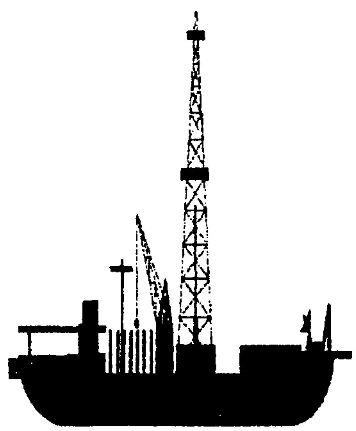
**risk assessment & control**
**RAC**

# ENRON NORTH AMERICA
# PORTFOLIO WATCH LIST
# UPDATE AS OF 9/25/2000



**Distribution:**

**Buy, Rick**
**Delainey, Dave**
**Donahue, Jeff**
**Frevert, Mark**
**Haedicke, Mark (via cc:Mail)**
**Lydecker, Richard (via cc:Mail)**
**Skilling, Jeff**
**Sutton, Joe (via cc:Mail)**

**PLEASE NOTIFY RICK CARSON AT X3-3905**
**WITH QUESTIONS OR COMMENTS**

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## RISK ASSESSMENT & CONTROL
## PORTFOLIO WATCH LIST-UPDATE AS OF 9/25/2000
## VALUES INDICATED ARE FOR ENRON NORTH AMERICA

Cost & Carry Values as of 8-31-2000. Market Values from Merchant Portfolio Report Dated 9-21-2000.

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| Crown Energy | Eugene Offshore Holdings, LLC |
| Enserco Offshore | Forcenergy |
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**RISK ASSESSMENT & CONTROL**
**PORTFOLIO WATCH LIST-UPDATE AS OF 9/25/2000**
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| | |
|---|---|
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## WATCH
Assets displaying early warning signs of potential weakness that deserve close attention.

**Bonne Terre Exploration** (Limited Liability Company) JEDI II & Balance Sheet

- Certain issues regarding the dissolution of the LLC continue to be sorted out, including the number of seismic licenses granted and access to the seismic data. The formal dissolution of the LLC has also been delayed due to time demands on ENA counsel. The insurance company has denied a $750K oil spill claim; related to an incident that occurred in March at the Black Bayou field in Louisiana. Further pursuit and discussion of the claim is underway with the insurance broker and the underwriters. Following dissolution of the partnership, ENA will be working with new partners, Manti and Tri-C to manage the assets and the drilling program. Negotiations are progressing with RIMCO to sell the Black Bayou dome field.

[redacted]

**City Forest Corporation** (Senior / Sub Loans, with IP's) Balance Sheet and ENA CLO Trust #1

- August EBITDA was $200K below plan, but current production levels and pricing are adequate to service debt. Monthly cash flow is currently averaging around $600K, vs. a plan of $825K. Liquidity issues will remain tight through the first of November, but the major technical issues with the #4 tissue machine, are mostly resolved and operational issues are confined to the expected normal start-up type. The semi-annual interest payment that was due on Sept 1st was made on time.

[redacted]

**(Transfer to ENA CLO #I) $30.000 MM**

**Cypress Exploration** (Working Interest) Balance Sheet

- A deal approval sheet was recently signed allowing for the additional funding of $4.9 MM, allocated, as follows: $800 K to fund G&A for a prospect generation shop for six months; $220K to fund seismic needs; $550K for lease rentals and $3.3 MM for the drilling and completion of three wells. Approximately one-third of the drilling allocation was spent the week of Sept-18th- the Bernard #1 was spudded at a dry hole cost of $1 MM. Drilling milestones have been established and prospects will not be pursued unless strict standards are met. ENA has funded $82.5 MM to date, received distributions of $27.5 MM and has accrued distributions of approximately $4.0 MM, for a net outflow of $51 MM. Current proved reserve value (PV10 on the strip) is roughly $30 MM, producing $2.5 - $3.0 MM per month of cash flow. ENA is preparing to issue a Volumetric Production Payment with the Thornwell Field reserves and believes this strategy is repeatable. A cohesively defined exit strategy for the entire asset will be out-lined before year-end.

[redacted]

**DPR Holding Company, LLC** (Senior Debt & Private Equity) JEDI II & Balance Sheet

- The repurchase of the Panther mine loan by the principal (Chris Cline), has been delayed, pending negotiations with A.T. Massey on the Jupiter – Eagle JV Agreement. If agreement in principal for the JV Agreement can be reached and approved internally by ENA, then the Panther transaction should move forward. A corporate guarantee from DPR Holdings and a personal guarantee from Chris Cline backstop the loan to Panther. The valuation for the income participation certificates associated with the Panther mine was informally agreed to at $2.9 MM. ENA will retain the right to market Panther's coal. The JEDI II / ENA net gain on the transaction is expected to approximate $400K. The mines have been under tonnage for the last couple of months due to vacation time in July, problems with Eastern's prep plant belt being shut down, and roof and rib problems in all three sections of the Dakota mine. The

Dakota mine has shown some improvement in September, producing 42,000 tons during the week ended Sept-16th, vs. plan of 43,000 tons. Financial covenant violations were noted at all three mines for the quarter ending Jun-30-2000.

[redacted]

**(Transfer to ENA CLO #I)** **$23.054 MM**

## WATCH - (Continued)

**Juniper Exploration** (Limited Partnership) JEDI II & Balance Sheet

- Drilling results for the partnership remain disappointing, with a total of 14 wells drilled to date with 6 currently producing, 6 plugged & abandoned and 2 being re-completed. The Wm. Cobb independent third-party reserve report as of Jul-1st, indicates PV10 value for current total proved reserves of approximately 35.2 BCF, considerably below what was originally modeled in the base case economics. At the current time, cash flow from the Bay Marchand, Eugene Island 28 and Eugene Island 57 properties, adequately cover G&A costs.

[redacted]

**Linder Energy LLC**: (66.7% Membership Interest) JEDI II & Balance Sheet

- A meeting was held with Linder officials on Sept-9th, regarding the partnership distribution interest re-determination that will take effect as of Oct-1st and a potential buy-out of the ENA / JEDI II interest. Additional discussion involved the status of the most recent reserve report, changes in production profiles, remaining reserves and the timing of capital expenditures for behind pipe reserves. The PV12 value of the reserves exceeds the amount currently outstanding, but approximately 50% of the reserve value is behind pipe and will require cap-ex dollars to bring it on line. Linder, as a 25% working interest owner is not financially incentivized to bring the behind pipe reserves on-line as distributions are currently running 99% to JEDI II / ENA. The ownership percentage is adjusted to attempt to ensure a 12% rate of return (floor distribution is 66.7). An offer by Linder to buy out our interest at cost, with no NPV consideration, was rejected.

[redacted]

**LSI Electric Specialty Corp** (Sr. Term Loan, Preferred Stock and Warrants) JEDI II & Balance Sheet

- The Company has re-paid in full their ENA $500K working capital loan and are now in discussion with potential lenders (Toronto-Dominion - very involved) to refinance their entire outstanding debt, including the $5.2 MM, ENA CLO Trust debt that matures March-2001. Loan payments (principal and interest) are current and were timely made for Q-2-2000. LSI continues to re-think their basic business model to possibly include a total cable inventory management system that would better allow them to withstand the inherent cyclicality associated with the drilling business. That business line would also provide larger revenue over a less capital-intensive asset base. LSI continues to work the "preferred provider" status that was obtained with Enron Engineering & Construction Company and with Enron subsidiary, NEPCO. First business is likely to come from the Austin Power Project.

[redacted]

**(Transfer to ENA CLO Trust #1)** **$5.200 MM**

**Mariner Energy** (Private Equity & Debt) JEDI 1 & Balance Sheet (Gross #'s)

- The ENA Global Risk Markets Group is proposing to structure a senior secured bullet note for all of Mariner's existing debt and covert ENA's current funded debt exposure into a first loss position. The debt included in the refinancing will be the $100 MM of high yield 144A bonds and a portion of ENA's $112 MM senior credit facility. The transaction will be facilitated through a special purpose vehicle ("SPV") that will raise equity and bank debt sufficient to loan Mariner enough capital to

redeem the high yield notes and sub-debt at par and to pay transaction fees and insurance premiums. The SPV will purchase an insurance policy to guarantee P&I payments on the bank debt. The transaction will result in true ENA risk transfer of approximately $62 MM, the amount that will be guaranteed by the insurance company. Mariner Management has also held recent discussions with CS First Boston regarding the merits of a Q-4-2000 IPO vs. a mid-year 2001 offering, updating the Mariner story to include the mid-August acquisition of Shell's 50% working interest in the King Kong deepwater development project. ENA and Mariner are examining the potential proceeds that would be received based on the IPO timing. Mariner will overspend cash flow this year, with 2000 cap-ex (including capitalized G&A and interest) estimated to be in the $85 - $90 MM range.
[redacted]

## WATCH - (Continued)

**Oconto Falls** (Sub-Debt / Equity & IPC's) Balance Sheet

- While a conceptual Agreement has been reached on a "buy-back" of the IPC's associated with Oconto Falls for approximately $11 MM, the details and timing of that arrangement remain to be worked out. The $5 MM of debt at the CLO / Merlin level will remain as the Company is precluded from paying that off, prior to repayment of their senior debt. ENA will not be participating in the financing of the Re-Box Paper facility (a greenfield linerboard project), but will retain warrants to purchase 250 shares of Re-Box common stock. Permanent financing of the Re-Box facility has not been secured.
[redacted]
**(Transfer to ENA CLO Trust #1) $ 5.000 MM**

**Sacramento Basin Exploration Venture** (50% W.I. and a 40% N.R.I.) JEDI II & Balance Sheet

- (Formerly known as the Amerada Hess Exploration Venture) On July-28th, a new agreement was reached between Calpine and ENA / JEDI II, wherein the original Prospect Wells were to be replaced with new wells to be proposed by Calpine. The maximum commitment was reduced from $5 MM to $4 MM (with the understanding that ENA has already funded $1.879 MM), and the commitment period was extended to Dec-31-2001. No cash calls have been made and are unlikely until 2001, based on the prospect area being located in a wet delta region that is only drilling accessible during the April – October period.
[redacted]

**Venoco, Inc.** (Private Equity – Cumulative Convertible Preferred Stock) JEDI II & Balance Sheet

- The Company has recently held what they feel are productive talks with the Bank of Montreal ("BMO"), regarding the implementation of a $100 MM borrowing base facility, designed to take the existing bank group out at par. Bank One is a likely co-lead on the facility, with one other bank member probable. The ENA Commercial group believes there will be a downward adjustment to the $100 MM, based on the required preferred payments to ENA / JEDI II, not being fully captured in the BMO model. However, the adjustment should not impact the payoff of the existing bank group. Time is of the essence on the re-financing as a bullet payment to the existing bank group of $11 MM is due on Oct-1st. An offer by a private E&P entity to purchase the whole Company has not been successful, based on a failure to raise the required capital. A total buy-out was contemplated in the $360 MM range, with a likely 80% - 20% debt / equity capital structure. The would-be purchaser obtained a commitment from Chase for $250 - $260 MM of debt, but has been unable to raise the necessary equity. Venoco was fair-valued up in excess of $36 MM during August and if the financing issues described above are favorably resolved, the asset will move back to the Performing category on the next report.
[redacted]

## RISK ASSESSMENT & CONTROL
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**WB Oil Company** (Private Equity) Balance Sheet

- No major updates since our last report. A recent well drilled by Coastal at High Island Block 85 was unsuccessful. Coastal had signed a participation agreement with WB, whereby they paid $700K for a 77.5% working interest at High Island Block 85. Coastal was to pay an additional $300K, when drilling commenced on the initial test well. The ENA exit strategy is sale of the interest.
  [redacted]

**TROUBLED** – Assets for which the returns are considerably less than originally projected.

**Beau Canada** (Common Stock & Warrants) JEDI & JEDI II (Gross #'s)

- Beau Canada's sale process is nearing its completion and the Company believes that activity and interest shown have been good. Beau Canada announces that bids for the company should be submitted no later than Sept-25-2000. Beau had previously disclosed a notional transportation liability, or market value of transportation commitments, calculated at estimated July 1st pricing of approximately $48 MM, including $3.2 MM for a specific commitment. Beau has settled the specific commitment for a specific payment.
  [redacted]
  **(Transfer to ENA CLO #I) $12.241 MM**

**Brigham Exploration Co.** (Sub-debt, Common Stock & Warrants) JEDI II & Balance Sheet

- The ENA Commercial group has proposed a "buy-out" number to Brigham for the repurchase of our sub-debt, common stock and warrants. The total "buy-out" number was roughly $5 MM more than Brigham officials had proposed to repurchase only the sub-debt. Brigham is working with their investment advisor, CIBC, regarding raising the additional funds. The Company is currently in the process of raising $40 MM through a private equity placement. The Company remains highly leveraged and access to the public capital markets is not possible, absent a re-capitalization of the balance sheet. Due to being unfavorably hedged at $2.15 / MCF, the Company will generate little internal cash flow this year. For 2001, the Company has hedged approximately 11.5 MMCF / day (33% of estimated total production) at an average price of $2.35 / MCF. A response from Brigham on the "buy-out" is anticipated shortly.
  [redacted]

**C-Gas** (Private Equity) JEDI I (Gross #'s)

- Officers of the Company were in Houston the week of Sept-11th to discuss salary and bonus issues. The ENA Commercial team worked with Enron HR Compensation specialists to design a compensation structure that is representative of similar Appalachian-based E&P companies. Operational and financial results YTD have exceeded plan for C-Gas. For the first eight months of the year actual EBITDA of $5.8 MM exceeded plan of $4.5 MM by 29%. Cash Flow of $4.5 MM exceeded plan of $3.2 MM by 42%. Drilling success YTD has been good with a 72% success rate through the first 8 months. Given the reasonably strong operational results YTD, no immediate sale of the Company is planned.
  [redacted]

**Ecogas Corporation** (Private Equity & Revolving Debt) Balance Sheet

- Six companies have gone through the data room in Austin, with two public, large capitalization companies showing selective buy-side interest. One has recently signed a landfill-to-power deal with

Waste Management Inc and the other one, a subsidiary of a major utility, has shown interest in gas rights held by Ecogas. A total sale of the Company continues to the preferred exit strategy for ENA Commercial, but awareness persists that significant interest will likely be shown only for certain assets – the power plants, the tax credits, the gas rights, etc. No official response has been received from the IRS on the Section 40 tax credit issue, but guidance from outside counsel, Bracewell & Patterson continues to be negative. ENA Senior Management marked the equity value on Ecogas to zero during the month of August. A total or partial sale of the Company is anticipated before year-end.
[redacted]

**TROUBLED – continued**

**EnSerCo Offshore** (formerly NorAm) (Senior Term Loan) EnSerCo

- A binding purchase and sale agreement for the rig has been entered into with formal closing and possession scheduled to occur no later than Sept-30th. The transaction as structured will take us out at a premium to par on our current carry value. A deficiency judgment rendered in Galveston County against the former owner (guarantor) will survive the sale and will continue to be pursued.
[redacted]

**Heartland Steel** (Senior Debt, Common Stock & Warrants) Balance Sheet

- A meeting with the Heartland bank group was held in Terre Haute, Indiana on September 7th. A further response from the bank group (lead agents, PNC & Deutsche Bank), regarding extending forbearance is anticipated shortly. Cash flow and availability are thought to be sufficient to fund operations only through mid-November. Heartland officials have been meeting with two Restructuring groups out of New York City - the Blackstone Group as well as Houlihan & Loukey. Slower than expected plant commissioning and the lag time in production has resulted in a cumulative negative EBITDA of $31 MM, vs. an original plan of a negative $4.5 MM. The original model assumed 90% prime and 10% scrap sales. To date, actual sales have not tracked the higher margin areas and are currently running 60% prime and 40% scrap.
[redacted]

| | |
|---|---|
| **(Transfer to Condor)** | **$ 14.754 MM** |
| **(Transfer to ENA CLO #I)** | **$ 15.000 MM** |

**Hughes Rawls LLC** (LLC Membership) JEDI I & Balance Sheet (Gross #'s)

- The ENA Commercial group is waiting on a counter purchase offer from EPL, the operator of the Hughes Rawls properties. An offer in the $1.3 - $1.5 MM range is expected, subject to values that will be associated with each well. EPL, as recognized operator of the properties under the Minerals Management Service, has not been subject to the same constraints as previous companies making offers. Other companies have made offers and then rescinded following due diligence. Dudley Hughes, the remaining principal of the LLC, will continue to attempt to market the properties.
[redacted]

**Ice Drilling** (Term Loan with Warrants) EnSerCo

- RESTRUCTURING COMPLETED - No major updates since our last report. A reconciliation of the amounts owed indicates C$1,057,836 (US$719,616) outstanding on the original US$10 MM (gross)

loan after the sale of assets placed in receivership. A negotiated settlement on the deficiency with the guarantors was unsuccessful and legal action is now underway.
[redacted]

**Industrial Holdings** **"IHII"** (Term Loan) EnSerCo

- The ENA Commercial team has met with the new CEO of Industrial Holdings and are more confident that a realistic turn-around of the Company is possible, validated by a positive recording of earnings for the Q-2-2000 period. The new management has given indication that they are looking to refinance all debt through their Bank group (headed by Comerica and Heller) by the end of January, 2001. If that effort is successful, the ENA / EnSerco loan would be paid off in its entirety. The ENA Legal group consistently recommended against filing litigation against the Company, due to our unsecured position. Interest has been accruing at the 18% default rate on the note.
[redacted]

## TROUBLED - continued

**Inland Resources** (Cumulative Convertible Preferred) JEDI II

- RESTRUCTURING COMPLETED. The sale and merger of Inland with certain contributed assets of privately held Flying J (Salt Lake City, Utah), is proceeding as planned with closing expected on or about Oct-1st. Chase Bank and FleetBoston Financial are acting as lead agents on a $150 MM credit facility. As a condition precedent to the closing of the credit facility the Black Wax refinery is to receive $20 MM in upgrades over an 18-month period. Enron will maintain par on our $10 MM preferred stock, with our absolute common stock position (2.93 MM shares) maintained, but at a reduced ownership percentage. There are no restrictions on the common stock held by Enron. The ENA Commercial group believes the combination of Flying J and Inland enhances the collateral value of our preferred stock and facilitates secondary market opportunities / syndication to institutional investors. ENA will retain the right to match hedging activity that the NEWCO would enter into.
[redacted]

**Kafus Industries, Ltd., Canfibre of Riverside, Inc.,** (Debt & IPC's) Balance Sheet

- The British Columbia Supreme Court granted a creditor's petition filed on Aug-14th and appointed PricewaterhouseCoopers Inc. as interim receiver. Reports indicate that some construction continues at the Company's medium density fiberboard ("MDF") plant located in Lackawanna, NY and that production has resumed at the Riverside, California plant, averaging around 55% of capacity, with sales not keeping pace with that level. At one point, the company had $2 MM of accumulated inventory at Riverside. Since that time about one-third of the inventory that was on hand has been sold. The Company will undertake future production only to meet sales orders and not to build further inventory. Kafus common stock has resumed trading on the AMEX, recently quoted in the $0.20 cents per share range.
[redacted] **(Riverside)**
[redacted] **(Other Kafus)**
**(Transfer to ENA CLO Trust #1)** **$ 60.000 MM**

**Queen Sand Resources, Inc.** (Equity – Preferred & Common) JEDI (Gross #'s)

- *RESTRUCTURING PARTIALLY COMPLETED.* The Company held its annual meeting in Dallas on Monday, Sept-18th and all agenda items recommended for approval by Management were voted on positively. In brief, these included approval of the reverse 156:1 stock split, the pay-off of $75 MM of

senior high yield notes for $49 MM and a name change to DEVX Energy. The Company now plans a secondary public common stock offering no later than Oct-31st, whereby it expects to realize approximately $74 MM in net proceeds. Application of the proceeds will be in part, to purchase $75 MM of QSRI's $125 MM 12.5% senior unsecured notes due 2008 for $49 MM and repay $13 MM currently outstanding under its credit facility. Following the re-capitalization, JEDI will own approximately 229,391 shares of common stock, representing a 2.04% ownership position in QSRI.
[redacted]

**Basic Energy (Sierra Well Service)** (Senior Secured Notes with Warrants and Preferred Stock) JEDI II

- The Company has retained Jefferies to assist with a private equity re-financing, targeting qualified institutional buyers. Jefferies received only 2 proposals out of 40 contacts, with First Reserve being the high bidder, offering $35 MM in cash and a $5 MM cash flow participation certificate. If accepted the $35 MM offer would take out the ENA CLO senior secured credit facility (approximately $24.41 MM outstanding), at par. The ENA CLO senior subordinated credit facility (approximately $28.1 MM outstanding), would be retired at around $0.38 cents on the dollar. The cash flow participation certificate is for a five-year term and is capped at $1 MM per year and $5 MM in total. A default notice has been served to the Company, based on the missed June-30th (and likely Sept-30th) principal and interest payment, but the note has not been accelerated.
[redacted]
**(Transfer to ENA CLO Trust #1) $ 52.550 MM**

## TROUBLED – continued

**Transcoastal Marine Services ("TCMS")** (Subordinated Debt with Warrants) JEDI II

- RESTRUCTURING PARTIALLY COMPLETED. TCMS has filed a voluntary petition for Chapter 7 liquidation, requesting debtor in possession status. The Bankruptcy Trustee and the fee arrangement have been agreed to. The law firm of Andrews and Kurth LLP is advising the CLO Trust in the bankruptcy proceeding. The ENA Commercial group has been advised by outside legal counsel that "some" value for ENA and the CLO Trust should flow from the bankruptcy liquidation.
[redacted]
**(Transfer to ENA CLO Trust #1) $ 20.00 MM**

## LOSS

No future cash flows projected and FMV of the asset has been written off. Residual recovery possible.

**Belco Oil & Gas** (Warrants) JEDI 1 (Gross #'s)

- The Belco warrants are out of the money to the extent that it is not likely that any value will be realized unless another transaction is consummated with Belco that would involve re-pricing the warrants, which strike at $27.50 (Aug-28th closing price of $9 3/16). The warrants expire Nov-25-2000.
[redacted]

**Crown Energy** (Private Equity) Balance Sheet

- MCN Energy (currently in the process of merging with the parent Company of Detroit Edison – DTE Energy), has filed a court action requesting a stay on all previously filed lawsuits between Crown Energy and MCN, citing language in the Operating Agreements that mandates arbitration prior to the initiation of legal proceedings. Crown has counter-filed, citing that the issues in question are not subject to arbitration and that the magnitude of their importance merit immediate court consideration. The Court has not yet rendered a decision on the request. Given the increased un-likelihood of Crown's ability to continue as a going concern, ENA Senior Management made the decision during August to mark the asset to zero on the Merchant Portfolio Report.

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[redacted]

**Lyco Energy** (Private-Convertible Preferred & Common) JEDI I and Balance Sheet (Gross #'s)
- RESTRUCTURING COMPLETED – FINAL REPORT. The $2.5 MM settlement payoff of the ENA preferred and common stock investment, which had been negotiated by the ENA Restructuring Group, was received on Sept-25th.
[redacted]

**Nakornthai Strip Mill (NSM) -Thailand** (Subordinated Notes w/Warrants) Balance Sheet_
- RESTRUCTURING PARTIALLY COMPLETED. Plaintiff attorneys representing claimants against McDonald & Company (a member of the original NMS Underwriting group) were recently in Houston to "interview" ENA Commercial members. The ENA commercial group and internal counsel have successfully obtained releases on two or the three lawsuits that were filed against the original underwriting group that included ECT Securities.
[redacted]