ARTHUR ANDERSEN

Intrepid Energy North Sea Limited

Accounts 31 December 2000

together with directors' and auditors' reports

Registered number: 3084447

Directors' report

For the year ended 31 December 2000

The directors present their report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 2000.

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. A complete list of licence interests is included on pages 27 and 28.

Business review

The year 2000 has been a highly successful year for Intrepid Energy North Sea Limited ("IENSL"), culminating with the acquisition for cash, from the Talisman group of companies ("Talisman"), of additional interests in the 4th Round Fields and associated infrastructure.

The Group's net production in 2000 was 7.3mmboe (1999 8.3mmboe). The sustained recovery in the oil price during the year helped operating profits increase to $79.4 million (1999 $51.1million). The average Brent Oil price for 2000 was $28.50 (1999 $17.97).

The strong cash flow during 2000 significantly reduced bank debt despite the above-mentioned acquisition of interests from Talisman. During the year the Group repaid $61 million of bank debt with a further repayment of $23.8 million being made in January 2001.

As part of the agreement with Talisman, the Company acquired Talisman Energy NS Limited on 27 December 2000. The acquired company changed its name to Intrepid Energy NSL Limited ("IENSLL") on 5 January 2001. The acquisition increased the Group's interest in the 4th Round Fields by approximately 3%. IENSLL also owns interests in the Flotta pipeline and terminal facilities in the Orkney Islands. On 29 December 2000 the Group acquired an additional interest, also from Talisman, in the pipeline system that transports oil and gas production from the MacCulloch Field to the 4th Round infrastructure.

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 profit for the year to 31 December 2000 amounted to $19.5 million (1999 - $24.6 million).

The directors do not recommend the payment of a dividend (1999 - $nil).

Unit holders' funds

As explained in note 18, the aggregate profit of the year attributable to unit holders was $47.3 million (1999 - $30.4 million) and aggregate unit holders' funds, at 31 December 2000, were $ 258.2 million (1999 - $211.2 million).

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.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the 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.

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

11 April 2001

ARTHUR ANDERSEN

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 in accordance with applicable United Kingdom law and accounting standards. Our responsibilities are established in the United Kingdom by statute by the Auditing Practices Board and by our profession's ethical guidance.

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 2000 and of the Group's profit 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

11 April 2001

Consolidated profit and loss account

For the year ended 31 December 2000

	Notes	2000 $million	1999 $million
Turnover	2	214.8	154.7
Cost of sales	3	(123.2)	(91.0)
Gross profit		91.6	63.7
Administration costs	4	(12.2)	(12.6)
Operating profit		79.4	51.1
Interest receivable and similar income	5	3.7	1.3
Interest payable and similar charges	6	(42.4)	(19.7)
Profit on ordinary activities before taxation		40.7	32.7
Tax on profit on ordinary activities	7	(21.2)	(8.1)
Profit for the year	20	19.5	24.6

The accompanying notes are an integral part of these accounts.

Turnover and operating profit arise entirely from continuing operations.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2000

	Notes	2000 $million	1999 $million
Profit for the financial year	20	19.5	24.6
Loss on translation of foreign currency investment	20	(0.3)	(0.1)
Total recognised gains and losses relating to the year		19.2	24.5

The accompanying notes are an integral part of these accounts

Consolidated balance sheet

31 December 2000

	Notes	2000 $million	1999 $million
Fixed assets			
Intangible assets	9	32.3	28.6
Tangible assets	10	307.4	341.3
		339.7	369.9
Current assets			
Stocks	12	4.6	4.4
Debtors	13	40.4	36.9
Cash at bank and in hand	14	71.4	41.7
		116.4	83.0
Creditors: Amounts falling due within one year	15	(149.1)	(97.7)
Net current liabilities		(32.7)	(14.7)
Total assets less current liabilities		307.0	355.2
Creditors: Amounts falling due after more than one year	16	(269.1)	(336.6)
Provisions for liabilities and charges	17	(45.4)	(45.3)
Net liabilities	1a)	(7.5)	(26.7)
Capital and reserves			
Called-up equity and non-equity share capital	19	2.4	2.4
Profit and loss account	20	(9.9)	(29.1)
Total equity and non-equity shareholders' funds	20	(7.5)	(26.7)

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

11 April 2001

The accompanying notes are an integral part of these accounts.

Company balance sheet

31 December 2000

	Notes	2000 $million	1999 $million
Fixed assets			
Intangible assets	9	4.0	1.0
Tangible assets	10	73.4	88.6
Investments	11	285.3	282.7
		362.7	372.3
Current assets			
Stocks	12	0.7	0.8
Debtors	13	13.0	10.9
Cash at bank and in hand	14	65.6	40.8
		79.3	52.5
Creditors: Amounts falling due within one year	15	(272.8)	(176.4)
Net current liabilities		(193.5)	(123.9)
Total assets less current liabilities		169.2	248.4
Creditors: Amounts falling due after more than one year	16	(269.1)	(335.1)
Provisions for liabilities and charges	17	(9.1)	(10.8)
Net liabilities	1a)	(109.0)	(97.5)
Capital and reserves			
Called-up equity and non-equity share capital	19	2.4	2.4
Profit and loss account	20	(111.4)	(99.9)
Total equity and non-equity shareholders' funds	20	(109.0)	(97.5)

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

11 April 2001

The accompanying notes are an integral part of these accounts.

Consolidated cash flow statement

For the year ended 31 December 2000

	Notes	2000 $million	1999 $million
Net cash inflow from operating activities	21	129.7	78.0
Returns on investments and servicing of finance	22a	(8.5)	(9.3)
Taxation	22b	(11.2)	(6.6)
Capital expenditure and financial investment	22c	(12.3)	(34.7)
Acquisitions and disposals	22d	(6.0)	1.6
Cash inflow before management of liquid resources and financing		91.7	29.0
Financing	22e	(61.0)	-
Increase in cash in the year	23	30.7	29.0

The accompanying notes are an integral part of these accounts.

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 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 $7.5 million (Company: $109.0 million) at 31 December 2000. Having regard to the terms of the Group's and the Company's financing arrangements, the directors are satisfied that the Group and the Company 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 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. 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.

1 Accounting policies (continued)

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.

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, development, production and decommissioning 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 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.

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 accounting policy (f) 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 the estimated remaining commercial reserves of each field.

k) Consumable stocks

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

1 Accounting policies (continued)

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 using commercial reserves.

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

	2000 $million	1999 $million
Oil and LPG	194.3	132.2
Natural gas and condensate	10.2	12.2
Tariff income	10.3	10.3
	214.8	154.7

All of the Group's turnover, operating profit and net liabilities relate to oil and gas exploration, development and production in the United Kingdom sector of the North Sea.

3 Cost of sales

	2000 $million	1999 $million
Operating expenses	34.4	26.7
Depreciation, depletion and amortisation	53.8	58.3
Exceptional write back of impairment provision	-	(21.4)
Royalties	5.2	2.0
PRT charge		
- current	31.6	23.5
- deferred	(10.2)	(9.2)
Tariff expense	7.9	9.9
Insurance	0.5	1.2
	123.2	91.0

4 Administration costs

	2000 $million	1999 $million
Management fees	7.5	6.2
Other administration costs	3.7	3.4
Professional fees	0.9	2.8
Depreciation	0.1	0.2
	12.2	12.6

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.

Amounts payable to auditors total $142,000 (1999 - $124,000) for audit services and $366,000 (1999 - $100,000) for non-audit services.

5 Interest receivable and similar income

	2000 $million	1999 $million
Bank interest received and receivable	3.7	0.9
Exchange gains	-	0.4
	3.7	1.3

6 Interest payable and similar charges

	2000 $million	1999 $million
Bank interest paid and payable	11.1	10.4
Subordinated debt interest (note 16a)	27.8	5.8
Discount on decommissioning provision	2.8	2.8
Other finance charges	0.5	0.7
Exchange losses	0.2	-
	42.4	19.7

Subordinated debt interest is accrued from 17 October 1999; payment is conditional on cash surpluses after provision for current and future liabilities. No payments were made in the year.

7 Tax on profit on ordinary activities

	2000 $million	1999 $million
UK corporation tax charge at 30% (1999 – 30.25%)		
- current	19.1	5.2
- deferred	2.1	2.9
	21.2	8.1

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 $11.5 million (1999 - $4.1 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 Oil and gas assets $million	Company Oil and gas assets $million
Cost		
At 1 January 2000	28.6	1.0
Additions	3.7	3.0
Balance at 31 December 2000	32.3	4.0

10 Tangible fixed assets

Group	Oil and gas assets $million	Decommissioning assets $million	Office equipment $million	Total $million
Cost or valuation				
At 1 January 2000	405.8	33.7	0.7	440.2
Additions	8.4	(6.7)	-	1.7
Acquisitions	12.5	6.1	-	18.6
Exchange adjustment	(0.4)	-	-	(0.4)
At 31 December 2000	426.3	33.1	0.7	460.1
Depreciation				
At 1 January 2000	91.6	6.9	0.4	98.9
Charge for the year	49.7	4.1	0.1	53.9
Exchange adjustment	(0.1)	-	-	(0.1)
At 31 December 2000	141.2	11.0	0.5	152.7
Net book value				
At 31 December 2000	285.1	22.1	0.2	307.4
At 1 January 2000	314.2	26.8	0.3	341.3

An impairment test of oil and gas assets was conducted as at 31 December 2000 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. The test was performed on a pool basis at a consolidated level covering the oil and gas assets owned by the Company and its subsidiary undertakings. The test confirmed that no impairment provision was required for 2000.

10 Tangible fixed assets (continued)

Company	Oil and gas assets $million	Decommissioning assets $million	Office equipment $million	Total $million
Cost or valuation				
At 1 January 2000	179.1	8.9	0.7	188.7
Additions	3.6	(2.0)	-	1.6
At 31 December 2000	182.7	6.9	0.7	190.3
Depreciation				
At 1 January 2000	98.0	1.7	0.4	100.1
Charge for the year	21.6	1.8	0.1	23.5
Write back of impairment provision	(6.7)	-	-	(6.7)
At 31 December 2000	112.9	3.5	0.5	116.9
Net book value				
At 31 December 2000	69.8	3.4	0.2	73.4
At 1 January 2000	81.1	7.2	0.3	88.6

As a result of a similar impairment test to that carried out by the Group, additional depreciation of $6.7 million previously provided was written back in 2000 in respect of the oil and gas assets owned by the Company.

11 Fixed asset investments

	Company	
	2000 $million	1999 $million
Investments in subsidiary undertakings		
- shares	197.9	195.2
- loans	87.4	87.5
	285.3	282.7

Acquisition of a subsidiary

On 27 December 2000 the Company acquired 100% of the issues share capital of Talisman Energy NS Limited from Talisman for $2 million. The Company also acquired inter-company debt and other working capital totalling $9.6 million from Talisman and incurred expenses of $0.7 million on the acquisition. The total fair value attributed to the oil and gas assets acquired was $12.3 million.

On 5 January 2001 the name of Talisman Energy NS Limited was changed to Intrepid Energy NSL Limited.

11 Fixed asset investments (continued)

The parent company and the group have investments in the following subsidiary undertakings which principally affected the profits or net assets of the group.

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

These subsidiaries are wholly owned by the Company.

12 Stocks

	Group		Company	
	2000 $million	1999 $million	2000 $million	1999 $million
Materials and consumables	4.6	4.4	0.7	0.8

13 Debtors

	Group		Company	
	2000 $million	1999 $million	2000 $million	1999 $million
Trade debtors	16.1	19.0	3.1	4.2
Amounts owed by Group undertakings	-	-	4.5	-
VAT	0.9	0.5	0.9	0.5
Other debtors	19.5	11.5	1.8	0.8
Prepayments and accrued income	3.9	5.9	2.7	5.4
	40.4	36.9	13.0	10.9

Group other debtors includes $17.3 million of deferred PRT (note 17) anticipated to be recovered in excess of one year.

14 Cash at bank and in hand

Included in cash at bank and in hand at 31 December 2000 were amounts with restricted availability totalling $1.4 million (1999 - $1.5 million).

15 Creditors: Amounts falling due within one year

	Group		Company	
	2000 $million	1999 $million	2000 $million	1999 $million
Current portion of long term bank loan (note 16b)	63.8	58.8	63.8	58.8
Subordinated debt interest accrual (note 16a)	33.6	5.8	33.6	5.8
Other loan	1.4	-	-	-
Amounts owed to IE&Co	2.7	1.4	2.7	1.4
Amounts owed to operators	5.6	3.1	1.9	2.9
Amounts owed to Group undertakings	-	-	162.0	100.2
Taxation and royalties	20.5	16.6	-	-
Operators' accruals	7.6	7.7	2.5	3.1
Other creditors and accruals	13.9	4.3	6.3	4.2
	149.1	97.7	272.8	176.4

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	2000 $million	1999 $million	2000 $million	1999 $million
Subordinated debt	232.1	232.1	232.1	232.1
Bank loan	37.0	103.0	37.0	103.0
Other loan	-	1.5	-	-
	269.1	336.6	269.1	335.1

a) Subordinated debt

The total amount of loan notes outstanding at 31 December 2000 was $232.1 million; no interest or repayment of principal was required for the three-year period ended 17 October 1999. Thereafter, interest accrues at 12% but can only be paid, and the principal can only be repaid, conditional on 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 2000, amounts drawn had been reduced to $100.8 million. Amounts drawn down attracted interest during 2000 at a rate of US$ LIBOR plus a margin of 125 to 175 basis points. By the year end, the margin was 125 basis points. The facility is secured by a floating charge over the assets of the Group.

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

Borrowings are repayable as follows:

	Group		Company	
	2000 $million	1999 $million	2000 $million	1999 $million
Total borrowings				
Between one and two years	30.0	41.5	30.0	40.0
Between two and five years	7.0	63.0	7.0	63.0
After five years	232.1	232.1	232.1	232.1
	269.1	336.6	269.1	335.1
Within one year (note 15)	65.2	58.8	63.8	58.8
	334.3	395.4	332.9	393.9

17 Provisions for liabilities and charges

Group	Deferred CT $million	Deferred PRT $million	Decommissioning $million	Send or pay contracts $million	Total $million
Balance at 1 January 2000	2.9	(6.6)	37.7	3.9	37.9
Provided/(released) in period	2.1	(10.2)	(0.6)	(3.9)	(12.6)
Unwinding of discount	-	-	2.8	-	2.8
Balance at 31 December 2000	5.0	(16.8)	39.9	-	28.1
Analysed:					
Debtors (note 13)	-	(17.3)	-	-	(17.3)
Provisions	5.0	0.5	39.9	-	45.4

Company	Deferred PRT $million	Decommissioning $million	Total $million
Balance at 1 January 2000	0.9	9.9	10.8
Released in period	(0.5)	(2.0)	(2.5)
Unwinding of discount	-	0.8	0.8
Balance at 31 December 2000	0.4	8.7	9.1

17 Provisions for liabilities and charges (continued)

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 $74.5 million and $12.6 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 2003 and 2020 with the more significant of the Group's assets expected to be decommissioned towards the end of that period. These estimates will change as more information is obtained about the factors impacting on the economic lives of the assets.

The potential deferred taxation liabilities (assets) are:

	Group		Company	
	2000 $million	1999 $million	2000 $million	1999 $million
Accelerated capital allowances	17.8	12.3	1.8	(3.0)
Other timing differences	(0.3)	(1.2)	(1.7)	(1.1)
Tax losses available	(4.7)	(8.2)	(4.7)	(8.2)
	12.8	2.9	(4.6)	(12.3)
Amount provided	5.0	2.9	-	-

Included within the Group net book value of fixed assets is an amount of $148.8 million (1999 - $161.0 million) which, in the opinion of the directors, is a permanent difference in respect of which no deferred taxation or potential deferred taxation arises.

18 Unit holders' funds

Subscribers for participating preferred shares (note 19), were required, under the terms of their issue, to subscribe also for an equal proportion of the subordinated loan notes (note 16a). All subsequent transfers are required to take place as units, such that holders of participating preferred shares continue to hold an equal proportion of the subordinated loan notes thereafter.

As described in note 19, the ordinary shares have an economic worth limited to the nominal value of the shares. The unit holders thus are entitled to the balance of the economic worth of the Group, including the interest accrued but unpaid on the subordinated loan notes.

18 Unit holders' funds (continued)

a) The aggregate interest of the unit holders in the net assets and liabilities of the Group comprises:

	2000 $million	1999 $million
Subordinated loan notes	232.1	232.1
Cumulative unpaid accrued interest on subordinated loan notes	33.6	5.8
Net liabilities	(7.5)	(26.7)
	258.2	211.2
Less attributable to ordinary shares *	-	-
Aggregate unit holders' funds	258.2	211.2

* Nominal value of £1,000.

b) The aggregate interest of the unit holders in the results of the Group for the year comprises:

	2000 $million	1999 $million
Profit for the year	19.5	24.6
Interest accrued in the year but unpaid on subordinated loan notes	27.8	5.8
Aggregate unit holders' share in the results of the Group	47.3	30.4

c) The movement in unit holders' funds in the year is as follows:

	$million
At 1 January 2000	211.2
Aggregate unit holders' share in the result of the Group	47.3
Exchange adjustments	(0.3)
At 31 December 2000	258.2

19 Called-up equity and non-equity share capital

	Group and Company	
	2000 $'000	1999 $'000
Authorised		
10,000 non-equity ordinary shares of £1 each	17	17
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 (1999: 1,000)	2	2
234,483 equity preference shares of US$10 each (1999: 234,483)	2,345	2,345
	2,347	2,347

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.

20 Reconciliation of movement in shareholders' funds

	Non-equity share capital $million	Equity share capital $million	Profit and loss account $million	Total shareholders' funds $million
Group				
At 1 January 2000	-	2.4	(29.1)	(26.7)
Profit for the year	-	-	19.5	19.5
Exchange adjustments	-	-	(0.3)	(0.3)
At 31 December 2000	-	2.4	(9.9)	(7.5)

20 Reconciliation of movement in shareholders' funds (continued)

	Non-equity share capital $million	Equity share capital $million	Profit and loss account $million	Total shareholders' funds $million
Company				
At 1 January 2000	-	2.4	(99.9)	(97.5)
Loss for the year	-	-	(11.5)	(11.5)
At 31 December 2000	-	2.4	(111.4)	(109.0)

21 Reconciliation of operating profit to operating cash flows

	2000 $million	1999 $million
Operating profit	79.4	51.1
Depreciation and amortisation	53.9	58.5
Exceptional impairment write back	-	(21.4)
Provision for deferred PRT	(10.2)	(9.2)
Movement in debtors and prepayments	7.4	(14.0)
Movement in creditors and accruals	2.8	13.0
Movement in other provisions	(3.6)	-
Net cash inflow from operating activities	129.7	78.0

22 Analysis of cash flows

a) Returns on investments and servicing of finance	2000 $million	1999 $million
Interest received	3.7	0.9
Interest paid	(12.2)	(10.2)
Net cash outflow	(8.5)	(9.3)

b) Taxation

	2000 $million	1999 $million
UK corporation tax paid	(11.2)	(6.6)
Net cash outflow	(11.2)	(6.6)

22 Analysis of cash flows (continued)

c) Capital expenditure and financial investment

	2000 $million	1999 $million
Capital expenditure:		
Exploration	(4.2)	(0.9)
Production and development	(6.1)	(33.8)
Acquisition of oil and gas interests	(2.0)	-
Net cash outflow	(12.3)	(34.7)

d) Acquisitions and disposals

	2000 $million	1999 $million
Purchase of subsidiary undertakings	(6.0)	1.6
Net cash (outflow) inflow	(6.0)	1.6

e) Financing

	2000 $million	1999 $million
Repayment of secured bank loan	(61.0)	-
Net cash inflow	(61.0)	-

23 Analysis and reconciliation of net debt

	1 January 2000 $million	Cash flow $million	Exchange movements $million	31 December 2000 $million
Cash at bank and in hand	41.7	30.7	(1.0)	71.4
Subordinated loan notes	(232.1)	-	-	(232.1)
Bank loan	(161.8)	61.0	-	(100.8)
Other loan	(1.5)	-	0.1	(1.4)
Net debt	(353.7)	91.7	(0.9)	(262.9)

23 Analysis and reconciliation of net debt (continued)

	2000 $million	1999 $million
Increase in cash in the year	30.7	29.0
Cash inflow from increase in debt financing	61.0	-
Change in net debt resulting from cash flows	91.7	29.0
Exchange movements	(0.9)	-
Movement in net debt in year	90.8	29.0
Net debt at 1 January	(353.7)	(382.7)
Net debt at 31 December	(262.9)	(353.7)

24 Commitments and contingencies

Commitments for future capital expenditure contracted but not accrued in the financial statements at 31 December 2000 were $8 million (1999 - $5 million) and $1 million (1999 - $1 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 1999, the following minimum lease obligations existed:

	Group		Company	
	2000 $million	1999 $million	2000 $million	1999 $million
Within 1 year	7.9	7.9	7.8	7.8
Within 2-5 years	15.9	23.9	15.5	23.3
	23.8	31.8	23.3	31.1

Operating leases predominantly relate to the Ross Field where the Company has an interest in a contract for provision of Floating Production, Storage and Offload ("FPSO") facilities under which the Ross Field joint venture becomes liable to pay compensation to the FPSO owner in the event of early termination of the contract. The amount payable and the date on which the early termination fee expires is dependent on the cumulative level of production from the field. The maximum extent of the company's liability is $12 million. It is currently forecast that the early termination fee clause will expire in 2005 and management currently believe that it is not probable that the termination fee will become payable.

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 $7.5 million (1999 - $6.2 million). In addition, under the terms of the Management Agreement, IE&Co recharged to the Group general and administrative expenses totalling $6.8 million (1999 - $5.2 million) representing the Group's share of such costs incurred by IE&Co. At 31 December 2000, $2.7 million (1999 - $1.4 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.

Licence interests

At 31 March 2001, the Group held interests in the following UKCS licences:

Licence	Block/Field	Operator	Working Interest
PO63	54/1a	Arco	25.00%
PO69	22/11	Enterprise	10.64%
	Nelson	Enterprise	5.76%
P077	22/12a	Enterprise	20.00%
	Howe (Discovery)	Enterprise	20.00%
P208	3/13a	Kerr McGee	10.26%
P212	211/8a	Ranger	1.64%
P220	15/17	Talisman	15.12%
	Piper	Talisman	15.12%
P225	20/4a	Amerada	10.26%
P226	15/27	Phillips	16.47%
	Renee	Phillips	16.47%
P240	16/22	Elf	2.06%
P244	21/2 (Cretaceous)	Arco	14.17%
	21/2 (South)	Arco	11.77%
	Glenn (Discovery)	Arco	6.67%
P244	29/6a	Amerada	10.59%
P249	14/19	Talisman	14.54%
	Claymore	Talisman	10.17%
	Scapa	Talisman	15.12%
P250	15/17	Talisman	15.12%
	Saltire, Chanter, Iona	Talisman	15.12%
	Lucy (Discovery)	Talisman	15.12%
P250	15/11a	Talisman	15.12%
P253	14/14a	Talisman	1.82%
	14/15a	Talisman	1.63%
P263	14/18a	Talisman	15.12%
P307	13/29a	Lasmo	21.00%
	Ross	Talisman	13.00%
P324	14/20b	Talisman	3.33%
P339	15/28b	Phillips	9.00%
	Rubie	Phillips	9.00%
P357	22/19a	Elf	16.02%
	Fiddich (Discovery)	Elf	16.02%
P460	48/11b	Arco	35.00%
	Pickerill	Arco	18.24%
P472	3/11a	Amerada	40.00%
P585	15/12b	Talisman	1.33%
	Lucy (Discovery)	Talisman	1.33%
P589	15/26b	Amerada	20.00%

Licence interests

P928	20/1 & 19/5	PanCanadian	20.00%
P986	19/10 & 20/6	PanCanadian	30.00%
P1018	210/1 & 210/2	Phillips	20.00%