounts on pages 5 to 15, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which he considers to be applicable have been followed.

The director has responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable him to ensure that the accounts comply with the Companies Act 1985.

The director has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

FIFE ENERGY LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 1994 (Continued)

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

2 April 1996



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

Price Waterhouse



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

We have audited the accounts on pages 5 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's director is 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 7 and 8. 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 1994 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

2 April 1996

FIFE ENERGY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1994

	<u>Note</u>	<u>1994</u> £	<u>1993</u> £
Turnover		-	-
Cost of sales		-	-
		<hr/>	<hr/>
GROSS PROFIT		-	-
Administrative expenses		(541,632)	(257,113)
Other operating income		16,699	17,107
		<hr/>	<hr/>
OPERATING LOSS		(524,933)	(240,006)
Interest receivable		8,028	6,071
Interest payable	6	(112,245)	(435,033)
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(629,150)	(668,968)
Taxation	7	(2,007)	(1,518)
		<hr/>	<hr/>
LOSS FOR THE FINANCIAL YEAR		(631,157)	(670,486)
RETAINED LOSS BROUGHT FORWARD		(740,847)	(70,361)
		<hr/>	<hr/>
RETAINED LOSS CARRIED FORWARD		(1,372,004)	(740,847)
		<hr/>	<hr/>

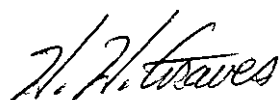
There were no recognised gains or losses other than the loss for the financial year (1993 : £Nil). All results arose from continuing operations.

FIFE ENERGY LIMITED

BALANCE SHEET AT 31 DECEMBER 1994

	<u>Note</u>	<u>1994</u> £	<u>1993</u> £
FIXED ASSETS			
Intangible assets	8	1,000,000	1,000,000
Tangible assets	9	10,864,739	10,547,528
		<hr/>	<hr/>
		11,864,739	11,547,528
CURRENT ASSETS			
Other debtors		36,011	41,153
Cash at bank	10	110,862	105,502
		<hr/>	<hr/>
		146,873	146,655
Creditors (amounts falling due within one year)	11	(4,376,902)	(3,594,538)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(4,230,029)	(3,447,883)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,634,710	8,099,645
Creditors (amounts falling due after more than one year)	12	(8,784,638)	(8,790,492)
		<hr/>	<hr/>
		(1,149,928)	(690,847)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	13	56,588	50,000
Share premium		165,488	-
Profit and loss account		(1,372,004)	(740,847)
		<hr/>	<hr/>
Shareholders' funds	19	(1,149,928)	(690,847)
		<hr/>	<hr/>

APPROVED BY THE DIRECTOR ON 2 APRIL 1996



HH Graves
DIRECTOR

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994

1 FUNDAMENTAL UNCERTAINTY AND GOING CONCERN

During 1994, the company met its day to day working capital requirements through bank loan and overdraft facilities, both of which are now repayable on demand. At 31 December 1994 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 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 15, 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 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 availability of the full US \$1,000,000 additional loan facility and the technology and intellectual property rights is also assumed.

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 full amount of the US \$1,000,000 additional loan facility, 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.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

1 FUNDAMENTAL UNCERTAINTY AND GOING CONCERN (CONTINUED)

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 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 noted in Note 18.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1994</u>	<u>1993</u>
	£	£
The loss on ordinary activities before taxation is stated after charging/(crediting):		
Employment agency costs	77,971	89,398
Depreciation	1,750	1,750
Auditors' remuneration - for audit services	23,859	5,300
- for non audit services	-	14,466
Gain on disposal of assets	(16,699)	(17,107)
	<u> </u>	<u> </u>

4 EMPLOYEE COSTS

As at July 1994 the company assumed the contracts of six employees. Previously staff were provided by an employment agency.

	£
Wages and salaries	66,465
Social security costs	6,776
Pension costs	-
	<u> </u>
	73,241
	<u> </u>

The average number of employees during the year was 6

In addition £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.

6 INTEREST PAYABLE

	<u>1994</u>	<u>1993</u>
	£	£
Interest on bank overdraft	69,427	24,513
Interest on bank loan	173,543	184,895
Interest on capital creditor in the year	402,150	225,625
	<u> </u>	<u> </u>
	645,120	435,033
Interest waived under agreement with creditor:		
1994	(354,750)	-
1993	(178,125)	-
	<u> </u>	<u> </u>
	112,245	435,033
	<u> </u>	<u> </u>

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

6 INTEREST PAYABLE (Continued)

Included within interest on capital creditor is an amount of £354,750 relating to a capital creditor of £5,750,000 (included within Note 12) 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 £354,750 of interest charges due on the capital creditor of £5,750,000 which had fallen due by 31 December 1994. Due to the fundamental nature of this agreement, the impact of these changes on the interest charges and creditors have been recorded in these accounts.

7 TAXATION	<u>1994</u> £	<u>1993</u> £
UK Corporation tax @ 25% (1993 - 25%)	2,007	1,518

No provision for deferred taxation is considered necessary due to the availability of 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 certain events occur. Under the new agreement with British Gas plc, a payment of £200,000 is required by 31 March 1996. 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.

9 TANGIBLE FIXED ASSETS

	<u>Assets under development</u> £	<u>Office Equipment</u> £	<u>Total</u> £
Cost			
At 1 January 1994	10,542,570	7,000	10,549,570
Additions	318,961	-	318,961
	<hr/>	<hr/>	<hr/>
At 31 December 1994	10,861,531	7,000	10,868,531
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 January 1994	-	2,042	2,042
Charge for the period	-	1,750	1,750
	<hr/>	<hr/>	<hr/>
At 31 December 1994	-	3,792	3,792
	<hr/>	<hr/>	<hr/>
Net Book Amount			
At 31 December 1994	10,861,531	3,208	10,864,739
	<hr/>	<hr/>	<hr/>
At 31 December 1993	10,542,570	4,958	10,547,528
	<hr/>	<hr/>	<hr/>

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

9 TANGIBLE FIXED ASSETS (CONTINUED)

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 relate to the Westfield Development Centre.

During 1992, the company entered into an agreement to acquire a 25 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. The £0.5 million is included in creditors falling due after more than one year at 31 December 1994.

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 has 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 partly 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 1994.

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. If this payment 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.

An analysis of the principal components of tangible and intangible assets is set out on page 12.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

9 TANGIBLE FIXED ASSETS (CONTINUED)

The gross fixed asset cost at 31 December 1994 comprises:	<u>£million</u>
Payment made on entry to the premises	1.80
Final charge	0.50
Additional miscellaneous costs of development (1992 - 1994)	1.81
Intangible asset payment	0.20
Liability on Financial Closure:	
- intangible asset	0.80
- assets under development	6.75
	<hr/>
	11.86
	<hr/>

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.

10 CASH AT BANK

At 31 December 1994 a £110,862 (1993 - £105,502) bank deposit was held in a lien account against the company's bank borrowings. The bank released this balance during 1995 for set off against the liability to the bank.

11 CREDITORS (amounts falling due within one year)

	<u>1994</u> £	<u>1993</u> £
Bank loan	2,139,403	2,000,000
Bank overdraft	652,778	623,441
Amounts owed to parent company	675,196	551,469
Trade creditors	215,867	172,359
EIF loan facility	287,632	-
EIF convertible loan stock (Note 15)	303,611	-
Accruals	48,890	77,054
Other creditors	50,000	168,697
Corporation tax payable	3,525	1,518
	<hr/>	<hr/>
	4,376,902	3,594,538
	<hr/>	<hr/>

The bank loan is secured by way of a bond and floating charge over the assets of the company and a standard security against the company's leasehold interest in the Westfield Development Centre. £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 standard security was amended in December 1995 and the charge is now over the freehold property and the leasehold interest.

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.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

12 CREDITORS (amounts falling due after more than one year)

	<u>1994</u> £	<u>1993</u> £
Capital creditor	8,858,990	8,456,840
Waiver of interest on capital creditor under 1995 agreement	(532,875)	-
Amounts due to Global Energy Inc.	458,523	333,652
	<hr/> 8,784,638	<hr/> 8,790,492

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 £0.5m plus 50% 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.

13 SHARE CAPITAL

	<u>1994</u> £	<u>1993</u> £
<u>Authorised</u>		
Ordinary £1 shares	56,587	50,000
A ordinary £0.0001 shares	3	-
	<hr/> 56,590	<hr/> 50,000
<u>Allotted and fully paid</u>		
Ordinary shares of £1 each	56,587	50,000
A ordinary shares of £0.0001	1	-
	<hr/> 56,588	<hr/> 50,000

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.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

13 SHARE CAPITAL (Continued)

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 15.

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 15.

14 RELATED PARTY TRANSACTIONS

During the year ended 31 December 1994, the company incurred costs amounting to £257,094 (1993 - £586,805), 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, £124,871 of the costs incurred in 1994 will become payable upon the company achieving Financial Closure on the Fife Development Project. Accordingly, this element plus the costs of £333,652 from 1993, is included within creditors due after more than one year as the director is confident Financial Closure will be achieved in 1996.

15 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.

On 4 October 1994, the company entered into an agreement with Energy Investors Fund II LP 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.

Under a development loan and subscription agreement dated 8 December 1994, Energy Investors Fund II LP provided a further loan facility of US \$1,000,000 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.

FIFE ENERGY LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1994 (CONTINUED)

15 FUNDING AGREEMENTS (CONTINUED)

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 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 ¼% 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 \$525,000 for developing the Fife Development Project until the earlier of the date of the closing of the senior project financing or default as defined in the facility agreement. 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.

16 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.

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

18 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.

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1994</u> £	<u>1993</u> £
Loss for the financial year	(631,157)	(670,486)
Issue of share capital	6,588	-
Share premium on issue of shares	165,488	-
Opening shareholders' funds	(690,847)	(20,361)
	<hr/>	<hr/>
Closing shareholders' funds	(1,149,928)	(690,847)
	<hr/>	<hr/>