

# ENCANA<sup>TM</sup>



## ENCANA EXPLORATION (U.K.) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

A Company Registered in England, No. 04323945  
Registered Office: Charter Place, Vine Street, Uxbridge, Middlesex UB8 1JG



## **DIRECTORS' REPORT**

The directors of EnCana Exploration (U.K.) Limited ("EnCana" or the "Company") present their report of the affairs of the company together with the financial statements for the year ended 31 December, 2003. The company is a wholly owned subsidiary of EnCana (U.K.) Limited.

### **Principal Activities**

The company is in the business of exploration and production of crude oil and natural gas and natural gas liquids.

The assets of the company consist of interests held in two exploration licences (P200 and P244) encompassing five blocks (20/10a, 21/2NJR, 21/2NCR, 21/2S and 29/6a) and a nominal cash holding. The costs relating to two of the blocks (20/10a and 21/2S) have been fully impaired during the year. A deferred consideration is to be paid to Arco British Limited now BP Petroleum, in the event and at the time of development sanction by the Secretary of State of the Department of Trade and Industry for the 21/2 Jurassic formation in which the company (or its Affiliate(s)) is involved.

During 2003, the company plugged and abandoned an existing suspended well in block 21/2 NCR in accordance with guidelines issued from the Department of Trade and Industry.

### **Dividends**

The loss for the period amounts to £69,668 (2002: loss of £160,653). The directors do not recommend the payment of a dividend for the current year (2002: £Nil)

### **Directors and their Interests**

The directors of the company during the year ended 31 December, 2003 were those listed below:

#### **Name**

D. O'Driscoll  
A. Booth

None of the directors who were in office on 31 December 2003 held any disclosable interest in the shares of the company or any member company of EnCana Corporation, at any time during the year nor at the date of the report.

The Office of Company Secretary during the year ended 31 December 2003 was held by:

A O'Brien

## DIRECTORS' REPORT

### Directors' Responsibilities

The Companies Act 1985 requires the Directors to prepare accounts for each financial year which 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. In preparing those accounts, 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 accounts; and
- prepare the financial statements on the 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 as to enable them to ensure that the accounts comply with the Companies Act 1985. They are 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.

### Auditors

The company has passed an elective resolution in accordance with the Companies Act 1985 to dispense with the annual re-appointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the company pursuant to section 386 of the Companies Act 1985.

By order of the board:  
D. O'Driscoll, Director



Date: 24 June 2004

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENCANA EXPLORATION (U.K.) LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes to the accounts. The financial statements have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual 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 in to 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 or the regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

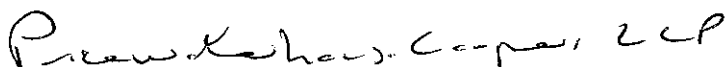
### **Basis of audit opinion**

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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants  
and Registered Auditors

1 Embankment Place  
London  
WC2N 6RH  
United Kingdom

Date: 24 June 2004

## PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER 2003

	Notes	<u>2003</u> £	<u>2002</u> £
Exploration expenses	4 & 6	(63,392)	(54,000)
<b>OPERATING LOSS</b>		(63,392)	(54,000)
Interest payable and similar charges	9	(6,286)	-
Interest receivable and similar income		10	2
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(69,668)	(53,998)
Tax on loss on ordinary activities	5	-	(106,655)
<b>LOSS FOR THE FINANCIAL YEAR</b>		(69,668)	(160,653)
Retained loss at 1 January		(428,871)	(268,218)
Retained loss at 31 December		(498,539)	(428,871)

The accompanying notes are an integral part of these financial statements.

All items dealt with in the above profit and loss account relate to continuing operations.

There were no recognised gains or losses other than the profit for the current year.

There are no material differences between the loss on ordinary activities before tax and the retained loss for the year stated above and their historical cost equivalents.

# **BALANCE SHEET AT 31 DECEMBER 2003**

	Note	2003 £	2002 £
<b>FIXED ASSETS</b>			
Intangible Assets	6	1,180,863	1,052,501
		<u>1,180,863</u>	<u>1,052,501</u>
<b>CURRENT ASSETS</b>			
Cash at bank		1,012	1,002
<b>CREDITORS</b> – Amounts falling due within one year	7	-	(374,873)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>1,012</u>	<u>(373,871)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,181,875	678,630
<b>NET ASSETS</b>		<u>1,181,875</u>	<u>678,630</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8	894,060	894,060
Capital contribution	9	786,354	213,441
Profit and loss account		(498,539)	(428,871)
<b>TOTAL EQUITY SHAREHOLDER'S FUNDS</b>	10	<u>1,181,875</u>	<u>678,630</u>

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board:  
D. O'Driscoll, Director



Date: 24 June 2004

## **NOTES TO THE ACCOUNTS – 31 DECEMBER 2003**

### **1 ACCOUNTING POLICIES**

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below:

#### **(a) Basis of accounting**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company's financial statements fall within the scope of the UK Oil Industry Accounting Committee's Statement of Recommended Practice (SORP), "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" and have been prepared in accordance with provisions thereof.

#### **(b) Taxation**

For tax purposes, the company did not trade during the year. Therefore, no tax liability has arisen.

#### **(c) Joint ventures**

Exploration activities are conducted as co-licensee in joint ventures with other companies. The financial statements reflect the relevant proportions of capital and operating expenditures applicable to the Company's interests.

#### **(d) Full cost accounting**

Expenditures on pre-licence, licence acquisition, exploration, appraisal and development activities are capitalised in one cost pool.

Capitalised oil and gas expenditures, other than costs of unevaluated exploration projects and projects awaiting development consent, are depleted using a unit of production method when commercial production is achieved. The recoverability of capitalised costs is dependent on future successful drilling results and the development of proved reserves. Capitalised costs that are impaired prior to the commencement of commercial production are taken directly to the profit and loss account, in the absence of a full cost pool.

#### **(e) Foreign currencies**

Transactions denominated in currencies other than pounds sterling are translated into sterling at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated into sterling at the rate of exchange prevailing at the balance sheet date. All exchange differences thus arising are taken to the profit and loss account for the year.

#### **(f) Capital contributions**

All activity is funded by the parent company with no economic benefit being derived by the parent. This funding is classified as Capital Contributions within the Shareholders Funds section of the balance sheet in accordance with FRS4.

#### **(g) Going concern**

The financial statements have been prepared on a going concern basis based on the continuing support of the parent company.

**(h) Abandonment and decommissioning**

No provision for abandonment has been made as production has not yet commenced.

**(i) Capitalised administrative costs**

Administrative costs relating directly to exploration and development activities are capitalised.

**(j) Cash flow statement**

In accordance with the exemption allowed by paragraph 5(a) of Financial Reporting Standard 1, a cashflow statement has not been prepared.

**(k) Related parties**

In accordance with the exemption allowed by paragraph 3(c) of Financial Reporting Standard 8, no disclosure is made of transactions with other member companies of EnCana Corporation or any of its subsidiaries.

**2 DIRECTORS' EMOLUMENTS**

Directors' emoluments were £Nil for the year (2002: £Nil).

**3 AUDITORS' REMUNERATION**

	<u>2003</u>	<u>2002</u>
	£	£
Audit fees borne by the immediate parent undertaking	1,000	1,000

**4 EXPLORATION EXPENSES**

	<u>2003</u>	<u>2002</u>
	£	£
Exploration costs written down	63,392	54,000

The charge for exploration costs in the Profit and Loss account represents capitalised costs that have been impaired prior to the commencement of commercial production.

**5 TAX**

**TAXATION ON ORDINARY ACTIVITIES**

	<u>2003</u>	<u>2002</u>
	£	£
Capital Gains Tax	-	106,655
Total current tax	-	106,655



**6 FIXED ASSETS**

	<u>2003</u> £	<u>2002</u> £
<b>Intangible assets</b>		
<b>Cost</b>		
At 1 January	1,106,501	893,060
Additions	<u>191,754</u>	<u>213,441</u>
At 31 December	<u>1,298,255</u>	<u>1,106,501</u>
<b>Depreciation</b>		
At 1 January	54,000	-
Impairment	<u>63,392</u>	<u>54,000</u>
At 31 December	<u>117,392</u>	<u>54,000</u>
<b>Net Book Value</b>		
At 31 December	<u>1,180,863</u>	<u>1,052,501</u>

Intangible assets are comprised of licence acquisition costs and exploration expenditure.

**7 CREDITORS: Amounts falling due within one year**

	<u>2003</u> £	<u>2002</u> £
Tax and social security	<u>-</u>	<u>374,873</u>

**8 CALLED UP SHARE CAPITAL**

	<u>2003</u> £	<u>2002</u> £
<b>Attributable to equity interests:</b>		
Ordinary shares		
Authorised: 10,000,000 (2002: 10,000,000) shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
Allotted, called up and fully paid:		
894,060 of £1 each (2002: £894,060)	<u>894,060</u>	<u>894,060</u>

## 9 CAPITAL CONTRIBUTION

	<u>2003</u> £	<u>2002</u> £
Asset additions	191,754	213,441
Capital Gains Tax payment	374,873	-
Interest on Capital Gains Tax payment	6,286	-
Net addition to capital contributions	572,913	213,441
Balance at beginning of the period	213,441	-
Balance at end of the period	786,354	213,441

Capital contributions represent the accumulated funding provided by the immediate parent undertaking.

## 10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	<u>2003</u> £	<u>2002</u> £
Loss for the period	(69,668)	(160,653)
Capital Contribution	572,913	213,441
Net addition to shareholder's funds	503,245	52,788
Shareholder's funds at beginning of the period	678,630	625,842
Closing shareholder's funds	1,181,875	678,630

## 11 CONTINGENT LIABILITIES

A deferred acquisition consideration cost of £355,518 becomes payable by the immediate parent undertaking should the Secretary of State of the Department of Trade and Industry give consent to a development programme.

## 12 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent undertaking at 31 December 2003 is EnCana (U.K.) Limited. Copies of EnCana (U.K.) Limited's financial statements may be obtained from the Company Secretary, EnCana (U.K.) Limited, Charter Place, Vine Street, Uxbridge, Middlesex UB8 1JG.

The ultimate parent undertaking and controlling party at 31<sup>st</sup> December, 2003 is EnCana Corporation, a company incorporated in Canada, which is the largest corporate entity to prepare consolidated group financial statements incorporating these accounts. Copies may be obtained from the Corporate Secretary, EnCana Corporation, P.O. Box 2850, Calgary, Alberta, Canada, T2P 2S5. The smallest group to consolidate these financial statements is EnCana (U.K.) Holdings Limited. Copies of the financial statements may be obtained from the company secretary, EnCana (U.K.) Holdings Limited, Charter Place, Vine Street, Uxbridge, Middlesex UB8 1JG.