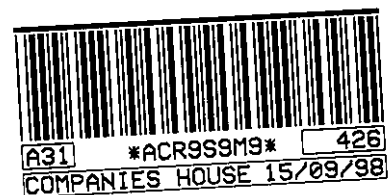


## Intrepid Energy North Sea Limited

Accounts 31 December 1997

together with directors' and auditors' reports

Registered number: 3084447



# Directors' report

For the year ended 31 December 1997

The directors present their report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1997.

## Principal activities and business review

The company'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.

The company commenced business on 17 October 1996 and, in the following months, agreements were signed with a number of institutional investors providing the company with significant committed funds. At 31 December 1997 the company had the right to call \$149.5 million of capital for the acquisition of oil and gas assets and the running of the business, meeting the criteria set out in the agreements. At 31 December 1997, a total of \$52.3 million of committed capital had been called and received in order to cover start up costs and acquisition and development costs. Since year end a further \$52.3 million of committed capital has been called and received on the same terms.

During the year, the company acquired from BG Great Britain Limited an interest in Licence P307, which includes a 13% interest in the unitised Ross Field which is situated in the UKCS and is currently in the development phase. Production from the field is expected to commence in the fourth quarter of 1998.

Subsequent to year end, the company has acquired further UKCS interests, principally in the Pickerill and Rubie Fields.

To supplement the committed capital, 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 1997, \$10 million of the facility had been utilised in connection with the Ross Field acquisition.

Management services to the company are provided by Intrepid Energy & Co, a related Scottish partnership, through a Management Agreement.

## Results and dividends

The company has incurred a number of costs associated with the start up of a new business. The loss for the year to 31 December 1997 amounted to \$7,847,000. The directors do not recommend the payment of a dividend.

## Directors and their interests

The directors who served during the year and up to the date of this report were as follows:

M.T. Lynch	
F.T. Nadir	(appointed 17 February 1997)
J.D. LaRue	(appointed 17 February 1997)
R.S. Harvey	(appointed 21 February 1997)
A.J. Paxton	(appointed 17 March 1997)

On 21 February 1997, M.T. Lynch transferred his two £1 ordinary shares in the company to Intrepid Energy Limited.

## Directors' report (continued)

### Shares Issued

On 21 February 1997, the company issued 998 £1 ordinary shares to Intrepid Energy Limited. During the year, the company formally issued 52,323 of participating preferred shares of \$10 each, as required by the terms on which the advances of committed capital were made.

### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements 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.

### Fixed assets

Movements in fixed assets are detailed in notes 6 and 7 to the accounts.

### 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



S J Pook  
Secretary

Millbank Tower  
21-24 Millbank  
London SW1P 4QP

26 March 1998

## Auditors' report

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London

### To the Shareholders of Intrepid Energy North Sea Limited:

We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

### 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, 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 as at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Arthur Andersen**  
Chartered Accountants and Registered Auditors

1 Surrey Street  
London  
WC2R 2PS

26 March 1998

## Profit and loss account

For the year ended 31 December 1997

	Notes	31 December 1997 \$'000	Period from Incorporation to 31 December 1996 \$'000
<b>Turnover</b>		-	-
Administration costs	2	(7,987)	(1,643)
<b>Operating loss</b>		(7,987)	(1,643)
Interest receivable and similar income	3a	358	19
Interest payable and similar charges	3b	(214)	-
<b>Loss on ordinary activities before taxation</b>	4	(7,843)	(1,624)
Tax on loss on ordinary activities	5	(4)	(6)
<b>Loss for the year</b>	13	(7,847)	(1,630)

There were no recognised gains or losses other than the loss for the period.

The accompanying notes are an integral part of these accounts.

# Balance sheet

31 December 1997

	Notes	31 December 1997 \$'000	31 December 1996 \$'000
<b>Fixed assets</b>			
Intangible assets	6	7	-
Tangible assets	7	39,254	9
		<u>39,261</u>	<u>9</u>
<b>Current assets</b>			
Debtors	8	1,736	326
Cash at bank and in hand	9	20,173	1,461
		<u>21,909</u>	<u>1,787</u>
<b>Creditors: Amounts falling due within one year</b>	10	<u>(8,322)</u>	<u>(275)</u>
<b>Net current assets</b>		<u>13,587</u>	<u>1,512</u>
<b>Total assets less current liabilities</b>		<u>52,848</u>	<u>1,521</u>
<b>Creditors: Amounts falling due after more than one year</b>	11	<u>(61,800)</u>	<u>(3,151)</u>
<b>Net liabilities</b>	14	<u>(8,952)</u>	<u>(1,630)</u>
<b>Capital and reserves</b>			
Called-up equity and non-equity share capital	12	525	-
Profit and loss account	13	<u>(9,477)</u>	<u>(1,630)</u>
<b>Total equity and non-equity shareholders' funds</b>	13	<u>(8,952)</u>	<u>(1,630)</u>

Signed on behalf of the Board

  
M.T. Lynch  
Director

  
A.J. Paxton  
Director

26 March 1998

The accompanying notes are an integral part of these accounts.

## Notes to accounts

31 December 1997

### 1 Accounting policies

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

#### a) *Basis of accounting*

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 company.

#### b) *Accounting for joint arrangements*

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

#### c) *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 tangible oil and gas assets. Acquisition and development costs are capitalised directly as tangible oil and gas assets. Following the commencement of production, tangible oil and gas assets are written-off on a unit of production basis over the remaining life of the company's commercial reserves.

#### d) *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 is provided at 33% per annum being the rate calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life.

#### e) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

#### f) *Foreign currencies*

Transactions in currencies other than US dollars are recorded at the average rate for the month 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.

#### g) *Cash flow*

The company has taken advantage of the exemptions allowed for small companies under Financial Reporting Standard No. 1 ("FRS 1") and has not prepared a cash flow statement.

## Notes to accounts (continued)

### 2 Administration costs

	31 December 1997 \$'000	Period from Incorporation to 31 December 1996 \$'000
Management fees and organisational costs charged by Intrepid Energy & Co	3,920	1,123
Other administration costs recharged by Intrepid Energy & Co	1,967	192
Professional fees	639	328
Financing costs	1,406	-
Depreciation	119	-
Exchange differences	(64)	-
	<u>7,987</u>	<u>1,643</u>

The company has no employees and the directors received no remuneration for their services to the company.

### 3a Interest receivable and similar income

	31 December 1997 \$'000	Period from Incorporation to 31 December 1996 \$'000
Bank interest received and receivable	<u>358</u>	<u>19</u>

### 3b Interest payable and similar charges

	31 December 1997 \$'000	Period from Incorporation to 31 December 1996 \$'000
Bank interest paid and payable on loans repayable within five years, not by instalments	<u>214</u>	<u>-</u>

### 4 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	31 December 1997 \$'000	Period from Incorporation to 31 December 1996 \$'000
Auditors' remuneration - audit	25	25
- other	<u>-</u>	<u>18</u>



## Notes to accounts (continued)

### 5 Tax on loss on ordinary activities

	31 December 1997 \$'000	Period from Incorporation to 31 December 1996 \$'000
Corporation tax (at 31%) on net interest income	<u>4</u>	<u>6</u>

Corporation tax is provided on net interest income for the period up to commencement of a trade for UK tax purposes.

### 6 Intangible fixed assets

	Oil and gas assets \$'000
Cost	
Balance at beginning of year	-
Additions	<u>7</u>
Balance at end of year	<u>7</u>

### 7 Tangible fixed assets

	Oil and gas assets \$'000	Computer equipment \$'000	Fixtures and fittings \$'000	Total \$'000
Cost and net book value				
Balance at beginning of year	-	9	-	9
Acquisitions	30,925	-	-	30,925
Additions	7,913	76	450	8,439
Depreciation	<u>-</u>	<u>(18)</u>	<u>(101)</u>	<u>(119)</u>
Balance at end of year, being net book value	<u>38,838</u>	<u>67</u>	<u>349</u>	<u>39,254</u>

### 8 Debtors

	31 December 1997 \$'000	31 December 1996 \$'000
Amounts falling due within one year:		
VAT recoverable	812	-
Other debtors	552	203
Prepayments	<u>372</u>	<u>123</u>
	<u>1,736</u>	<u>326</u>

## Notes to accounts (continued)

### 9 Cash at bank and in hand

Included in cash at bank and in hand at 31 December 1997 were accounts with restricted availability totalling \$17million.

### 10 Creditors: Amounts falling due within one year

	31 December 1997 \$'000	31 December 1996 \$'000
Amounts due to Intrepid Energy & Co	842	226
Amounts owed to operators	2,510	-
Corporation tax	4	6
Other creditors and accruals	4,966	43
	<u>8,322</u>	<u>275</u>

### 11 Creditors: Amounts falling due after more than one year

	31 December 1997 \$'000	31 December 1996 \$'000
Subordinated debt	51,800	3,151
Bank loan	10,000	-
	<u>61,800</u>	<u>3,151</u>

#### a) Subordinated debt

During the year, the company formally issued certificates for \$51.8 million of unsecured 12% subordinated loan notes as required by the terms on which the advances of committed capital were made. 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) Revolving Credit Facility

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 1997, \$10 million of the facility had been utilised in connection with the Ross Field acquisition. Amounts drawn down attract interest at a rate of US\$ LIBOR plus 70 basis points. The facility is secured by a floating charge over the assets of the company.

## Notes to accounts (continued)

### 12 Called-up equity and non-equity share capital

	1997 \$'000	1996 \$'000
<i>Authorised</i>		
10,000 non-equity ordinary shares of £1 each (1996: 10,000)	16	15
300,000 equity preferred shares of \$10 each (1996: 300,000)	<u>3,000</u>	<u>3,000</u>
<i>Allotted, called-up and fully paid</i>		
1,000 non-equity ordinary shares of £1 each (1996: 2 £1 shares)	2	-
52,323 equity preference shares of \$10 each (1996: nil)	<u>523</u>	<u>-</u>
	<u>525</u>	<u>-</u>

The 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.

During the year, 998 £1 ordinary shares were issued to Intrepid Energy Limited for nominal value.

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, 52,323 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.

### 13 Reconciliation of movement in shareholders' funds

	Equity share capital \$'000	Non-equity share capital \$'000	Profit and loss account \$'000	Total shareholders' funds \$'000
Balance at beginning of year	-	-	(1,630)	(1,630)
Shares issued	523	2	-	525
Loss for the year	<u>-</u>	<u>-</u>	<u>(7,847)</u>	<u>(7,847)</u>
Balance at end of year	<u>523</u>	<u>2</u>	<u>(9,477)</u>	<u>(8,952)</u>

## Notes to accounts (continued)

### 14 Financing - net liabilities

At year end, the company had net liabilities of \$8,952,000 primarily as a result of the company incurring organisational costs and legal fees during its start up phase. At year end, the company had access to a further \$97.2 million of committed funds from investors which the company will utilise in the acquisition and development of oil and gas assets and the running of the business; of this amount, \$52.3 million has been called and received since year end. In addition, there are significant undrawn amounts under the revolving credit facility. On this basis, the directors believe it is appropriate to prepare the accounts on a going concern basis.

### 15 Capital commitments

At year end, the company had commitments for future capital expenditure totalling approximately \$27 million. All commitments relate to the ongoing development of the Ross Field as agreed by the partners of the joint arrangement. It is not practicable to distinguish amounts actually contracted for within these amounts as the company is not the operator to which these commitments relate.

### 16 Subsequent events

On 6 February 1998, the company formally issued certificates for a further \$51.8 million of unsecured 12% subordinated loan notes and for a further 52,323 participating preferred shares of \$10 each, both as required by the terms on which the advances of committed capital were made.

### 17 Ultimate parent company

The ultimate parent company is Intrepid Energy Limited, a company registered in England and Wales, 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.