Cirque Energy (UK) Limited

Directors' report and financial statements

Registered number 3080778

31 December 2001

Contents

Company information

Company registration number	3080778
Registered office	Green Acre Cottage Shoreditch Somerset TA3 7BL
Directors	S Bushell W Wilson V Luhowy K MacRitchie
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 2001.

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.

During the year significant water problems were encountered at the Fiskerton site which resulted in the value of the oil and gas reserves as at 31 December 2001 at that site being revised downwards. Also, following substantial research, a site at Halton Holgate was discovered and developed in the year but was unfortunately found to be a 'dry hole'.

Following this, subsequent to the year end a letter of intent has been signed by a third party which, subject to normal closing conditions, will result in the company being sold for £100,000 (see note 19). Accordingly, the value of the intangible assets has been written down to their estimated realisable value (see note 9).

Dividend

The directors do not propose a dividend for the year *(2000: £nil)*.

Directors and their interests

The directors of the company during the year were:

S Bushell
W Wilson
V Luhowy
K MacRitchie

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

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

Auditors

KPMG were re-appointed auditors at the last Annual General Meeting. However, since that date their business has been transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditors on 17 May 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. 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

26 November 2002

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

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 11.

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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

26 November 2002

Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 31 December 2001

	Notes	2001 Pre-exceptional item £	2001 Exceptional item £	2001 Total £	2000 Total £
Turnover	*2*	**280,625**	**-**	**280,625**	1,198,952
Cost of sales	*3*	**(296,261)**	**(2,825,168)**	**(3,121,429)**	(813,805)
Gross (loss)/profit		**(15,636)**	**(2,825,168)**	**(2,840,804)**	385,147
Administrative expenses				**(44,832)**	(123,405)
Operating (loss)/profit				**(2,885,636)**	261,742
Interest receivable and similar income	*4*			**59,465**	-
Interest payable and similar charges	*5*			**-**	(153,661)
(Loss)/profit on ordinary activities before taxation	*6*			**(2,826,171)**	108,081
Tax on (loss)/profit on ordinary activities	*8*			**196,752**	(128,434)
Loss on ordinary activities after taxation	*15*			**(2,629,419)**	(20,353)

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 2001

	Notes	2001		2000	
		£	£		£
Fixed assets					
Intangible assets	*9*		**100,000**		2,558,353
Current assets					
Debtors	*10*	**249,171**		133,640	
Cash at bank and in hand		**337,571**		626,877	
		586,742		760,517	
Creditors: amounts falling due within one year	*11*	**(565,420)**		(225,561)	
Net current assets			**21,322**		534,956
Total assets less current liabilities			**121,322**		3,093,309
Creditors: amounts falling due after more than one year	*12*		**(2,618,128)**		(2,763,944)
Provisions for liabilities and charges	*13*		**-**		(196,752)
Net (liabilities)/assets			**(2,496,806)**		132,613
Capital and reserves					
Called up share capital	*14*		**2**		2
Profit and loss account	*15*		**(2,496,808)**		132,611
Equity shareholders' (deficit)/funds	*16*		**(2,496,806)**		132,613

The financial statements were approved by the board of directors on 26 November 2002 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 £2,496,806. The company is dependent for its working capital on funds provided to it by its ultimate holding undertaking 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. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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 it relates directly to the cost of exploration and development.

Capitalised expenditures are classified as an intangible asset until it can be transferred to a cost pool.

Cost pools are established by reference to countries. Expenditures are transferred to a cost pool when either:

- there are indications of impairment; or
- at the conclusion of an appraisals programme whether or not commercial reserves are discovered.

Expenditure within each cost pool is depreciated on a unit of production basis by reference to quantities.

Deferred taxation

Deferred tax is provided using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided tax is disclosed as a contingent liability.

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 are controlled within the group headed by BelAir Energy Corporation, 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 item

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 the year was found to be a 'dry hole'. Following this, subsequent to the year end a letter of intent has been signed by a third party which, subject to normal closing conditions, will result in the company being sold for £100,000 (see note 19). Accordingly, the value of the intangible assets has been written down to their estimated realisable value (see note 9).

4 Interest receivable and similar income

	2001	2000
	£	£
Foreign exchange gain	**59,465**	-

5 Interest payable and similar charges

	£	£
Foreign exchange losses	-	153,661

6 (Loss)/profit on ordinary activities before taxation

	£	£
The (loss)/profit on ordinary activities is stated after charging:		
Auditors' remuneration	**8,000**	8,000
Amortisation of intangible fixed assets (see note 9)	**126,574**	466,361
Provision for impairment of intangible fixed assets (see note 9)	**2,825,168**	-

Notes *(continued)*

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 *(2000: £nil)*.

8 Taxation

	2001	2000
	£	£
The tax credit/(charge) comprises:		
Deferred tax (note 13)	**196,752**	(128,434)

9 Intangible fixed assets

	Exploration costs
	£
Cost:	
At 1 January 2001	3,418,556
Additions	493,389
At 31 December 2001	3,911,945
Accumulated amortisation:	
At 1 January 2001	860,203
Charge for year	126,574
Provision for impairment (see note 3)	2,825,168
At 31 December 2001	3,811,945
Net book value:	
At 31 December 2001	100,000
At 31 December 2000	2,558,353

10 Debtors

	2001	2000
	£	£
Trade debtors	**187,959**	129,694
Other debtors	**61,212**	3,946
	249,171	133,640

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2001	2000
	£	£
Trade creditors	**565,420**	217,175
Accruals and deferred income	**-**	8,386
	565,420	225,561

12 Creditors: amounts falling due after more than one year

	£	£
Amounts owed to group undertakings	**2,618,128**	2,763,944

13 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 2001.

	Deferred taxation £
Balance at 1 January 2001	196,752
Profit and loss account	(196,752)
Balance at 31 December 2001	-

14 Called up share capital

	2001	2000
	£	£
Authorised:		
100 ordinary shares of £1 each	**100**	100
Issued, called up and fully paid:		
2 ordinary shares of £1 each	**2**	2

15 Profit and loss account

	£	£
Opening balance	**132,611**	152,964
Loss for the year	**(2,629,419)**	(20,353)
Closing balance	**(2,496,808)**	132,611

Notes *(continued)*

16 Reconciliation of movement in equity shareholders' (deficit)/funds

	2001 £	2000 £
Loss for the year	**(2,629,419)**	(20,353)
Net reduction in shareholders' funds	**(2,629,419)**	(20,353)
Opening shareholders' funds	**132,613**	152,966
Closing shareholders' (deficit)/funds	**(2,496,806)**	132,613

17 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. A copy of these financial statements may be obtained from 400 First Alberta Place, 777 8th Avenue SW, Calgary, Alberta, TS9 3R5, Canada.

18 Transactions with directors

During the year, payments of £54,895 *(2000: £73,962)* were made in respect of directors' services to Steve Bushell Limited, a company owned by Steve Bushell, a director of the company.

19 Subsequent events

Subsequent to the year end, a letter of intent has been signed which, subject to normal closing conditions, commits the parent company to sell the company to a third party at arms length for £100,000. The proposed transaction excludes the working capital which will be repaid to BelAir, therefore the proposed consideration effectively relates to the intangible assets. Consequently, the valuation of the intangible assets at 31 December 2001 has been written down to reflect this impairment (see note 9).