Intrepid Energy North Sea Limited

Accounts 31 December 1998
together with directors' and auditors' reports

Registered number: 3084447

Directors' report

For the year ended 31 December 1998

The directors present their report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 1998.

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.

Business review

The Company acquired Enterprise Oil Production Limited and Enterprise Oil Transportation Limited from Enterprise Oil plc on 19 June 1998 for $234.8 million and $5.6 million respectively. The acquired companies changed their names to Intrepid Energy C.N.S. Limited (CNS) and Intrepid Oil Transportation Limited (IOTL) respectively on 30 July 1998.

The acquisition brought to the Group significant interests in major oil and gas fields and related transportation and processing facilities. These include a 12.167% interest in the Piper, Saltire and Scapa fields, a 7.8% interest in the Claymore field and a 12.167% interest in the Flotta Pipeline and terminal facilities in the Orkney Islands. Additionally, the acquisition included a 5.674% interest in the Nelson field.

During the year, the company also acquired further UK Continental Shelf interests, including interests in the Pickerill gas field and the Rubie and Renee developments.

The Group's share of production in the second half of 1998 averaged nearly 22,000 barrels of oil equivalent per day. The average price realised by the company in this period of $12.12 per barrel of oil equivalent was significantly below levels prevailing in the market in 1997 and this had a significant impact on revenues generated by the Group. The first half of 1999 has however seen a marked recovery in the oil price.

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

Results and dividends

The loss for the year to 31 December 1998 amounted to $46.4 million (1997 – loss $7.8 million).

The combined results of CNS and IOTL from the date of acquisition included in the 1998 results amounted to a loss of $6.4 million.

The directors do not recommend the payment of a dividend (1997 - $nil).

Directors' report (continued)

Directors and their interests

The directors who served during the year were as follows:

M.T. Lynch
F.T. Nadir
J.D. LaRue
R.S. Harvey
A.J. Paxton

Interests of the directors in the shares of the parent undertaking are disclosed in those accounts.

Year 2000

The risks and uncertainties concerning the Year 2000 problem have been assessed for the Group and appropriate actions are being taken where required. Incremental costs incurred to date and estimated further costs are not material, and these are being incorporated into the normal cycle of systems upgrading and development.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of state of affairs of the Company and the Group and of the profit or loss of the Group 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 accounts on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and 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.

Directors' report (continued)

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board

Andrew J. Paxton

A.J. Paxton
Director

Millbank Tower
21-24 Millbank
London SW1P 4QP

29 July 1999

Auditors' report

London

To the Shareholders of Intrepid Energy North Sea Limited:

We have audited the accounts on pages 5 to 26 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described on page 2, the directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 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 circumstances of the Company and of the Group, 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 of the Group as at 31 December 1998 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

29 July 1999

Consolidated profit and loss account

For the year ended 31 December 1998

	Notes	1998 $m	1997 $m
Turnover			
- existing operations		-	-
- acquisitions		65.5	-
	2	65.5	-
Cost of sales	3	(94.6)	-
Gross loss		(29.1)	-
Administration costs	4	(11.8)	(6.6)
Operating loss			
- existing operations		(29.4)	(6.6)
- acquisitions		(11.5)	-
		(40.9)	(6.6)
Interest receivable and similar income	5	3.1	0.4
Interest payable and similar charges	6	(8.1)	(1.6)
Loss on ordinary activities before taxation		(45.9)	(7.8)
Tax on loss on ordinary activities	7	(0.5)	-
Loss for the year	8	(46.4)	(7.8)

The accompanying notes are an integral part of these accounts.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 1998

	Notes	1998 $m	1997 $m
Loss for the financial year	20	(46.4)	(7.8)
Gain on translation of foreign currency investment	20	2.3	-
Total recognised gains and losses relating to the year		(44.1)	(7.8)

The accompanying notes are an integral part of these accounts.

Consolidated balance sheet

31 December 1998

	Notes	1998 $m	1997 $m
Fixed assets			
Intangible assets	9	40.7	-
Tangible assets	10	310.2	39.3
		350.9	39.3
Current assets			
Stocks	12	4.2	-
Debtors	13	17.2	1.7
Cash at bank and in hand	14	12.7	20.1
		34.1	21.8
Creditors: Amounts falling due within one year	15	(52.2)	(8.3)
Net current (liabilities) assets		(18.1)	13.5
Total assets less current liabilities		332.8	52.8
Creditors: Amounts falling due after more than one year	16	(370.4)	(61.8)
Provisions for liabilities and charges	17	(13.6)	-
Net liabilities	1a)	(51.2)	(9.0)
Capital and reserves			
Called-up equity and non-equity share capital	19	2.4	0.5
Profit and loss account	20	(53.6)	(9.5)
Total equity and non-equity shareholders' funds	20	(51.2)	(9.0)

The accounts on pages 5 to 26 were approved by the board of directors and signed on its behalf by:

Andrew J. Paxton

M.T. Lynch

Director

A.J. Paxton

Director

29 July 1999

The accompanying notes are an integral part of these accounts.

Company balance sheet

31 December 1998

	Notes	1998 $m	1997 $m
Fixed assets			
Intangible assets	9	0.6	-
Tangible assets	10	70.9	39.3
Investments	11	282.8	-
		354.3	39.3
Current assets			
Stocks	12	0.2	-
Debtors	13	4.0	1.7
Cash at bank and in hand	14	12.1	20.1
		16.3	21.8
Creditors: Amounts falling due within one year	15	(93.0)	(8.3)
Net current (liabilities) assets		(76.7)	13.5
Total assets less current liabilities		277.6	52.8
Creditors: Amounts falling due after more than one year	16	(368.9)	(61.8)
Provisions for liabilities and charges	17	(2.1)	-
Net liabilities	1a)	(93.4)	(9.0)
Capital and reserves			
Called-up equity and non-equity share capital	19	2.4	0.5
Profit and loss account	20	(95.8)	(9.5)
Total equity and non-equity shareholders' funds	20	(93.4)	(9.0)

The accounts on pages 5 to 26 were approved by the board of directors and signed on its behalf by:

M.T. Lynch — Director

Andrew J. Paxton

A.J. Paxton — Director

29 July 1999

The accompanying notes are an integral part of these accounts.

Consolidated cash flow statement

For the year ended 31 December 1998

	Notes	1998 $m	1997 $m
Net cash inflow (outflow) from operating activities	21	30.5	(6.9)
Returns on investments and servicing of finance	22a	(3.5)	(1.0)
Taxation	22b	(11.6)	-
Capital expenditure and financial investment	22c	(116.1)	(32.6)
Acquisitions and disposals	22d	(240.4)	-
Cash outflow before management of liquid resources and financing		(341.1)	(40.5)
Financing	22e	333.9	59.2
(Decrease) increase in cash in the year	23	(7.2)	18.7

The accompanying notes are an integral part of these accounts.

Notes to accounts

For the year ended 31 December 1998

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 and going concern

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting and financial reporting standards. The accounts have been prepared in US dollars which the directors consider to be the functional currency of the Group.

The Group reported net liabilities of $51.2 million at 31 December 1998. Having regard to the terms of the Company's and the Group's financing arrangements, the directors are satisfied that the Company and the Group have adequate funds to meet their obligations as they fall due for the foreseeable future, and accordingly the accounts are prepared on a going concern basis.

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 exploration 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 petroleum production during the year, including tariff income. Revenue received under send or pay gas sales contracts in respect of undelivered volumes is accounted for as a liability and released to earnings as the related gas volumes are delivered.

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 using commercial reserves. Such unit of production calculations are performed on a consolidated basis for the Group accounts.

Notes to accounts (continued)

1 Accounting policies (continued)

g) Commercial reserves

Commercial reserves are proven and probable oil and gas reserves as defined in the UK statement of recommended practice "Accounting for oil and gas exploration and development activities".

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 will be 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.

i) Decommissioning provisions

Provision is made for the cost of decommissioning of Group-owned assets using the unit of production method based on commercial reserves. Such provision represents the Group's share of the estimated liability for costs which may be incurred in removing production platforms and facilities at the end of the producing life of each field.

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 the estimated remaining commercial reserves of each field.

k) Consumable stocks

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

l) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is provided in respect of liabilities relating to timing differences between profits as computed for taxation purposes and profits as stated in the accounts except to the extent that the liability is not expected to crystallise in the foreseeable future.

m) 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.

Notes to accounts (continued)

1 Accounting policies (continued)

n) 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.

o) Investments

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

2 Turnover

	1998 $m	1997 $m
Oil and LPG	39.0	-
Natural gas	21.5	-
Tariff income	5.0	-
	65.5	-

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.

3 Cost of sales

	1998 $m	1997 $m
Operating expenses	13.7	-
Depreciation, depletion and amortisation	34.9	-
Exceptional impairment write down	21.0	-
Provision for decommissioning	7.1	-
Royalties	0.5	-
PRT charge	12.8	-
Tariff expense	4.2	-
Insurance	0.4	-
	94.6	-

Notes to accounts (continued)

4 Administration costs

	1998 $m	1997 $m
Management fees and organisational costs	3.9	3.9
Other administration costs	5.1	2.0
Professional fees	2.7	0.6
Depreciation	0.1	0.1
	11.8	6.6

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

Professional fees include auditors' remuneration of $125,000 (1997 - $25,000) for audit services and $83,000 (1997 - $nil) for non-audit services.

5 Interest receivable and similar income

	1998 $m	1997 $m
Bank interest received and receivable	3.0	0.3
Exchange gains	0.1	0.1
	3.1	0.4

6 Interest payable and similar charges

	1998 $m	1997 $m
Bank interest paid and payable	7.8	0.2
Other finance charges	0.3	1.4
	8.1	1.6

7 Tax on loss on ordinary activities

The tax charge comprises:

	1998 $m	1997 $m
Corporation tax (at 31%)	0.5	-

8 Loss attributable to Intrepid Energy North Sea Limited

The loss for the financial year dealt with in the accounts of the parent company, Intrepid Energy North Sea Limited, was $86.3 million (1997 - $7.8 million). 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

	Group	Company
	Oil and gas assets $m	Oil and gas assets $m
Cost		
At 1 January 1998	-	-
Additions	1.3	0.6
Acquisitions	39.0	-
Exchange adjustment	0.4	-
Balance at 31 December 1998	40.7	0.6

10 Tangible fixed assets

Group	Oil and gas assets $m	Office equipment $m	Total $m
Cost or valuation			
At 1 January 1998	38.9	0.5	39.4
Additions	40.2	0.1	40.3
Acquisitions	284.2	-	284.2
Exchange adjustment	2.3	-	2.3
At 31 December 1998	365.6	0.6	366.2
Depreciation			
At 1 January 1998	-	0.1	0.1
Charge for the year	34.9	0.1	35.0
Impairment write-down	21.0	-	21.0
Exchange adjustment	(0.1)	-	(0.1)
At 31 December 1998	55.8	0.2	56.0
Net book value			
At 31 December 1998	309.8	0.4	310.2
At 31 December 1997	38.9	0.4	39.3

10 Tangible fixed assets (continued)

Acquisitions comprise both the acquisition of interests in fields by the Company (see below) and acquisitions of subsidiary undertakings (note 11).

An impairment test of oil and gas assets was conducted as at 31 December 1998 in accordance with accounting policy (h), using projected future net revenues based upon the directors' estimates of future oil and gas prices, exchange rates and cost levels, escalated and discounted. Tests were performed on a pool basis at a consolidated level covering the oil and gas assets owned by the Company and its subsidiary undertakings. As a result of these impairment tests additional depreciation of $21 million was provided in 1998 by the Group.

Company	Oil and gas assets $m	Office equipment $m	Total $m
Cost or valuation			
At 1 January 1998	38.9	0.5	39.4
Additions	37.4	0.1	37.5
Acquisitions	78.9	-	78.9
At 31 December 1998	155.2	0.6	155.8
Depreciation			
At 1 January 1998	-	0.1	0.1
Charge for the year	8.7	0.1	8.8
Impairment write-down	76.0	-	76.0
At 31 December 1998	84.7	0.2	84.9
Net book value			
At 31 December 1998	70.5	0.4	70.9
At 31 December 1997	38.9	0.4	39.3

Acquisitions by the Company relate to interests in certain UK continental shelf fields, including the Pickerill gas field and the Rubee and Renee developments.

As a result of the impairment test, additional depreciation of $76 million was provided by the Company in 1998 in respect of the oil and gas assets owned by the Company.

11 Fixed asset investments

	Group		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m
Investments in subsidiary undertakings				
- shares	-	-	195.2	-
- loans	-	-	87.6	-
	-	-	282.8	-

The following subsidiary undertakings have businesses which are material in the context of either the Group's net losses or net liabilities.

	Country of registration	Country of operation	Principal activities
Intrepid Energy C.N.S. Limited	England	UK	Exploration & Production
Intrepid Oil Transportation Limited	England	UK	Pipeline ownership

These subsidiaries are wholly owned by the Company.

11 Fixed asset investments (continued)

Acquisition of subsidiary undertakings

On 19 June 1998 the Company acquired 100% of the issued share capital of Enterprise Oil Production Limited (renamed Intrepid Energy C.N.S. Limited) and Enterprise Oil Transportation Ltd (renamed Intrepid Oil Transportation Ltd), together with certain intercompany balances, for cash consideration of $240.4 million.

The following table sets out the book value of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book Value $m	Accounting policy alignment $m (note a)	Revaluation $m (note b)	Fair value to group $m
Fixed assets				
Intangible	-	-	39.0	39.0
Tangible	191.0	3.9	10.4	205.3
Current assets				
Stocks	5.1	-	-	5.1
Debtors	13.7	-	-	13.7
Amounts due from parent undertaking	41.4	-	-	41.4
Total assets	251.2	3.9	49.4	304.5
Creditors				
Loans	(88.1)	-	-	(88.1)
Trade creditors	(0.2)	-	-	(0.2)
Other creditors	(12.4)	-	-	(12.4)
Accruals	(5.3)	-	-	(5.3)
Provisions				
Deferred PRT	(20.8)	-	20.8	-
Deferred CT	(25.2)	(1.2)	26.4	-
Decommissioning	(40.7)	-	40.7	-
Other	(3.3)	-	-	(3.3)
Total liabilities	(196.0)	(1.2)	87.9	(109.3)
Group net assets	55.2	2.7	137.3	195.2
Add: intercompany loan				86.6
				281.8
Less: intercompany receivable				(41.4)
				240.4
Satisfied by:				
Cash payment				240.4

11 Fixed asset investments (continued)

Acquisition of subsidiary undertakings (continued)

a) Prior to acquisition Intrepid Energy C.N.S. Limited accounted for its oil and gas activities under the successful efforts method, whereby unsuccessful exploration costs are written off. The accounting policy adjustments reflect the reinstatement of unsuccessful exploration in accordance with full cost accounting policies (see note 1).

b) Fair values of provisions for deferred PRT and decommissioning established in accordance with the acquirees' former accounting policies, together with provisions for timing differences from the acquirees' perspectives, were assigned fair values of $nil on acquisition.

Fixed assets were revalued to reflect the purchase consideration, and allocated between tangible and intangible fixed assets in accordance with the directors' assessment of the underlying properties. In the opinion of the directors there was no goodwill arising on the acquisition.

Intrepid Energy C.N.S. Limited earned a profit after taxation, but before intercompany interest charges and exceptional gains for asset sales, of £13.4 million in the year ended 31 December 1998 (1997 - £29.6 million), of which £21.1 million arose in the period from 1 January 1998 to 19 June 1998. Earnings for the period from 20 June 1998 to 31 December 1998 suffered additional charges of approximately £12.5 million following the revaluation of net assets at 19 June 1998. The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 January 1998 to 19 June 1998, shown on the basis of the accounting policies of Intrepid Energy C.N.S. Limited prior to the acquisition, are as follows:

Profit and loss account

	£m	$m
Turnover	31.9	52.5
Cost of sales	(23.0)	(37.8)
Gross profit	8.9	14.7
Exploration costs	(0.4)	(0.7)
Administrative and selling costs	(0.4)	(0.7)
Operating profit	8.1	13.3
Loss on asset disposals	(0.4)	(0.7)
Interest receivable and similar income	0.1	0.2
Interest payable and similar charges	(2.1)	(3.5)
Profit on ordinary activities before taxation	5.7	9.3
Tax on profit on ordinary activities	12.9	21.2
Profit on ordinary activities after taxation and total recognised gains and losses for the financial year	18.6	30.5

A foreign exchange rate of £1 = $1.6453 agreed with Enterprise Oil plc, the vendor, as the transaction rate has been used to translate the £ sterling balances.

Notes to accounts (continued)

12 Stocks

	Group		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m
Materials and consumables	4.2	-	0.2	-

13 Debtors

	Group		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m
Amounts falling due within one year:				
Trade debtors	10.1	-	2.1	-
Amounts owed by operators	0.8	-	-	-
VAT	0.3	0.8	0.3	0.8
Other debtors	5.0	0.5	0.9	0.5
Prepayments and accrued income	1.0	0.4	0.7	0.4
	17.2	1.7	4.0	1.7

14 Cash at bank and in hand

Included in cash at bank and in hand at 31 December 1998 were accounts with restricted availability totalling $1 million (1997 - $17million).

15 Creditors: Amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m
Current portion of long term bank loan (note 16)	25.0	-	25.0	-
Amounts owed to Intrepid Energy & Co	0.9	0.8	0.9	0.8
Amounts owed to operators	4.8	2.5	4.8	2.5
Amounts owed to Group undertakings	-	-	53.4	-
Taxation and royalties	7.2	-	-	-
Operators accruals	12.7	4.7	7.3	4.7
Other creditors and accruals	1.6	0.3	1.6	0.3
	52.2	8.3	93.0	8.3

Notes to accounts (continued)

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m
Subordinated debt	232.1	51.8	232.1	51.8
Bank loan	136.8	10.0	136.8	10.0
Other loan	1.5	-	-	-
	370.4	61.8	368.9	61.8

a) Subordinated debt

During the year, the Company formally issued certificates for $180.3 million of unsecured 12% subordinated loan notes as required by the terms on which the advances of committed capital were made. The total amount of loan notes outstanding at 31 December 1998 was $232.1 million; no interest or repayment of principal is required for a three-year period commencing 17 October 1996. Thereafter, interest can be accrued but only be paid, and the principal can only be repaid, out of cash surpluses after provision for current and future liabilities.

b) Bank loan

On 7 November 1997, the Company entered into a $220 million revolving credit facility with Chase Manhattan plc (arranger), ABN AMRO Bank NV (co-arranger) and nine other banks. At 31 December 1998, $161.8 million of the facility had been utilised in connection with the acquisitions relating to the Enterprise companies and the interests in Pickerill, Rubie and Renee. Amounts drawn down attract interest at a rate of US$ LIBOR plus 70 to 75 basis points. The facility is secured by a floating charge over the assets of the Group.

Borrowings are repayable as follows:

	Group		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m
Total borrowings				
Between one and two years	41.4	-	41.4	-
Between two and five years	96.9	10.0	95.4	10.0
After five years	232.1	51.8	232.1	51.8
	370.4	61.8	368.9	61.8
Within one year (note 15)	25.0	-	25.0	-
	395.4	61.8	393.9	61.8

16 Creditors: Amounts falling due after more than one year (continued)

Subsequent to the balance sheet date the bank loan terms were varied such that no amounts fall due within one year and amounts falling due within one to two years were $41.8 million for both the Group and the Company.

17 Provisions for liabilities and charges

Group	Deferred PRT $m	Decommissioning $m	Send or pay contracts $m	Total $m
Acquisitions (note 11)	-	-	3.3	3.3
Provided in period	2.6	7.1	0.6	10.3
Balance at 31 December 1998	2.6	7.1	3.9	13.6

Company	Deferred PRT $m	Decommissioning $m	Send or pay contracts $m	Total $m
Provided in period	1.0	1.1	-	2.1
Balance at 31 December 1998	1.0	1.1	-	2.1

The liability for decommissioning of $7.1 million represents the accumulated provided amount of the Group's share of decommissioning costs for all fields in which the Group has an interest and which are currently in production. The total estimated liability for the Group's share of decommissioning costs for fields in production is currently $55.3 million.

18 Deferred taxation

	Group		Company	
	1998 $m	1997 $m	1998 $m	1997 $m
The potential deferred taxation liabilities (assets) are:				
Accelerated capital allowances	5.7	-	(3.6)	-
Other timing differences	(2.9)	-	(0.6)	-
Tax losses available	(7.6)	(2.8)	(7.6)	(2.8)
	(4.8)	(2.8)	(11.8)	(2.8)

The deferred tax assets have not been recognised in the accounts.

18 Deferred taxation (continued)

Included within the Group net book value of fixed assets is an amount of $183.4 million which, in the opinion of the directors, is a permanent difference in respect of which no deferred tax is required to be provided. Consequently, in future periods, whilst depreciation will be charged to the profit and loss account in respect of this amount, there will be neither a corresponding tax deduction, nor the release of a related deferred tax provision, to reduce the related tax charge.

19 Called-up equity and non-equity share capital

	Group and Company	
	1998	1997
	$'000	$'000
Authorised		
10,000 non-equity ordinary shares of £1 each	17	16
300,000 equity preferred shares of US$10 each	3,000	3,000
Allotted, called-up and fully paid		
1,000 non-equity ordinary shares of £1 each (1997: 1,000)	2	2
234,483 equity preference shares of US$10 each (1997: 52,323)	2,345	523
	2,347	525

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 ordinary shares have been classified as non-equity shares in accordance with FRS 4 Capital Instruments.

Equity shareholders' funds relate entirely to the participating preferred shares. They carry a pro-rata entitlement to dividends based on available cashflow in the Company, subject to the Company having sufficient distributable reserves. No voting rights are attached to these shares. On winding up of the Company, preferred shareholders have a right to receive the nominal value of the shares and any outstanding dividends, subject to the rights of the ordinary shareholders.

During the year, 182,160 participating preference shares at a nominal value of $10 each were issued to institutional investors as required by the terms on which the advances of committed capital were made.

20 Reconciliation of movement in shareholders' funds

	Equity share capital $m	Profit and loss account $m	Total shareholders' funds $m
Group			
At 1 January 1998	0.5	(9.5)	(9.0)
Shares issued	1.9	-	1.9
Loss for the year	-	(46.4)	(46.4)
Exchange adjustments	-	2.3	2.3
At 31 December 1998	2.4	(53.6)	(51.2)

	Equity share capital $m	Profit and loss account $m	Total shareholders' funds $m
Company			
At 1 January 1998	0.5	(9.5)	(9.0)
Shares issued	1.9	-	1.9
Loss for the year	-	(86.3)	(86.3)
At 31 December 1998	2.4	(95.8)	(93.4)

21 Reconciliation of operating profit to operating cash flows

	1998 $m	1997 $m
Operating loss	(40.9)	(6.6)
Depreciation and amortisation	35.0	0.1
Exceptional impairment	21.0	-
Provision for decommissioning	7.1	-
Provision for deferred PRT	2.6	-
Movement in debtors and prepayments	(0.7)	(1.0)
Movement in creditors and accruals	5.8	0.6
Movement in other provisions	0.6	-
Net cash inflow (outflow) from operating activities	30.5	(6.9)

Notes to accounts (continued)

22 Analysis of cash flows

a) Returns on investments and servicing of finance

	1998 $m	1997 $m
Interest received	3.0	0.3
Interest paid	(6.5)	(1.3)
Net cash outflow	(3.5)	(1.0)

b) Taxation

	1998 $m	1997 $m
UK corporation tax paid	(11.6)	-
Net cash outflow	(11.6)	-

c) Capital expenditure and financial investment

		1998 $m	1997 $m
Capital expenditure:	Exploration	(1.3)	-
	Production and development	(35.8)	(1.2)
	Other fixed assets	(0.1)	(0.5)
Acquisition of oil and gas interests		(78.9)	(30.9)
Net cash outflow		(116.1)	(32.6)

d) Acquisitions and disposals

	1998 $m	1997 $m
Purchase of subsidiary undertakings	(240.4)	-
Net cash outflow	(240.4)	-

22 Analysis of cash flows (continued)

e) Financing

	1998 $m	1997 $m
Issue of participating preference shares	1.8	0.5
Issue of subordinated debt	180.3	48.7
Increase in secured bank loan	177.0	10.0
Repayment of secured bank loan	(25.2)	-
Net cash inflow	333.9	59.2

Companies acquired in the year contributed $30.4 million to the Group's net operating cash flows, paid $11.6 million in respect of taxation and utilised $3.3 million for capital expenditure.

23 Analysis of reconciliation of net debt

	1 January 1998 $m	Cash flow $m	Acquisitions $m	Exchange movement $m	31 December 1998 $m
Cash at bank and in hand	20.1	(7.2)	-	(0.2)	12.7
Subordinated debt	(51.8)	(180.3)	-	-	(232.1)
Bank loan	(10.0)	(151.8)	-	-	(161.8)
Other loan	-	-	(1.5)	-	(1.5)
Net debt	(41.7)	(339.3)	(1.5)	(0.2)	(382.7)

	1998 $m	1997 $m
Decrease in cash in the year	(7.2)	18.7
Cash inflow from increase in debt financing	(332.1)	(58.7)
Change in net debt resulting from cash flows	(339.3)	(40.0)
Loans acquired with subsidiary	(1.5)	-
Translation difference	(0.2)	-
Movement in net debt in year	(341.0)	(40.0)
Net debt at 1 January	(41.7)	(1.7)
Net debt at 31 December	382.7	(41.7)

Notes to accounts (continued)

24 Capital commitments

Commitments for future capital expenditure contracted but not accrued in the financial statements at 31 December 1998 were $12 million (1997 - $27 million) and $10 million (1997 - $27 million) 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 1998, the following minimum lease obligations existed:

	Group		Company	
	1998	1997	1998	1997
	$m	$m	$m	$m
Within 1 year	4.0	-	3.8	-
Within 2-5 years	22.5	-	21.8	-
After 5 years	13.7	-	13.6	-
	40.2	-	39.2	-

Operating leases predominantly relate to the Ross Field FPSO facility.

25 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 J.D. LaRue would exercise control. During the course of the year management fees charged by IE&Co to the Company totalled $3.9 million (1997 - $3.9 million). In addition, under the terms of the Management Agreement, IE&Co recharged to the Group general and administrative expenses totalling $5.1 million (1997 - $2.0 million) representing the Group's share of such costs incurred by IE&Co. At 31 December 1998, $0.9 million (1997 - $0.8 million) was due to IE&Co in respect of such charges.

26 Ultimate parent company

The ultimate parent company is Intrepid Energy Limited, a company registered in Scotland, which holds the entire issued ordinary share capital. The economic worth of Intrepid Energy Limited's shareholding is limited to the nominal value of the ordinary shares, being £1,000. The accounts are available to the public and may be obtained from Millbank Tower, 21-24 Millbank, London, SW1P 4QP.