Cirque Energy (UK) Limited

Directors' report and financial statements

Registered number 03080778

31 December 2002

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Company information

Company registration number	3080778
Registered office	Green Acre Cottage Shoreditch Somerset TA3 7BL
Directors	S Bushell J Alston B Murray T Lindquist
Secretary	S Bushell
Bankers	National Westminster Bank plc 49 North Street Taunton Somerset TA1 1NB
Auditors	KPMG LLP St Nicholas House Park Row Nottingham NG1 6FQ

Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activity of the company in the year under review was that of oil exploration and production.

Business review

The result for the year and financial position of the company are shown in the attached financial statements.

The company ceased trading commercially in September 2002 after the oil pipeline at the Fiskerton site suffered an unexpected rupture. The site is currently being maintained to enable future trading to take place should this be commercially viable.

Dividend

The directors do not propose a dividend for the year *(2001: £nil).*

Directors and their interests

The directors of the company during the year were:

S Bushell	
J Alston	- appointed 4 September 2003
B Murray	- appointed 4 September 2003
T Lindquist	- appointed 4 September 2003
W Wilson	- resigned 4 September 2003
V Luhowy	- resigned 4 September 2003
K MacRitchie	- resigned 4 September 2003

The directors holding office at 31 December 2002 did not hold any beneficial interest in the issued share capital of the company at 1 January 2001 or 31 December 2002.

Directors' interests in the ultimate parent company are disclosed in the consolidated financial statements of that company.

Auditors

A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Stephen Bushell

S Bushell
Company Secretary

19 March 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

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 financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP
St Nicholas House
Park Row
NOTTINGHAM
NG1 6FQ

Independent auditors' report to the members of Cirque Energy (UK) Limited

We have audited the financial statements on pages 5 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company is not disclosed.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the reliance on the company's ultimate parent company for continued financial support. In view of the significance of the uncertainty inherent in this matter, we consider that it should be brought to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

19 March 2004

Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2002

	Note	**2002 Pre-exceptional item**	**2002 Exceptional item**	**2002 Total £**	2001 Pre-exceptional item £	2001 Exceptional item £	2001 Total £
Turnover	*2*	**66,834**	**-**	**66,834**	280,625	-	280,625
Cost of sales	*3*	**(86,005)**	**-**	**(86,005)**	(296,261)	(2,825,168)	(3,121,429)
Gross loss		**(19,171)**	**-**	**(19,171)**	(15,636)	(2,825,168)	(2,840,804)
Administrative expenses		**(39,380)**	**(165,726)**	**(205,106)**	(44,832)	-	(44,832)
Operating loss		**(58,551)**	**(165,726)**	**(224,277)**	(60,468)	(2,825,168)	(2,885,636)
Interest receivable and similar income	*4*			**10,357**			59,465
Interest payable and similar charges	*5*			**(1,310)**			-
Loss on ordinary activities *before taxation*	*6*			**(215,230)**			(2,826,171)
Tax on loss on ordinary activities	*8*			**-**			196,752
Loss on ordinary activities after taxation	*15*			**(215,230)**			(2,629,419)

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the above profit and loss account.

In both the current and preceding year, the company made no material acquisitions and had no discontinued operations.

Balance sheet
as at 31 December 2002

	Notes	2002		2001	
		£	£		£
Fixed assets					
Intangible assets	9		**100,000**		100,000
Current assets					
Debtors	10	**119,465**		249,171	
Cash at bank and in hand		**126,525**		337,571	
		245,990		586,742	
Creditors: amounts falling due within one year	11	**(2,892,300)**		(3,183,548)	
Net current liabilities			**(2,646,310)**		(2,596,806)
Total assets less current liabilities			**(2,546,310)**		(2,496,806)
Provision for liabilities and charges	12		**(165,726)**		-
Net liabilities			**(2,712,036)**		(2,496,806)
Capital and reserves					
Called up share capital	13		**2**		2
Profit and loss account	14		**(2,712,038)**		(2,496,808)
Equity shareholders' deficit	15		**(2,712,036)**		(2,496,806)

The financial statements were approved by the board of directors on 19 March 2004 and were signed on its behalf by:

S Bushell
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards.

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £2,712,036. The company is dependent for its working capital on funds provided to it by its ultimate parent company which has provided the company with an undertaking that, assuming the company remains its subsidiary, for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

However, the ultimate parent company is actively looking to sell the company. Should this happen there can be no certainty as to the future intentions of the purchaser and the impact they would have on the company.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Cash flow statement

Under Financial Reporting Standard Number 1, the company is exempt from preparing a cash flow statement as it is a wholly owned subsidiary of a company which publishes consolidated financial statements that include Cirque Energy (UK) Limited.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding value added tax and trade discounts.

Oil exploration and development costs

Oil exploration and development activities are accounted for in accordance with the full cost method. Expenditures are capitalised, to the extent that they relate directly to the cost of exploration and development.

Capitalised expenditures are classified as an intangible asset and are depreciated on a unit of production basis by reference to quantities.

Intangible assets are stated at cost less provisions for impairment.

Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

Related party transactions

As 100% of the company's voting rights were controlled within the group headed by BelAir Energy Corporation throughout the year, the company has taken advantage of the exemption contained in Financial Reporting Standard Number 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

2 Turnover

The turnover is attributable to the principal activity of the company.

3 Exceptional items

At 31 December 2001 the value of the oil and gas reserves at the company's Fiskerton site was revised downwards due to significant water problems being encountered in the year. Also, the site at Halton Holgate which was discovered and developed in 2001 was found to be a 'dry hole'. Following this, subsequent to the 2001 year end, a letter of intent was signed by a third party which resulted in the company being sold for £100,000. Accordingly, the value of the intangible assets was written down in 2001 to their estimated realisable value.

In September 2002 the oil pipeline at the Fiskerton site ruptured causing a major leak of oil. The company is liable for the clean up costs associated with this leak, which are currently estimated at £166,000.

A claim against the company's insurance policy is in progress to recover substantially all of these costs, but, due to the uncertainty of whether the outcome will be successful or not, no corresponding asset has been accounted for at the balance sheet date.

4 Interest receivable and similar income

	2002	2001
	£	£
Foreign exchange gain	**9,549**	59,465
Interest and similar income	**808**	-
	10,357	59,465

5 Interest payable and similar charges

	£	£
Interest expense	**1,310**	-

Notes *(continued)*

6 Loss on ordinary activities before taxation

		2002	2001
		£	£
The loss on ordinary activities is stated after charging:			
Auditors' remuneration	- audit services	**6,000**	3,000
	- non audit services	**4,000**	5,000
Amortisation of intangible fixed assets (see note 9)		**-**	126,574
Provision for impairment of intangible fixed assets		**15,433**	2,825,168

7 Directors and employees

The company had no employees other than the directors who were not paid any emoluments by the company during the year *(2001: £nil)*.

8 Taxation

	2002	2001
	£	£
Current tax charge	**-**	-
Deferred tax	**-**	196,752
	-	196,752

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2001: higher)* than the standard rate of corporation tax in the UK of 30% *(2001: 30%)*. The differences are explained below:

	£	£
Current tax reconciliation:		
Loss on ordinary activities before tax	**(215,230)**	(2,826,171)
Current tax at 30% *(2001: 30%)*	**(64,569)**	(847,851)
Effects of:		
Capital allowances for the period (in excess of)/less than depreciation	**(30,000)**	689,420
Additions to trading losses carried forward	**94,569**	158,431
Current tax charge for the year	**-**	-

Notes *(continued)*

9 Intangible fixed assets

	Exploration costs £
Cost:	
At 1 January 2002	3,911,945
Additions	15,433
At 31 December 2002	3,927,378
Accumulated amortisation:	
At 1 January 2002	3,811,945
Provision for impairment	15,433
At 31 December 2002	3,827,378
Net book value:	
At 31 December 2002	**100,000**
At 31 December 2001	100,000

10 Debtors

	2002 £	2001 £
Trade debtors	-	187,959
Other debtors	**119,464**	61,212
	119,464	249,171

11 Creditors: amounts falling due within one year

	£	£
Trade creditors	**35,145**	557,420
Accruals	**10,000**	8,000
Amounts owed to group undertakings	**2,847,155**	2,618,128
	2,892,300	3,183,548

Following a review of the group funding arrangement, the comparative figures have been adjusted to reflect the fact that the amounts owed to group undertakings fall due within one year.

Notes *(continued)*

12 Provisions for liabilities and charges

Due to the significant impairment of fixed assets (note 9) and the tax losses both in the year and brought forward, there is no deferred tax liability at 31 December 2002. No deferred tax asset has been recognised in these regards *(2001: £nil).*

	Provision for oil spill cleanup £
Balance at 1 January 2002	-
Profit and loss account	165,726
Balance at 31 December 2002	**165,726**

In September 2002, there was a rupture in the Fiskerton pipeline resulting in an oil leak. A provision has been booked in the year and charged to administrative expenses using the directors' best estimate of the necessary cleanup costs. The directors believe that these costs will be recoverable through the company's Environmental Insurance policy but no provision has been made in this regard due to the uncertainty of the outcome.

13 Called up share capital

	2002 £	2001 £
Authorised:		
100 ordinary shares of £1 each	**100**	*100*
Issued, called up and fully paid:		
2 ordinary shares of £1 each	**2**	2

14 Profit and loss account

	£	**£**
Opening balance	**(2,496,808)**	132,611
Loss for the year	**(215,230)**	(2,629,419)
Closing balance	**(2,712,038)**	(2,496,808)

Notes *(continued)*

15 Reconciliation of movement in equity shareholders' deficit

	2002	2001
	£	£
Loss for the year	**(215,230)**	(2,629,419)
Net reduction in shareholders' funds	**(215,230)**	(2,629,419)
Opening shareholders' funds	**(2,496,806)**	132,613
Closing shareholders' deficit	**(2,712,036)**	(2,496,806)

16 Ultimate parent undertaking

The directors consider that the ultimate parent undertaking of this company during the year was BelAir Energy Corporation (BelAir), incorporated in Canada. The largest group of undertakings for which group financial statements have been drawn up is that headed by BelAir.

Since the balance sheet date, BelAir has been acquired by Purcell Energy Limited, which is currently the ultimate parent company.

A copy of these financial statements may be obtained from c/o Purcell Energy Limited; Suite 2810, 605-5th Avenue SW, Fifth and Fifth Tower, Calgary, Alberta, T2P 3H5, Canada.

17 *Related party transactions*

During the year, payments of £60,032 *(2001: £54,895)* were made in respect of directors' services to Steve Bushell Limited, a company owned by Steve Bushell, a director of the company.

At the year end there was a balance of £9,523 *(2001: £nil)* outstanding from Transanglia Hydrocarbon Exploration Limited, a company owned by Steve Bushell. This balance was settled in full during 2003. During the year, recharges with a value of £9,523 were made to that company *(2001: £nil)*.