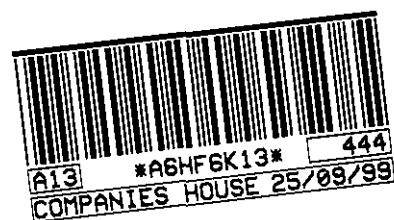


INTERMARINE OFFSHORE SERVICES LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1998**

Registered Number : 2657940



SPAIN BROTHERS
CHARTERED ACCOUNTANTS

INTERMARINE OFFSHORE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31ST DECEMBER 1998**

INDEX

Page No:

- | | |
|----|--|
| 1. | Company Information |
| 2. | Report of the Directors |
| 3. | Report of the Auditors |
| 4. | Profit and Loss Account |
| 5. | Balance Sheet |
| 6. | Notes forming part of the Financial Statements |

INTERMARINE OFFSHORE SERVICES LIMITED

COMPANY INFORMATION **FOR THE YEAR ENDED 31ST DECEMBER 1998**

Incorporated in England and Wales on 28th October 1991.

DIRECTORS

R.A. Govier Esq.
M.P. Cloyd Esq.

SECRETARY

R.A. Govier Esq.

REGISTERED OFFICE

20 Castle Road,
Sandgate,
Folkestone,
Kent.
CT20 3AG

AUDITORS

Spain Brothers & Co.,
Chartered Accountants,
29 Manor Road,
Folkestone,
Kent.
CT20 2SE

COMPANY NUMBER

2657940

INTERMARINE OFFSHORE SERVICES LIMITED

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 31ST DECEMBER 1998**

The directors present their report together with the audited financial statements for the year ended 31st December 1998.

PRINCIPAL ACTIVITY

The Company owns and leases one offshore oilfield service vessel and turnover is derived from this.

The Company transacts its business primarily in U.S. Dollars which is reflected in the financial statements.

DIRECTORS

The directors who served during the year were:-

R.A. Govier Esq.
M.P. Cloyd Esq.

M.P. Cloyd Esq. holds all of the share capital of this Company's ultimate holding company, InterMarine Incorporated.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year 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 year. In preparing these 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;
- follow applicable accounting standards, subject to any material departures disclosed and explained in the financial statements;
- 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.

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

INTERMARINE OFFSHORE SERVICES LIMITED

REPORT OF THE DIRECTORS **FOR THE YEAR ENDED 31ST DECEMBER 1998 (Continued)**

YEAR 2000 COMPLIANCE (Continued)

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems change involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers (including computer bureaux) and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problems, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

AUDITORS

A resolution to re-appoint the Company's auditors Spain Brothers & Co will be proposed at the Annual General Meeting.


SMALL COMPANY EXEMPTIONS

The above report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the Board on 31st August 1999.

20 Castle Road,
Sandgate,
Folkestone,
Kent.
CT20 3AG

By Order of the Board


R.A. Govier Esq.
Secretary

31st August 1999

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF

INTERMARINE OFFSHORE SERVICES LIMITED

We have audited the financial statements set out on pages 4 to 7 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 Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

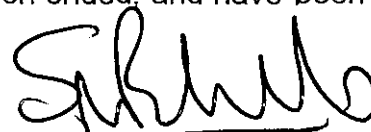
BASIS OF OPINION

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements 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 financial statements 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 financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31st December 1998 and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



SPAIN BROTHERS & CO.
Chartered Accountants
Registered Auditors

29 Manor Road,
Folkestone,
Kent.
CT20 2SE

31st August 1999

INTERMARINE OFFSHORE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT **FOR THE YEAR ENDED 31ST DECEMBER 1998**

Note

1. TURNOVER

Administrative Expenses

**3. PROFIT ON ORDINARY ACTIVITIES
BEFORE AND AFTER TAXATION**

DEFICIT BROUGHT FORWARD

**DEFICIT AT 31ST DECEMBER 1998
CARRIED FORWARD**

<u>1998</u>	<u>1997</u>
<u>\$</u>	<u>\$</u>
36,500	36,500
(848)	(7,305)
35,652	29,195
(153,372)	(182,567)
(\$117,720)	(\$153,372)

CONTINUING OPERATIONS

None of the Company's activities were acquired or discontinued during the above two years.

TOTAL RECOGNISED GAINS AND LOSSES

The Company has no recognised gains or losses other than the loss for the above two years.

The notes on pages 6 to 7 form part of these financial statements.

INTERMARINE OFFSHORE SERVICES LIMITED

BALANCE SHEET AS AT 31ST DECEMBER 1998

<u>Note</u>	<u>1998</u> \$	<u>1997</u> \$
4. <u>FIXED ASSETS</u>	-	-
<u>CURRENT ASSETS</u>		
Cash at Bank and in Hand	1,342	395
<u>TOTAL ASSETS LESS CURRENT LIABILITIES</u>	1,342	395
5. <u>CREDITORS</u> Amounts falling due after more than one year	(119,058)	(153,763)
	<u>(\$117,716)</u>	<u>(\$153,368)</u>
<u>CAPITAL AND RESERVES</u>		
6. Share Capital	4	4
Profit and Loss Account	(117,720)	(153,372)
	<u>(\$117,716)</u>	<u>(\$153,368)</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

Approved by the Board of Directors on 31st August 1999 and signed on their behalf by:-

 - Director
M.P. Cloyd Esq.

The notes on pages 6 to 7 form part of these financial statements.

INTERMARINE OFFSHORE SERVICES LIMITED

NOTES FORMING PART OF THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31ST DECEMBER 1998**

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The principal accounting policies adopted are as follows:-

Cash Flow Statement

The Company qualifies as a small company under the Companies Act 1985. The directors have elected to take advantage of the exemption under FRS1 not to prepare a Cash Flow Statement.

Turnover

Turnover comprises amounts derived from the leasing of an offshore oilfield service vessel.

Foreign Currencies

The financial statements have been prepared in U.S. Dollars as this is the currency in which all of the transactions of the Company are carried out.

Depreciation

Depreciation is provided on all tangible fixed assets at annual rates calculated to write off the cost of each asset evenly over its expected useful life as follows:-

Vessel	20% on Cost
--------	-------------

2. SEGMENTAL ANALYSIS

100% of turnover is attributable to geographical markets outside the United Kingdom.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on Ordinary Activities before Taxation **is stated after charging:-**

Depreciation of Owned Tangible Fixed Assets

1998	1997
\$	\$
-	-

INTERMARINE OFFSHORE SERVICES LIMITED

NOTES FORMING PART OF THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31ST DECEMBER 1998 (continued)**

4. **TANGIBLE FIXED ASSETS**

Cost

At 1st January 1998

At 31st December 1998

Depreciation

At 1st January 1998

Charge for the Year

At 31st December 1998

Net Book Value

At 31st December 1998

At 31st December 1997

<u>Vessel</u>	<u>TOTAL</u>
360,000	360,000
\$360,000	\$360,000
360,000	360,000
-	-
\$360,000	\$360,000
-	-
-	-

5. **CREDITORS** - Amounts falling due after more than one year

Amounts Owed to Group Undertaking

<u>1998</u>	<u>1997</u>
\$119,058	\$153,763

6. **SHARE CAPITAL**

Authorised

1000 Ordinary Shares of \$1 each

Issued and Fully Paid

2 Ordinary Shares of \$1 each

<u>1997</u>	<u>1996</u>
\$1,000	\$1,000
\$4	\$4

7. **PARENT UNDERTAKING**

The Company is a wholly owned subsidiary of InterMarine De Panama S.A. which in turn is a wholly owned subsidiary of InterMarine Incorporated which is incorporated in the United States of America.