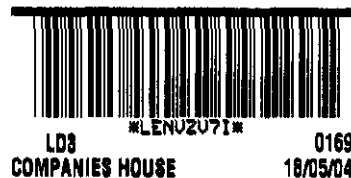


Company Registration No. 3084447

**INTREPID ENERGY NORTH SEA
LIMITED**

**Accounts together with directors' and
independent auditors' reports**

31 December 2003



**Deloitte & Touche LLP
London**

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DIRECTORS' REPORT

The directors present their annual report and the audited accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Group's objective is to invest in North Sea oil and gas activities, holding interests in joint ventures involved in the exploration for, development of and production of, oil and gas reserves.

BUSINESS REVIEW

On 31 December 2002, Intrepid Energy North Sea (Holdings) Limited ('IENSHL'), a Company incorporated in England & Wales, acquired the ordinary share capital of the Company from Intrepid Energy Limited, its ultimate parent company, and the preferred share capital and subordinated debt from the Unitholders. Effective 1 January 2003, the interest rate on the subordinated debt was reduced to 0% and the requirement to pay interest accrued to 31 December 2002 was waived (note 5).

On 10 June 2003 the company restructured its share capital and subordinated loan notes (note 17).

During the year the Group disposed of its interests in the Pickerill field, and as part of a group reconstruction transferred its interests in the Ross, Renee and Rubie fields to a subsidiary undertaking, Intrepid Energy Alpha Limited (IEAL), prior to the disposal of its interests in that subsidiary. Note 24 sets out the details of the asset transfer to IEAL.

During the year the Group repaid \$30.0 million (2002: \$22.0 million) of outstanding bank debt.

The Group owns a 29.89% interest in the Buzzard field. Appraisal of the field and development options continued and on 27 November 2003 the UK government sanctioned the development. A \$600 million credit facility was established to facilitate funding of the project.

The Group's net production in 2003 was 5.1mmboe (2002 - 6.2mmboe). The average Brent Oil price for 2003 was \$28.83/bbl (2002 - \$25.02/bbl). Operating profits were \$37.2 million (2002 - \$49.6 million).

The Group owns producing interests in, among others, the Nelson Field and the oil and gas fields and related pipeline and terminal facilities known collectively as the Flotta Catchment Area.

Management services to the Group are provided by Intrepid Energy & Co ("IE&Co"), a related Scottish partnership, under a Management Agreement.

IENSHL has commenced a process which it is intended will lead to the disposal of its subsidiary undertakings during 2004.

RESULTS AND DIVIDENDS

The profit for the year ended 31 December 2003 amounted to \$95.5 million (2002 - \$9.9 million loss).

The directors do not recommend the payment of a dividend (2002 - \$nil).

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

M T Lynch	
F T Nadir	(Resigned 16 June 2003)
J D LaRue	(Resigned 16 June 2003)
R S Harvey	
A J Paxton	
D L Murphy	(Appointed 16 June 2003)
R A Sobey	(Appointed 16 June 2003)

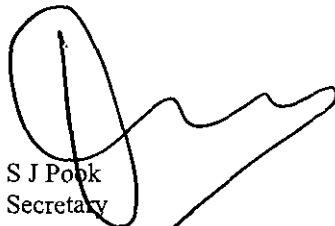
No director in office at the end of the year had any beneficial interest in the shares of the Company or any fellow subsidiary undertaking in the IENSHL Group.

Interests of the directors in the shares of the ultimate parent company are disclosed in the accounts of that Company.

AUDITORS

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board



S J Pook
Secretary

Millbank Tower
21-24 Millbank
London SW1P 4QP

28 April 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom Company law 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 as at the end of the financial year 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; and
- prepare the accounts 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 and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTREPID ENERGY NORTH SEA LIMITED

We have audited the accounts of Intrepid Energy North Sea Limited for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 25. These accounts have been prepared under the accounting policies set out therein.

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 directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the accounts in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the accounts, 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.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 directors 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.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

28 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003

	Note	2003 \$million	2002 \$million
TURNOVER	2	155.6	166.1
Cost of sales	3	(96.0)	(98.6)
GROSS PROFIT		<u>59.6</u>	<u>67.5</u>
Administration costs	4	(22.4)	(17.9)
OPERATING PROFIT		<u>37.2</u>	<u>49.6</u>
Interest receivable and similar income	5	89.7	1.0
Interest payable and similar charges	6	(14.1)	(33.5)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>112.8</u>	<u>17.1</u>
Tax on profit on ordinary activities	7	(17.3)	(27.0)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	18	<u><u>95.5</u></u>	<u><u>(9.9)</u></u>

Turnover and operating profit arise entirely from continuing operations.

The accompanying notes are an integral part of these accounts.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2003

	Note	2003 \$million	2002 \$million
Profit/(loss) for the financial year	18	95.5	(9.9)
Gain on translation of foreign currency investment	18	0.9	0.7
Total recognised gains and losses relating to the year		<u>96.4</u>	<u>(9.2)</u>

The accompanying notes are an integral part of these accounts.

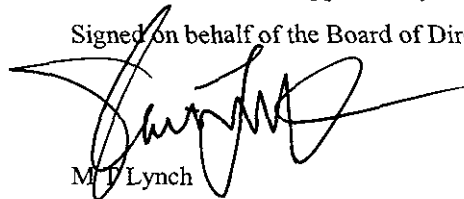
CONSOLIDATED BALANCE SHEET
31 December 2003

	Note	2003 \$million	2002 \$million
FIXED ASSETS			
Intangible assets	9	29.9	31.1
Tangible assets	10	391.7	340.8
		<u>421.6</u>	<u>371.9</u>
CURRENT ASSETS			
Stocks	12	2.9	4.4
Debtors			
- due within one year	13	19.7	26.9
- due after one year	13	16.7	18.8
Cash at bank and in hand		36.7	31.2
		<u>76.0</u>	<u>81.3</u>
CREDITORS: amounts falling due within one year	14	<u>(53.9)</u>	<u>(65.0)</u>
NET CURRENT ASSETS		<u>22.1</u>	<u>16.3</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		443.7	388.2
CREDITORS: amounts falling due after more than one year	15	-	(321.5)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(133.6)</u>	<u>(85.1)</u>
NET ASSETS/(LIABILITIES)		<u>310.1</u>	<u>(18.4)</u>
CAPITAL AND RESERVES			
Called up equity and non-equity share capital	17	2.4	2.4
Share premium account	18	232.1	-
Profit and loss account	18	75.6	(20.8)
TOTAL EQUITY AND NON-EQUITY SHAREHOLDERS' FUNDS	18	<u>310.1</u>	<u>(18.4)</u>

These accounts were approved by the Board of Directors on

2004.

Signed on behalf of the Board of Directors



M J Lynch
Director



A J Paxton
Director

The accompanying notes are an integral part of these accounts.

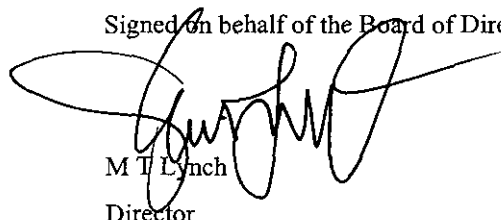
COMPANY BALANCE SHEET
31 December 2003

	Note	2003 \$million	2002 \$million
FIXED ASSETS			
Intangible assets	9	4.2	6.4
Tangible assets	10	175.0	147.7
Investments	11	288.1	285.5
		<u>467.3</u>	<u>439.6</u>
CURRENT ASSETS			
Stocks	12	0.1	0.5
Debtors	13	4.0	6.7
Cash at bank and in hand		35.3	29.7
		<u>39.4</u>	<u>36.9</u>
CREDITORS: amounts falling due within one year	14	<u>(161.7)</u>	<u>(280.4)</u>
NET CURRENT LIABILITIES		<u>(122.3)</u>	<u>(243.5)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		345.0	196.1
CREDITORS: amounts falling due after more than one year	15	-	(321.5)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(63.5)</u>	<u>(45.9)</u>
NET ASSETS/(LIABILITIES)		<u>281.5</u>	<u>(171.3)</u>
CAPITAL AND RESERVES			
Called up equity and non-equity share capital	17	2.4	2.4
Share premium account	18	232.1	-
Profit and loss account	18	47.0	(173.7)
TOTAL EQUITY AND NON-EQUITY SHAREHOLDERS' FUNDS	18	<u>281.5</u>	<u>(171.3)</u>

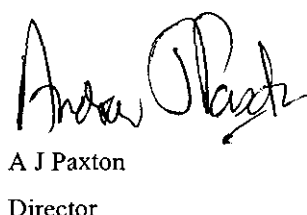
These accounts were approved by the Board of Directors on

2004.

Signed on behalf of the Board of Directors



M T Lynch
Director



A J Paxton
Director

The accompanying notes are an integral part of these accounts.

INTREPID ENERGY NORTH SEA LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Note	2003 \$million	2002 \$million
NET CASH INFLOW FROM OPERATING ACTIVITIES			
	19	72.3	67.9
Returns on investments and servicing of finance	20a	(9.3)	(2.7)
Taxation	20b	(7.0)	4.7
Capital expenditure and financial investments	20c	(41.1)	(44.8)
Acquisitions and disposals	20d	20.2	0.2
		<hr/>	<hr/>
CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		35.1	25.3
Financing	20e	(30.0)	(22.0)
		<hr/>	<hr/>
INCREASE IN CASH IN THE YEAR	21	5.1	3.3
		<hr/>	<hr/>

The accompanying notes are an integral part of these accounts.

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

1. ACCOUNTING POLICIES

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

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities' (the 'Oil and Gas SORP'). The accounts have been prepared in US dollars which the directors consider to be the functional currency of the Group.

b) Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

c) Accounting for joint arrangements

The Group's activities are conducted through joint arrangements, that are not entities, with other companies. The accounts reflect the Group's share of the assets, liabilities and cash flows in the joint arrangements.

d) Turnover

Turnover excludes intra-group transactions and value added tax and represents the sales value of the Group's share of oil and gas production during the year, including tariff income.

e) Tangible fixed assets

Other than oil and gas assets, tangible fixed assets are stated at cost, net of depreciation, and comprise computer equipment and fixtures and fittings. Depreciation on computer equipment is provided at 33% per annum and on fixtures and fittings at 25% per annum being the rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life.

f) Oil and gas assets

Oil and gas assets are accounted for using the full cost method of accounting. All exploration and appraisal costs are initially capitalised as incurred as intangible oil and gas assets. Following technical and commercial evaluation, all costs are transferred to the tangible oil and gas assets pool which the directors consider to be a single income generating unit. Acquisition and development costs are capitalised directly as tangible oil and gas assets. Following the commencement of production, tangible oil and gas assets, together with anticipated future capital costs relating to commercial reserves, are written off on a unit of production basis over the remaining life of the pool using commercial reserves. Such unit of production calculations are performed on a consolidated basis for the Group accounts.

g) Commercial reserves

Commercial reserves are proven and probable oil and gas reserves as defined in the Oil and Gas SORP.

h) Impairment of value

Each year, management reviews the recoverable amount of its fixed assets based upon projections of discounted future net revenues and compares that amount with the carrying amount of those assets. To the extent that the carrying amount exceeds the recoverable amount, management provides for the impairment identified; should conditions change such that the recoverable amount exceeds the carrying amount, then the carrying amount is written up to the lesser of the depreciated original cost and the recoverable amount. Impairment tests are performed on a consolidated basis for the Group accounts.

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

i) Decommissioning provisions

A provision for the cost of decommissioning of an asset and for site restoration at the end of the asset's producing life is recognised as that asset is installed. The amount provided is the discounted amount of the estimated cost of the future decommissioning event. That amount is capitalised as part of oil and gas assets and depleted in accordance with the oil and gas assets accounting policy above. At each period end the discounted value of the provision is re-assessed. Any adjustment arising from the re-assessment of the estimated cost of decommissioning is capitalised whilst the adjustment arising from the unwinding of the discount is taken to the profit and loss account.

j) Changes in estimates

The effect of revisions to estimates affecting unit of production calculations for depletion, decommissioning and petroleum revenue tax are accounted for prospectively over estimated remaining commercial reserves.

k) Consumable stocks

Consumable stocks are stated at the lower of cost and net realisable value.

l) Operating leases

Rentals payable for assets under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

m) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

n) Petroleum revenue tax ("PRT")

PRT is treated as a production cost and has been charged before arriving at operating profit. Provision is made for current PRT for the period and, through the deferred PRT charge, PRT is equalised on a unit of production basis over the remaining life of the field using commercial reserves.

o) Foreign currencies

Transactions in currencies other than US dollars are recorded at the relevant rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US dollars at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Assets and liabilities of subsidiary companies with non-dollar functional currencies are translated into dollars at rates current at the balance sheet date. Trading results and cash flows of such companies are translated into dollars at average rates. Unrealised gains or losses on revaluation of net assets of subsidiary companies are taken directly to reserves.

p) Investments

Fixed asset investments are shown at cost less any provision for impairment.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

2. TURNOVER

	2003	2002
	\$million	\$million
Oil and LPG	133.7	139.8
Natural gas and condensate	6.6	8.1
Tariff income	15.3	18.2
	<u>155.6</u>	<u>166.1</u>

All of the Group's turnover, operating profit and net assets relate to oil and gas exploration, development and production in the United Kingdom sector of the North Sea except for \$3.1 million in net assets (2002 - \$2.7 million) relating to the Group's and Company's investment in Licence B20 008/64 in the German sector of the North Sea and Licence F9 and G7 in the Dutch sector of the North Sea.

3. COST OF SALES

	2003	2002
	\$million	\$million
Operating costs	38.5	36.6
Royalties	(0.1)	6.4
Depreciation, depletion and amortisation	23.3	20.9
PRT charge		
- current	24.6	25.0
- deferred	2.1	2.1
Tariff expense	5.1	5.6
Insurance	2.5	2.0
	<u>96.0</u>	<u>98.6</u>

4. ADMINISTRATION COSTS

	2003	2002
	\$million	\$million
Management fees	8.9	8.3
Other administration costs	6.8	5.2
Professional fees	6.5	4.3
Depreciation	0.2	0.1
	<u>22.4</u>	<u>17.9</u>

The Company and its subsidiary undertakings have no employees and the directors received no remuneration from the Group for their services to the Company in either year. Management fees included compensation for making available the services of the directors to the Group.

Auditors' remuneration was \$106,153 (2002 - \$133,417) for audit services and \$1,308,913 (2002 - \$780,000) for non-audit services.

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003	2002
	\$million	\$million
Subordinated debt interest waived (note 6)	89.4	-
Interest received and receivable	0.3	1.0
	<u>89.7</u>	<u>1.0</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003	2002
	\$million	\$million
Bank interest paid and payable	0.4	1.6
Subordinated debt interest	-	27.9
Discount on decommissioning provision	2.5	2.2
Other finance charges	9.1	1.6
Exchange losses	2.1	0.2
	<u>14.1</u>	<u>33.5</u>

With effect from 1 January 2003, the interest rate on the subordinated debt was reduced to 0% and the requirement to pay the interest accrued at 31 December 2002 was waived.

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of tax charge in the year

	2003	2002
	\$million	\$million
Current tax		
UK corporation tax for current year	-	0.7
Adjustments in respect of prior years	3.4	(1.2)
Total current tax charge/(credit)	<u>3.4</u>	<u>(0.5)</u>
Deferred tax		
Origination and reversal of timing differences	13.9	20.4
Effect of increase in tax rate on opening liability	-	7.1
Total deferred tax charge (note 16)	<u>13.9</u>	<u>27.5</u>
Total tax charge on profit on ordinary activities	<u>17.3</u>	<u>27.0</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) Reconciliation of current tax charge in the year

	2003 \$million	2002 \$million
Group profit on ordinary activities before tax	112.8	17.1
Tax on profit on ordinary activities at average effective standard UK corporation tax rate of 40% (2002 – 37%)	45.1	6.3
Effects of:		
Subordinated debt interest waived being non-taxable	(35.7)	-
Expenses not deductible for tax purposes	4.3	13.4
Capital allowances in excess of depreciation	(18.2)	(18.9)
Introduction of supplemental corporation tax	-	(0.1)
Additions to tax losses	4.5	-
Adjustments to tax charge/(credit) in respect of previous years	3.4	(1.2)
Group current tax charge/(credit) for year	3.4	(0.5)

The Group earns its profits primarily in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax which was 30% to 16 April 2002 and 40% thereafter, following the introduction of a supplemental corporation tax for UKCS ring fence trades. The effective average tax rate for 2003 was 40% (2002 – 37%).

The Group's planned level of capital investment is expected to increase as the Buzzard Field development proceeds. Therefore, it expects to be able to claim capital allowances in excess of depreciation in future years, initially at a greater level than that claimed in the current year.

8. PROFIT ATTRIBUTABLE TO INTREPID ENERGY NORTH SEA LIMITED

The profit for the financial year dealt with in the accounts of the Company, Intrepid Energy North Sea Limited, was \$220.7 million (2002 – \$54.3 million loss). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the Company.

9. INTANGIBLE FIXED ASSETS

	Oil and gas assets	
	Group \$million	Company \$million
Cost		
At 1 January 2003	31.1	6.4
Additions	12.9	6.4
Acquisitions	0.3	0.3
Transfers to tangible fixed assets	(12.3)	(3.6)
Gross capitalised costs	32.0	9.5
Disposals	(2.1)	-
Transfers (note 24)	-	(5.3)
At 31 December 2003	29.9	4.2

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

10. TANGIBLE FIXED ASSETS

Group	Oil and gas assets \$million	Decommissioning assets \$million	Office equipment \$million	Total \$million
Cost				
At 1 January 2003	509.1	24.6	1.0	534.7
Additions	53.3	28.8	0.1	82.2
Transfers from intangible fixed assets	12.3	-	-	12.3
Exchange adjustment	0.6	0.1	-	0.7
	<u>575.3</u>	<u>53.5</u>	<u>1.1</u>	<u>629.9</u>
Gross capitalised costs				
Disposals	(7.5)	(13.1)	-	(20.6)
	<u>567.8</u>	<u>40.4</u>	<u>1.1</u>	<u>609.3</u>
At 31 December 2003	567.8	40.4	1.1	609.3
Accumulated depreciation				
At 1 January 2003	180.9	12.4	0.6	193.9
Charge for the year	22.8	0.5	0.2	23.5
Exchange adjustment	0.2	-	-	0.2
	<u>203.9</u>	<u>12.9</u>	<u>0.8</u>	<u>217.6</u>
At 31 December 2003	203.9	12.9	0.8	217.6
Net book value				
At 31 December 2003	363.9	27.5	0.3	391.7
	<u>363.9</u>	<u>27.5</u>	<u>0.3</u>	<u>391.7</u>
At 1 January 2003	328.2	12.2	0.4	340.8
	<u>328.2</u>	<u>12.2</u>	<u>0.4</u>	<u>340.8</u>

Company	Oil and gas assets \$million	Decommissioning assets \$million	Office equipment \$million	Total \$million
Cost				
At 1 January 2003	225.7	9.0	1.0	235.7
Additions	42.2	0.3	0.1	42.6
Transfers from intangible fixed assets	3.6	-	-	3.6
	<u>271.5</u>	<u>9.3</u>	<u>1.1</u>	<u>281.9</u>
Gross capitalised costs				
Transfers (note 24)	(92.4)	(1.6)	-	(94.0)
Disposals	(4.4)	(7.7)	-	(12.1)
	<u>174.7</u>	<u>-</u>	<u>1.1</u>	<u>175.8</u>
At 31 December 2003	174.7	-	1.1	175.8
Accumulated depreciation				
At 1 January 2003	83.7	3.7	0.6	88.0
Charge for the year	2.8	-	0.2	3.0
Transfers (note 24)	(86.5)	(3.7)	-	(90.2)
	<u>-</u>	<u>-</u>	<u>0.8</u>	<u>0.8</u>
At 31 December 2003	-	-	0.8	0.8
Net book value				
At 31 December 2003	174.7	-	0.3	175.0
	<u>174.7</u>	<u>-</u>	<u>0.3</u>	<u>175.0</u>
At 1 January 2003	142.0	5.3	0.4	147.7
	<u>142.0</u>	<u>5.3</u>	<u>0.4</u>	<u>147.7</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

11. FIXED ASSET INVESTMENTS

	Company	
	2003	2002
	\$million	\$million
Investment in subsidiary undertakings		
Shares	200.3	198.0
Loans	87.8	87.5
	<u>288.1</u>	<u>285.5</u>

Movement in the year reflects transfers of \$19.8 million (see note 24) and disposals of \$17.5 million.

The Company has investments in the following wholly-owned subsidiary undertakings which principally affected the profits or net assets of the Group:

	<i>Country of registration</i>	<i>Country of operation</i>	<i>Principal activities</i>
Intrepid Energy C.N.S. Limited*	England and Wales	UK	Exploration & Production
Intrepid Energy NSL Limited	England and Wales	UK	Exploration & Production
Intrepid Oil Transportation Limited	England and Wales	UK	Pipeline ownership
Intrepid Energy Beta Limited*	England and Wales	UK	Exploration & Production

* Directly-held by the Company.

12. STOCKS

	Group		Company	
	2003	2002	2003	2002
	\$million	\$million	\$million	\$million
Materials and consumables	2.9	4.4	0.1	0.5

13. DEBTORS

	Group		Company	
	2003	2002	2003	2002
	\$million	\$million	\$million	\$million
Trade debtors	11.5	18.3	0.8	1.8
Amounts owed by parent undertaking	0.1	-	0.1	-
Amounts owed by Group undertakings	-	-	0.1	0.4
VAT	1.8	1.3	1.8	1.3
Other debtors including taxation	19.1	19.9	0.4	0.3
Prepayments and accrued income	3.9	6.2	0.8	2.9
	<u>36.4</u>	<u>45.7</u>	<u>4.0</u>	<u>6.7</u>

Group other debtors includes \$16.7 million (2002 - \$18.8 million) of deferred PRT (note 16), all of which is anticipated to be recovered after more than one year.

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003 \$million	2002 \$million	2003 \$million	2002 \$million
Current portion of long term bank loan (note 15 a, b)	-	30.0	-	30.0
Amounts owed to IE&Co (note 23)	2.5	1.6	2.5	1.6
Amounts owed to operators	13.2	6.2	8.0	2.8
Amounts owed to Group undertakings	-	-	129.8	238.3
Taxation and royalties	4.7	11.5	-	-
Operator accruals	28.4	11.6	19.0	5.6
Other creditors and accruals	5.1	4.1	2.4	2.1
	<u>53.9</u>	<u>65.0</u>	<u>161.7</u>	<u>280.4</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2003 \$million	2002 \$million	2003 \$million	2002 \$million
Subordinated debt (note 17)	-	232.1	-	232.1
Subordinated debt interest accrual (note 5)	-	89.4	-	89.4
	<u>-</u>	<u>321.5</u>	<u>-</u>	<u>321.5</u>

(a) Bank loan

In June 2003, the Company repaid the balance drawn against its \$100 million bank loan facility, and replaced the facility with a \$600 million facility against which \$nil had been drawn at 31 December 2003. Amounts drawn down against the new facility attract interest at a rate of US\$ LIBOR plus a margin of between 115 basis points and 175 basis points. The facility is secured by a floating charge over the assets of the Group.

(b) Borrowings are repayable as follows:

	Group		Company	
	2003 \$million	2002 \$million	2003 \$million	2002 \$million
Total borrowings				
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
After five years	-	232.1	-	232.1
	<u>-</u>	<u>232.1</u>	<u>-</u>	<u>232.1</u>
Within one year	-	30.0	-	30.0
	<u>-</u>	<u>262.1</u>	<u>-</u>	<u>262.1</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

16. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred taxation \$million	Deferred PRT \$million	Decommissioning \$million	Total \$million
At 1 January 2003	48.7	(18.6)	36.2	66.3
Provided in the year	13.9	2.1	28.8	44.8
Unwinding of discount	-	-	2.5	2.5
Disposals	16.5	(0.2)	(13.1)	3.2
Exchange	-	-	0.1	0.1
At 31 December 2003	79.1	(16.7)	54.5	116.9
Analysed:				
Debtors (note 13)	-	(16.7)	-	(16.7)
Provisions	79.1	-	54.5	133.6

Prior year amounts are similarly analysed between provisions and other debtors (note 13).

Company	Deferred taxation \$million	Deferred PRT \$million	Decommissioning \$million	Total \$million
At 1 January 2003	33.6	0.2	12.1	45.9
Provided in the year	14.0	-	0.3	14.3
Unwinding of discount	-	-	0.6	0.6
Transfers (note 24)	16.0	-	(5.3)	10.7
Disposals	(0.1)	(0.2)	(7.7)	(8.0)
At 31 December 2003	63.5	-	-	63.5

The total estimated liability for the Group's and Company's shares of decommissioning costs for fields in production at year-end prices and before discounting are currently \$103.2 million (2002 - \$82.2 million) and \$nil million (2002 - \$15.4 million) respectively.

The economic life of the Group's and the Company's production and transportation assets is dependent upon the performance of the oil and gas fields which they serve. It is currently anticipated that decommissioning will take place between 2015 and 2035. However this may change as more information is obtained about the factors impacting on the economic life of the assets.

Deferred taxation is provided in respect of the following:

	Group		Company	
	2003 \$million	2002 \$million	2003 \$million	2002 \$million
Accelerated capital allowances	86.4	50.8	67.5	36.4
Deferred PRT asset (provision)	6.7	7.4	-	(0.1)
Net decommissioning provision	(9.5)	(9.5)	-	(2.7)
Taxation losses	(4.5)	-	(4.0)	-
Provision for deferred tax	79.1	48.7	63.5	33.6

Included within the Group net book value of fixed assets is an amount of \$133.5 million (2001 - \$138.5 million) which, in the opinion of the directors, is a permanent difference in respect of which no deferred taxation or potential deferred taxation arises.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

17. CALLED UP EQUITY AND NON-EQUITY SHARE CAPITAL

	Group and Company	
	2003	2002
	\$'000	\$'000
Authorised:		
300,000 equity Class A ordinary shares of US\$10 each	3,000	-
10,000 non-equity Class B ordinary shares of £1 each	17	-
Nil non-equity ordinary shares of £1 each (2002 - 1,000)	-	17
Nil equity preferred shares of US\$10 each (2002 - 234,486)	-	3,000
	<u>3,017</u>	<u>3,017</u>
Called up, allotted and fully paid		
234,586 equity Class A ordinary shares of US\$10 each	2,345	-
1,000 non-equity Class B ordinary shares of £1 each	2	-
Nil non-equity ordinary shares of £1 each (2002: 1,000)	-	2
Nil equity preferred shares of US\$10 each (2002: 234,486)	-	2,345
	<u>2,347</u>	<u>2,347</u>

On 10 June 2003 the subordinated debt and share capital of the Company, all of which was owned by IENSHL, were restructured.

The participating preferred shares and subordinated loan notes (together the 'Units'), were exchanged for Class A ordinary shares and the ordinary shares were exchanged for Class B ordinary shares.

Class B ordinary shares carry full voting rights; however, they carry no right to receive dividends from the Company and their economic worth is limited to the nominal value of the shares. As a result, the Class B ordinary shares have been classified as non-equity shares in accordance with FRS 4 "Capital Instruments".

Equity shareholders' funds relate entirely to the Class A ordinary shares.

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Group	Non-equity share capital \$million	Equity share capital \$million	Share premium \$million	Profit and loss account \$million	Total Shareholders' funds/(deficit) \$million
At 1 January 2003	-	2.4	-	(20.8)	(18.4)
Issued in year (note 17)	-	-	232.1	-	232.1
Profit for the year	-	-	-	95.5	95.5
Exchange adjustments	-	-	-	0.9	0.9
At 31 December 2003	<u>-</u>	<u>2.4</u>	<u>232.1</u>	<u>75.6</u>	<u>310.1</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS (continued)

Company	Non-equity share capital \$million	Equity share capital \$million	Share premium \$million	Profit and loss account \$million	Total Shareholders' funds/(deficit) \$million
At 1 January 2003	-	2.4	-	(173.7)	(171.3)
Issued in year	-	-	232.1	-	232.1
Profit for the year	-	-	-	220.7	220.7
	<u>-</u>	<u>2.4</u>	<u>-</u>	<u>220.7</u>	<u>220.7</u>
At 31 December 2003	-	2.4	232.1	47.0	281.5
	<u>-</u>	<u>2.4</u>	<u>232.1</u>	<u>47.0</u>	<u>281.5</u>

19. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2003 \$million	2002 \$million
Operating profit	37.2	49.6
Depreciation and amortisation	23.5	21.0
Provision for deferred PRT	2.1	2.1
Movement in debtors and prepayments	10.5	(8.8)
Movement in creditors and accruals	(1.0)	4.0
	<u>72.3</u>	<u>67.9</u>
Net cash inflow from operating activities	<u>72.3</u>	<u>67.9</u>

20. ANALYSIS OF CASH FLOWS

(a) Returns on investments and servicing of finance

	2003 \$million	2002 \$million
Interest received	0.4	0.9
Interest paid	(9.7)	(3.6)
	<u>(9.3)</u>	<u>(2.7)</u>
Net cash outflow	<u>(9.3)</u>	<u>(2.7)</u>

(b) Taxation

	2003 \$million	2002 \$million
UK corporation tax (paid)/received	(7.0)	4.7
	<u>(7.0)</u>	<u>4.7</u>
Net cash (outflow)/inflow	<u>(7.0)</u>	<u>4.7</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

20. ANALYSIS OF CASH FLOWS (continued)

(c) Capital expenditure and financial investment

	2003	2002
	\$million	\$million
Capital expenditure:		
- exploration and appraisal	(14.3)	(4.6)
- production and development	(30.6)	(43.5)
Acquisition of oil and gas interests	(0.3)	0.7
Disposal of oil and gas interests	4.1	2.9
Other fixed assets	-	(0.3)
Net cash outflow	(41.1)	(44.8)

(d) Acquisitions and disposals

	2003	2002
	\$million	\$million
Sale of subsidiary undertakings	20.2	-
Purchase of subsidiary undertakings	-	0.2
Net cash inflow	20.2	0.2

(e) Financing

	2003	2002
	\$million	\$million
Repayment of secured bank loan	(30.0)	(22.0)
Net cash outflow	(30.0)	(22.0)

21. ANALYSIS AND RECONCILIATION OF NET DEBT

	1 January	Cash flow	Debt	Exchange	31
	2003	\$million	Capitalis-	movements	December
	\$million		ation	\$million	2003
			\$million		\$million
Cash at bank and in hand	31.2	5.1	-	0.4	36.7
Bank loan	(30.0)	30.0	-	-	-
Net senior debt	1.2	35.1	-	0.4	36.7
Subordinated loan notes	(232.1)	-	232.1	-	-
Net debt	(230.9)	35.1	232.1	0.4	36.7

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

21. ANALYSIS AND RECONCILIATION OF NET DEBT (continued)

	2003 \$million	2002 \$million
Increase in cash in the year	5.1	3.3
Cash outflow from decrease in debt financing	30.0	22.0
Change in net debt resulting from cash flows	35.1	25.3
Debt capitalised	232.1	-
Exchange movements	0.4	0.3
Movement in net debt in the year	267.6	25.6
Net debt at 1 January	(230.9)	(256.5)
Net cash/(debt) at 31 December	36.7	(230.9)

22. COMMITMENTS AND CONTINGENCIES

Commitments for future capital expenditure contracted but not accrued in the accounts at 31 December 2003 were \$298.4 million (2002 - \$4.9 million) and \$nil (2002 - \$nil) for the Group and the Company respectively. These amounts principally relate to development of oil and gas fields and are based upon information provided by operators.

At 31 December 2003, the following minimum lease obligations existed:

	Group		Company	
	2003 \$million	2002 \$million	2003 \$million	2002 \$million
Within one year	0.4	5.5	-	5.4
Between two and five years	0.1	3.1	-	3.0
After 5 years	0.9	-	-	-
	1.4	8.6	-	8.4

23. RELATED PARTY TRANSACTIONS

The ultimate parent company, Intrepid Energy Limited, holds a 20% profit-sharing interest in IE&Co, a Scottish partnership which, under the terms of a Management Agreement, provides management services to the Group. The remaining 80% interest is held by a Company over which together M.T. Lynch and others with participating interests would exercise control. During the course of the year, management fees charged by IE&Co to the Company totalled \$8.9 million (2002 - \$8.3 million). In addition, under the terms of the Management Agreement, IE&Co recharged to the Group general and administrative expenses totalling \$13.1 million (2002 - \$9.2 million) representing the Group's share of such costs incurred by IE&Co. At 31 December 2003, \$2.5 million (2002 - \$1.6 million) was due to IE&Co in respect of such charges.

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

24. GROUP RECONSTRUCTION

During the year, the Company was party to transactions with other wholly owned subsidiaries within the Group in order to reorganise the Group and rationalise the allocation of oil and gas properties between entities in the Group. In general, these transactions involved the issue of shares and debt by companies within the Group in exchange for non-cash assets received.

Transfers of assets and liabilities under the reorganisation were generally accounted for at net book value. Specifically, the group company issuing shares recorded the assets and liabilities received at the amounts at which they were previously recorded in the accounts of the contributing group company, with any excess over the nominal value of the shares and debt issued recorded as share premium. The contributing group company derecognised the carrying values of the individual assets and liabilities contributed and recorded the aggregate net amount derecognised as an addition to fixed asset investments, so that there is no overall effect on the net assets of the contributing company. All such transactions were eliminated in the group consolidation, and accordingly the group reorganisation has no effect on the consolidated accounts of the Group.

The effect of group reorganisation transactions on the balance sheet of the Company was as follows:

Assets and liabilities contributed to other group companies:	\$million
- Tangible fixed assets	3.8
- Intangible fixed assets	5.3
- Decommissioning and deferred taxation	10.7
- Net current assets	(1.0)
	<hr/>
	18.8
	<hr/>
 Represented by:	
- Additions to fixed asset investments	19.8
- Intercompany debt	(1.0)
	<hr/>
	18.8
	<hr/>

25. ULTIMATE PARENT COMPANY

On 31 December 2002, IENSHL, a Company registered in England & Wales, became the Company's immediate parent company and will prepare consolidated accounts which consolidate the Company and its subsidiary undertakings. The registered office of IENSHL is the same as that of the Company. The ultimate parent company is Intrepid Energy Limited, a Company registered in Scotland. The accounts of that Company are available to the public and may be obtained from Investment House, 6 Union Row, Aberdeen, AB10 1DE. IENSHL, and thus also its subsidiary undertakings, are excluded from consolidation by Intrepid Energy Limited under s229(3)(a) of the Companies Act 1985.