



ARTHURANDERSEN

LEPCO plc
and subsidiary undertakings

Consolidated financial statements 31 December 2000
together with Chairman's statement, directors' report and
auditors' report

Registered number: 1757721



Chairman's statement

For the year ended 31 December 2000

During 2000 the directors continued to pursue a number of opportunities for the Group to acquire significant producing oil and gas interests to provide the Group with positive cash flows.

In October 1999 agreement was reached with Total Oil and Gas Nederland B.V., the Dutch subsidiary of TotalFina, for LEPCO to acquire a portfolio of producing gas fields offshore in the Netherlands. This transaction was not completed due to pre-emption in early 2000 by existing licence partners.

Activity on block 47/9c in the UK Southern Gas Basin, the Company's principal asset, continued during the year. LEPCO was appointed operator of the block in November 1999 and over the following months a full evaluation of the licence's prospectivity was completed. The evaluation involved the acquisition of 3-D seismic over the acreage and confirmed that the acreage contains a potentially commercial gas discovery. Following completion of this evaluation ongoing discussions are being held with industry partners to fund the appraisal and development of this asset. The Company has also agreed with the Department of Trade and Industry to pay the necessary licence fees until at least June 2002.

In August 2000 the Company was awarded a 20% interest in PEDL 071, an exploration licence in the Cleveland basin onshore UK. The Licence is operated by Egdon Resources Limited and the objective is to undertake an evaluation into the block's exploration prospectivity before exploration drilling. In the Netherlands, following a review of the commerciality of the Donkerbroek licence by the operator NAM, a decision has been made to put the licence on a "care and maintenance basis" and the carrying value of this asset has therefore been written down to a nominal value.

Since LEPCO sold its interest in the Forties fields at the end of 1998, the Group's only income has been from its non-operated North American interests with revenue for the year of £32,318 (1999 - £37,125). The major expenditure during 2000 was the evaluation of block 47/9c, together with overhead and abortive transaction costs. Overhead costs were reduced by the directors waiving emoluments as set out in note 8 to the accounts. Including the write-off on the Donkerbroek licence of £147,648 and abortive transaction costs of £66,906, total losses for the year were £390,846.

On 26 October 2000 the Company announced that it had entered into an Agreement of Intent with DNO to acquire assets in the Republic of Yemen from DNO in return for an issue of shares. The transaction would have resulted in DNO acquiring a majority shareholding in LEPCO and control of the Board. During negotiations DNO changed the proposed transaction substantively. Ultimately in April 2001 DNO withdrew from the deal when it became apparent that LEPCO's major shareholders would not support the revised transaction.

The Board announced on 30 May 2001 that it had entered into an underwriting agreement with Park Resources Limited, the general partner of the Company's largest shareholder, Endeavour Oil and Gas Limited Partnership, for Park Resources to underwrite an open offer to shareholders to raise £990,200 before expenses. The open offer is conditional inter alia on a restructuring of the Company's share capital and following completion of the offer there will be substantive Board changes. Full details of the proposals are given in the attached circular of today's date.

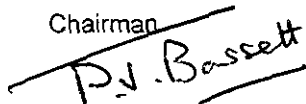
Chairman's statement (continued)

If the open offer is successfully completed, the Board will be restructured on completion of the refinancing, with Professor Audrey Lees, Jimmy West and I retiring as directors. Peter Wilde will resign as managing director and will be appointed a non-executive director. Dr Elizabeth Butler will also remain on the Board as a non-executive director. Conditional on the new shares being admitted to AIM, Harry Wilson will be appointed executive Chairman and, in addition, Richard O'Toole and Graeme Thomson will be appointed non-executive directors.

I wish to thank the outgoing Board for their contribution to the Company and wish the new Board every success in continuing LEPCO's development as a UK quoted exploration and production independent.

Peter Bassett

Chairman

A handwritten signature in black ink, reading "P.J. Bassett", is written over a horizontal line. The signature is written in a cursive, slightly slanted style.

20 June 2001

Directors' report

For the year ended 31 December 2000

The directors have pleasure in presenting their report on the affairs of LEPCO plc ('the Company') and subsidiaries ('the Group'), together with the financial statements and auditors' report for the year ended 31 December 2000.

Principal activity and business review

The principal activity of the Group throughout the year was the exploration for and production of oil and gas.

The activities of the Group, the significant developments during 2000 and the future prospects for the Group are reviewed in detail in the Chairman's statement.

Results and dividends

The Group made a loss after tax of £390,846 during the year (1999 – loss after tax of £333,709). This loss, together with the accumulated deficit of £1,406,950 brought forward, leaves an accumulated deficit of £1,797,796 to be carried forward as a balance on the Group profit and loss account.

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

Directors and their interests

The directors who served during the year, together with their beneficial interests in the share capital of the Company at the end of the year, were as follows:

	Ordinary Shares of 10p each		
	15 June 2001	31 December 2000	31 December 1999
P.J. Bassett	1,121,392	1,121,392	1,121,392
Dr. E.J. Butler	88,800	88,800	88,800
Prof. A.M. Lees	354,577	354,577	354,577
J.G. West	105,000	105,000	105,000
P.K. Wilde	329,000	329,000	329,000

Beneficial shareholdings include the shareholdings of a director's spouse.

As at all dates concerned P.J. Bassett also had a non-beneficial interest in 91,000 ordinary shares as an executor and trustee of the estate of the late J.C. Bassett. Otherwise, at no time did the Directors have any non-beneficial shareholdings.

Directors' report (continued)

Directors and their interests (continued)

The Company operates share option schemes entitling the directors to subscribe at a given subscription price for ordinary shares in the Company. To date ten schemes have been introduced annually between 1986 and 1996 and each scheme expires seven years after it was formally granted and executed. The options still held by the directors and not exercised under these schemes, the subscription price for each scheme and their expiry date, were as follows on 31 December 2000:

Scheme	1996	1995	1994	1993
Subscription price	60p	50p	25p	20p
P.J. Bassett	30,000	30,000	50,000	50,000
<i>Date options expire</i>	<i>9-Sep-04</i>	<i>22-Jun-05</i>	<i>22-Jun-05</i>	<i>22-Jun-05</i>
Dr. E.J. Butler	50,000	50,000	50,000	41,000
<i>Date options expire</i>	<i>2-Feb-05</i>	<i>16-Dec-03</i>	<i>1-Feb-02</i>	<i>1-Sep-01</i>
Prof. A.M. Lees	20,000	20,000	20,000	20,000
<i>Date options expire</i>	<i>11-Mar-05</i>	<i>1-Mar-04</i>	<i>26-Jun-02</i>	<i>26-Jun-02</i>
J.G. West	20,000	30,000	-	-
<i>Date options expire</i>	<i>11-Sep-04</i>	<i>30-Dec-03</i>		
P.K. Wilde	50,000	50,000	50,000	50,000
<i>Date options expire</i>	<i>9-Sep-04</i>	<i>18-Dec-03</i>	<i>1-Feb-02</i>	<i>1-Sep-01</i>

As part of the proposed refinancing scheme described in the Chairman's statement, all the above options have been cancelled since 31 December 2000.

In accordance with recommended investment practice, the Company's policy is that the number of share options outstanding should not exceed 10% of the issued share capital and the Company is in compliance with this policy.

Service contracts

P.K. Wilde has a service agreement with the Company as Managing Director.

Directors' report (continued)

Substantial shareholders

Except for the holdings of ordinary shares listed within 1 month of notice of AGM below, the directors are not aware of any person holding 3% or more of the ordinary share capital of the Company at 15 June 2001.

Ordinary shares of 10p each	Number	%
Endeavour Oil & Gas Limited Partnership	1,801,000	18.19
Aectra Investments Limited	1,579,971	15.95
P.J. Bassett	1,121,392*	11.32
Prof A. M. Lees	354,577	3.58
P.K. Wilde	329,000	3.32
Ashcourt Asset Management	327,500	3.31

* Excluding the non-beneficial shareholdings disclosed on page 3.

Supplier payment policy and practice

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensuring that suppliers are made aware of the terms of payment and abide by the terms of payment. At the year end the number of supplier days outstanding for the Company was 54 (1999 – 45 days).

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 Group and of the profit or loss of the Group for that year. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

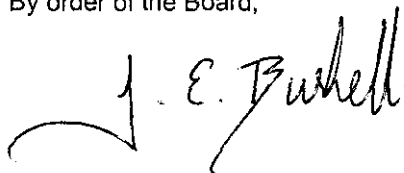
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

Auditors

Arthur Andersen have indicated their willingness to remain in office and in accordance with the provisions of the Companies Act 1985 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,

A handwritten signature in black ink, appearing to read 'J.E. Bushell'. The signature is written in a cursive style with a large, sweeping initial 'J'.

J.E. Bushell

Secretary

20 June 2001



To the Shareholders of LEPCO plc:

We have audited the financial statements on pages 8 to 27 which have been prepared under the historical cost convention and the accounting policies set out on pages 13 to 16.

Respective responsibilities of directors and auditors

As described on page 5, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, 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 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 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 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1b) of the financial statements concerning the uncertainty as to whether the Group will have sufficient funding to continue in existence beyond 30 June 2002. In view of the significance of this uncertainty we consider that this should be drawn to your attention but our opinion is not qualified in respect of this matter.

Opinion

In our opinion the financial statements 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 loss and cash flows 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
20 June 2001

Consolidated profit and loss account

For the year ended 31 December 2000

	Notes	2000 £	1999 £
Turnover	1(d)		
Continuing		32,318	37,125
Cost of sales			
Continuing		(9,778)	(46,630)
Discontinued		-	(64,362)
	3	(9,778)	(110,992)
Gross profit (loss)			
Continuing		22,540	(9,505)
Discontinued		-	(64,362)
		22,540	(73,867)
Administrative expenses (continuing)			
Amounts written off intangible fixed assets in the Netherlands	12	(147,648)	-
Abortive acquisition/deal costs	12	(66,906)	(83,382)
Other		(211,423)	(212,074)
		(425,977)	(295,456)
Operating loss			
Continuing		(403,437)	(304,961)
Discontinued		-	(64,362)
		(403,437)	(369,323)
Profit on sale of tangible fixed assets (continuing)		-	11,140
Investment income	4	12,591	24,936
Interest payable and similar charges	5	-	(462)
Loss on ordinary activities before taxation	6	(390,846)	(333,709)
Taxation	9	-	-
Loss for the financial year		(390,846)	(333,709)
Loss per share (basic and diluted)	11	3.96p	3.39p

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2000

	2000 £	1999 £
Loss for the financial year	(390,846)	(333,709)
(Loss) gain on foreign currency translation	<u>(374)</u>	<u>526</u>
Total recognised gains and losses relating to the year	<u>(391,220)</u>	<u>(333,183)</u>

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Consolidated balance sheet

31 December 2000

	Notes	2000 £	1999 £
Fixed assets			
Intangible assets	12	914,998	877,434
Tangible assets	13	11,235	18,532
		<u>926,233</u>	<u>895,966</u>
Current assets			
Debtors	15	30,474	23,254
Cash at bank and in hand		47,955	436,238
		<u>78,429</u>	<u>459,492</u>
Creditors: Amounts falling due within one year	16	<u>(104,796)</u>	<u>(74,372)</u>
Net current (liabilities) assets		<u>(26,367)</u>	<u>385,120</u>
Total assets less current liabilities, being net assets		<u>899,866</u>	<u>1,281,086</u>
Capital and reserves			
Called-up equity share capital	17	990,273	983,273
Share premium account	18	1,672,145	1,669,145
Other reserves	18	35,244	35,618
Profit and loss account	18	<u>(1,797,796)</u>	<u>(1,406,950)</u>
Total equity shareholders' funds	19	<u>899,866</u>	<u>1,281,086</u>

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

31 December 2000

	Notes	2000 £	1999 £
Fixed assets			
Intangible assets	12	912,177	729,510
Tangible assets	13	371	5,090
Investments	14	37,678	37,678
		<u>950,226</u>	<u>772,278</u>
Current assets			
Debtors	15	265,715	253,230
Cash at bank and in hand		25,998	410,434
		<u>291,713</u>	<u>663,664</u>
Creditors: Amounts falling due within one year	16	(97,967)	(66,607)
Net current assets		<u>193,746</u>	<u>597,057</u>
Total assets less current liabilities, being net assets		<u>1,143,972</u>	<u>1,369,335</u>
Capital and reserves			
Called-up equity share capital	17	990,273	983,273
Share premium account	18	1,672,145	1,669,145
Profit and loss account	18	(1,518,446)	(1,283,083)
Total equity shareholders' funds		<u>1,143,972</u>	<u>1,369,335</u>

Signed on behalf of the Board on 20 June 2001

P.J. Bassett

Director

P.K. Wilde

Director

The accompanying notes are an integral part of this balance sheet.

Reconciliation of operating loss to net cash outflow from operations

For the year ended 31 December 2000

	2000 £	1999 £
Operating loss	(403,437)	(369,323)
Depletion and amounts written off tangible fixed assets	-	32,777
Depreciation	8,013	8,477
Amounts written off intangible fixed assets	214,554	83,382
Decrease in debtors	13,600	87,225
Increase (decrease) in creditors	22,841	(40,572)
Net cash outflow from operations	<u>(144,429)</u>	<u>(198,034)</u>

Consolidated cash flow statement

For the year ended 31 December 2000

	Notes	2000 £	1999 £
Net cash outflow from operations		(144,429)	(198,034)
Returns on investments and servicing of finance	21a)	12,591	24,474
Capital expenditure	21a)	<u>(256,445)</u>	<u>662,331</u>
(Decrease)/increase in cash	21b)	<u>(388,283)</u>	<u>488,771</u>

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to financial statements

For the year ended 31 December 2000

1 Accounting policies

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

a) Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

b) Going concern

Since the disposal of the Forties interest in late 1998 the Group has had no significant source of revenue. The Group's principal asset is its 98.5% equity interest (net 89.5% after carried interests) in licence P.775, covering acreage on block 47/9c in the UK Southern Gas Basin which contains a potentially commercial gas discovery.

Since the approval of the 1999 financial statements, the Group has taken a number of steps to realise the potential value of the licence to the Group and to acquire revenue producing assets on behalf of the Group. The directors have previously advised shareholders that in the absence of achieving either of these objectives, the Group would have to raise additional funding.

Details of the steps taken to realise the potential value of licence P.775 are provided in note 12c). In addition, on 26 October 2000, the Company announced that it had entered into a letter of intent with DNO ASA ("DNO") to acquire oil assets in the Republic of the Yemen from DNO, the consideration for which was to be ordinary shares in LEPCO. DNO also provided LEPCO with a £250,000 Term Loan Facility to fund the Company during the course of completing the transaction. The Company started to draw down the loan in January 2001 and by March 2001 the loan was fully drawn. During negotiations, DNO changed the proposed transaction substantively. Ultimately DNO withdrew from the deal when it became apparent that major shareholders in the Company would not support the revised transaction.

Following the termination of this transaction, the Company announced in April 2001 that it was in discussions with its major shareholders to resolve the Company's financial situation.

Agreement was reached on 29 May 2001 with Park Resources Limited ("Park"), the general partner of Endeavour Oil & Gas Limited Partnership ("Endeavour"), for Park to underwrite an open offer with full clawback of £990,200 before expenses at 4 pence per share. All existing shareholders will have full rights to subscribe to the open offer in proportion to their existing shareholding. Each share taken up under the open offer will also receive a warrant entitling the holder to subscribe for a further ordinary share of 1p par at 6p per share. To achieve this open offer, the Company proposes to restructure its share capital by dividing each existing 10p par ordinary share into 1 new ordinary share of 1p par and 1 new deferred share of 9p par. The deferred shares will carry no significant rights.

Notes to financial statements (continued)

1 Accounting policies (continued)

b) *Going concern (continued)*

The above refinancing, including the share reorganisation, is subject to a number of requirements, the most significant of which is shareholder approval. The directors are confident that such approval will be obtained. The directors, Endeavour and certain of Endeavour's related parties have given irrevocable undertakings, representing 40.38% of the eligible votes, to support, where able, the necessary resolutions at the forthcoming Extraordinary General Meeting.

To fund the Company's immediate requirements, Park has granted a facility to the Company to lend it up to £300,000, repayable from the proceeds of the open offer. To date, £50,000 of this loan has been drawn down. A standby facility of up to a further £300,000 has also been made available.

In relation to the £250,000 Term Loan Facility with DNO, the Company has given notice to DNO that it has elected to repay the £250,000 drawn down through the allotment of ordinary shares to DNO, as permitted under certain circumstances under the terms of that Term Loan Facility. DNO has notified the Company that LEPCO is, in DNO's opinion, in default under the Term Loan Facility and has called for repayment in cash. The Company disputes this and the directors are seeking authority from shareholders to enable them to allot the necessary shares to satisfy the Term Loan Facility.

Based on the plans and relevant actions outlined above, and assuming that the refinancing of the Group that has been underwritten by Park as outlined above obtains the necessary shareholder approvals and is completed, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason the going concern basis has been adopted in preparing these financial statements. The directors have taken the period to 30 June 2002 as being the foreseeable future for this purpose. The financial statements do not include any adjustments that would result should the proposed refinancing not take place.

c) *Consolidation*

The Group accounts consolidate the accounts of LEPCO plc and its subsidiary undertakings. The results of subsidiaries acquired are consolidated for the periods from which control passed. Acquisitions are accounted for under the acquisition method with goodwill, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being capitalised within intangible assets and amortised over its estimated useful economic life.

d) *Turnover*

Turnover represents the invoiced value of the Group's share of hydrocarbon production in the year.

e) *Consortium accounting*

The Group's exploration, development and production activities are generally conducted as co-licensee in joint operations with other companies. The financial statements reflect the relevant proportions of production, capital expenditure and operating costs applicable to the Group's interests.

Notes to financial statements (continued)

1 Accounting policies (continued)

f) Oil and gas interests

The Group accounts for oil and gas exploration under the full cost basis as set out in the Statement of Recommended Practice "Accounting for oil and gas exploration, development, production and decommissioning activities" published by the Institute of Petroleum on behalf of the UK Oil Industry Accounting Committee ("the SORP").

Licence acquisition costs, geographical and geophysical costs, costs of drilling exploration, appraisal and development wells, and an appropriate share of overheads (including appropriate directors' costs) are capitalised and accumulated in full cost pools within tangible fixed assets on a geographical basis. The Group's oil and gas assets are currently held in three cost pools, the UK, Netherlands and North America.

Costs relating to the exploration and appraisal of oil and gas interests which the directors consider to be unevaluated are initially held outside the cost pool as intangible fixed assets. These costs are reassessed at each year end and when there are indications of impairment or at the conclusion of an appraisal programme the related costs are transferred to the full cost pool within tangible fixed assets.

An impairment test is carried out at each balance sheet date to assess whether the net book value of the capitalised costs in each pool is covered by the associated recoverable amount, as outlined in FRS 11 "Impairment of Fixed Assets and Goodwill". Impairment losses are recognised in the profit and loss account.

Depletion is provided on balances held in each cost pool, plus the expected future costs to extract all commercial oil and gas reserves, using the unit of production method. Commercial oil and gas reserves are proven and probable oil and gas reserves as defined in the SORP. Depletion is not provided on interests held outside the cost pool.

g) Depreciation of other tangible fixed assets

Depreciation on other tangible fixed assets is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Computer equipment - 33% straight line

h) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the end of the financial year. All exchange differences are dealt with in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheet at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves.

Notes to financial statements (continued)

1 Accounting policies (continued)

i) Corporation tax

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

Deferred corporation tax is accounted for under the liability method in respect of the taxation effects of all timing differences which are expected to reverse in the foreseeable future, calculated at the rate at which it is estimated that tax will be payable.

j) Royalties

Royalties, net of allowances for conveying and treating costs, are charged to cost of sales during the period in respect of which they are payable.

k) Investments

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

l) Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

2 Segment information

The Group operates in one business segment, the exploration for and production of oil and gas. The Group has interests in three geographical segments, the UK, Netherlands and North America as follows:

	UK		Netherlands		North America		Group	
	2000 £	1999 £	2000 £	1999 £	2000 £	1999 £	2000 £	1999 £
Turnover*	-	-	-	-	32,318	37,125	32,318	37,125
(Loss) profit before taxation	(260,052)	(310,939)	(150,048)	(15,940)	19,254	(6,830)	(390,846)	(333,709)
Net assets	871,247	1,099,450	15,730	166,295	12,889	15,341	899,866	1,281,086

*All turnover is sold to third parties within the segment of origin.

Notes to financial statements (continued)

3 Cost of sales

	2000 £	1999 £
Operating costs	4,417	9,507
Royalty	2,067	4,346
Depletion and amounts written off tangible fixed assets	3,294	32,777
Forties settlement costs (see below)	-	64,362
	<u>9,778</u>	<u>110,992</u>

The Group disposed of its interest in the Forties field in late 1998. Computation of the final settlement figures within the contractual terms resulted in additional costs being incurred which, together with directly related administrative costs, amounted to £64,362. These costs were recorded within discontinued cost of sales in 1999.

4 Investment income

	2000 £	1999 £
Interest receivable and similar income	<u>12,591</u>	<u>24,936</u>

5 Interest payable and similar charges

	2000 £	1999 £
Bank overdraft	<u>-</u>	<u>462</u>

6 Loss on ordinary activities before taxation

In addition to the amounts shown in note 3, loss on ordinary activities before taxation is stated after charging the following amounts:

	2000 £	1999 £
Depreciation of tangible fixed assets	8,013	8,477
Amounts written off intangible fixed assets	214,554	83,382
Auditors' remuneration - audit fees	8,000	8,000
- non-audit	24,849	23,520
Operating lease rentals	<u>26,730</u>	<u>23,750</u>

Notes to financial statements (continued)

7 Employee information

The average monthly number of employees (including executive directors) during the year was 4 (1999 - 4). Due to the small size of the Company there is no formal classification of duties.

Employee costs during the year amounted to:

	2000 £	1999 £
Wages and salaries	145,993	191,619
Social security costs	11,775	17,922
	<u>157,768</u>	<u>209,541</u>

Included within wages and salaries above is £29,470 (1999 - £33,900) which has been capitalised.

8 Directors' remuneration

Aggregate remuneration

Directors' remuneration for the year comprised emoluments of £107,370 (1999 - £145,404). Emoluments included £28,400 (1999 - £30,000) that has been capitalised. The Company does not provide pension arrangements to its directors.

The directors' emoluments shown above, all of which relate to basic salaries and fees, consist of the following:

	2000 £	1999 £
Executive director		
P. K. Wilde	58,392	87,588
Non-executive directors		
P.J. Bassett	10,000	15,000
Dr E. J. Butler	24,978	21,816
Prof. A. M. Lees	6,667	10,000
J. G. West	7,333	11,000
Aggregate emoluments	<u>107,370</u>	<u>145,404</u>

Details of directors' interests in the shares of the Company are shown in the directors' report.

Notes to financial statements (continued)

8 Directors' remuneration (continued)

In addition to the foregoing, the directors irrevocably waived a proportion of the emoluments that they were entitled to during 2000, as follows:

	2000 £
P.J. Bassett	5,000
Dr E. J. Butler	7,667
Prof. A. M. Lees	3,333
J. G. West	3,667
P.K. Wilde	30,780
Aggregate emoluments waived	<u>50,447</u>

No emoluments were waived by the directors during 1999.

Directors' share options

Details of options to acquire ordinary shares in the Company held by the directors at 31 December 2000 are as follows:

	Number
P.J. Bassett	160,000
Dr. E.J. Butler	191,000
Prof. A.M. Lees	80,000
J.G. West	50,000
P.K. Wilde	200,000
Total	<u>681,000</u>

Options for 17,500 shares held by P.J. Bassett lapsed during the year. No other options were granted, exercised or lapsed during the year.

In addition to the above, the estate of the late J.C. Bassett, in which P.J. Bassett has a non-beneficial interest as an Executor and Trustee, held 2,500 options at the start of the year, which lapsed during the year, with no options granted or exercised.

The options are exercisable at any time within 7 years of the agreement being formally granted and executed. The mid-market price of the ordinary shares at 31 December 2000 was 15p (1999: 18.5p) and the range during the year was 14p to 18.5p (1999 - 10.5p to 21.5p). Subsequent to year end, as part of the proposed refinancing scheme described in note 1b), all the above options have been cancelled.

Notes to financial statements (continued)

9 Taxation

There is no provision for current or deferred tax at 31 December 2000 (1999 - £nil). Deferred tax not provided for is as follows:

	2000 £	1999 £
Accelerated capital allowances	219,339	202,186
Less: corporation tax losses carried forward	(384,970)	(344,903)
Deferred tax asset	<u>(165,631)</u>	<u>(142,717)</u>

10 Loss attributable to LEPCO plc

The loss for the financial year dealt with in the accounts of LEPCO plc was £235,364 (1999 – loss of £282,021). As provided by s230 of the Companies Act 1985, no profit and loss account is presented in respect of LEPCO plc.

11 Earnings per share

The calculation of basic earnings per share is based on the loss for the financial year of £390,846 (1999 – loss of £333,709) and on 9,879,400 (1999 – 9,832,733) ordinary shares, being the weighted average number of ordinary shares in issue. Diluted earnings per share is the same as basic earnings per share in both years as the effect of potential ordinary shares is antidilutive.

12 Intangible fixed assets

	Group	Company
	Unevaluated oil and gas interests £	Unevaluated oil and gas interests £
Net book value		
At 31 December 1999	877,434	729,510
Additions	252,268	249,573
Abortive acquisition/deal costs written off (see a) below)	(66,906)	(66,906)
Amounts written off assets in the Netherlands (see b) below)	(147,648)	-
Exchange adjustment	(150)	-
At 31 December 2000	<u>914,998</u>	<u>912,177</u>

- a) Due to the termination of the proposed deal with DNO subsequent to the year end (see note 1b), costs incurred prior to 31 December 2000 in relation to this proposed deal, amounting to £51,493, have been written off, in addition to £15,413 relating to the costs of abortive acquisitions.

Notes to financial statements (continued)

12 Intangible fixed assets (continued)

- b) In view of the operator's decision during the year to defer development of the Donkerbroek field in the Netherlands this asset has been written down by £147,648 and is now carried at a nominal value of NLG 10,000 (approximately £2,820 at the year end exchange rate of 3.55 NLG/£) in the books of LEPCO Oil & Gas Netherlands B.V.
- c) The Company's principal unevaluated oil and gas interest as at 31 December 2000 is its 98.5% equity interest in licence P.775 (net 89.5% after carried interests) covering acreage on block 47/9c in the UK Southern Gas Basin. During 2000 the Group, which has operated the block since November 1999, completed a full evaluation of the block and concluded that the licence contains a potentially commercial gas discovery.

Since September 2000 the Group has taken a number of steps to realise the value of this asset, including seeking farm-in partners to drill an appraisal well on the block. The Group has now agreed with the Department of Trade and Industry that it will pay the licence fee for the period up to at least June 2002 to enable the Group to advance this objective.

The board of directors has fully reviewed and considered the potential value of the Company's interest in licence P.775 and the likely opportunities for realising that value and have concluded that, on the assumption that the proposed refinancing outlined in note 1b) is completed and that the block is subsequently either farmed out or sold, the likely value is in excess of its net book value.

13 Tangible fixed assets

Group	Oil and gas interests £	Computer equipment £	Total £
Cost			
At 31 December 1999	50,293	31,996	82,289
Additions	716	-	716
At 31 December 2000	51,009	31,996	83,005
Depreciation			
At 31 December 1999	36,851	26,906	63,757
Charge for the year	3,294	4,719	8,013
At 31 December 2000	40,145	31,625	71,770
Net book value			
At 31 December 1999	13,442	5,090	18,532
At 31 December 2000	10,864	371	11,235

Notes to financial statements (continued)

13 Tangible fixed assets (continued)

Company	Oil and gas interests £	Computer equipment £	Total £
Cost			
At 31 December 1999 and 2000	5	31,996	32,001
Depreciation			
At 31 December 1999	5	26,906	26,911
Charge for the year	-	4,719	4,719
At 31 December 2000	5	31,625	31,630
Net book value			
At 31 December 1999	-	5,090	5,090
At 31 December 2000	-	371	371

14 Fixed asset investments

Cost and net book value

There was no movement in the Company's fixed asset investments during the year, all of which relate to subsidiary undertakings.

Principal investments

The parent company has investments in the following subsidiary undertakings:

	Country of incorporation	Class of shares held	Proportion of voting rights held	Nature of business
LEPCO Oil & Gas USA Inc.	USA	Ordinary	100%	Exploration for and production of oil and gas
LEPCO Oil & Gas Canada Ltd.	Canada	Ordinary	100%	Exploration for and production of oil and gas
LEPCO Oil & Gas Netherlands B.V.	Netherlands	Ordinary	100%	Exploration for and production of oil and gas

Notes to financial statements (continued)

15 Debtors

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	-	2,023	-	-
Amounts owed by subsidiary undertakings	-	-	235,047	232,207
VAT	3,348	5,475	3,334	5,267
Prepayments and accrued income	27,126	15,756	27,334	15,756
	<u>30,474</u>	<u>23,254</u>	<u>265,715</u>	<u>253,230</u>

16 Creditors: Amounts falling due within one year

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Trade creditors	20,599	31,130	16,526	23,809
Taxation and social security	8,142	8,249	8,142	8,249
Other creditors	9,935	-	9,935	-
Accruals and deferred income	66,120	34,993	63,364	34,549
	<u>104,796</u>	<u>74,372</u>	<u>97,967</u>	<u>66,607</u>

17 Called-up equity share capital

	2000	1999
	£	£
<i>Authorised:</i>		
15,000,000 (1999 – 15,000,000) ordinary shares of 10p each	<u>1,500,000</u>	<u>1,500,000</u>
<i>Called-up, allotted and fully paid</i>		
9,902,733 (1999 - 9,832,733) ordinary shares of 10p each	<u>990,273</u>	<u>983,273</u>

During the year the Company allotted 70,000 ordinary shares with a nominal value of £7,000 and at a premium of £3,000 in settlement of amounts owed to a trade creditor of the Company.

Notes to financial statements (continued)

18 Reserves

Group

	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 31 December 1999	1,669,145	35,618	(1,406,950)	297,813
Premium on shares issued (see note 17)	3,000	-	-	3,000
Loss for the year	-	-	(390,846)	(390,846)
Loss on foreign currency translation	-	(374)	-	(374)
At 31 December 2000	<u>1,672,145</u>	<u>35,244</u>	<u>(1,797,796)</u>	<u>(90,407)</u>

Company

	Share premium account £	Profit and loss account £	Total £
At 31 December 1999	1,669,145	(1,283,082)	386,063
Premium on shares issued (see note 17)	3,000	-	3,000
Loss for the year	-	(235,364)	(235,364)
At 31 December 2000	<u>1,672,145</u>	<u>(1,518,446)</u>	<u>153,699</u>

19 Reconciliation of movements in Group shareholders' funds

	2000 £	1999 £
Loss for the year	(390,846)	(333,709)
Other recognised gains and losses relating to the year	(374)	526
	<u>(391,220)</u>	<u>(333,183)</u>
Shares issued	10,000	-
Net deduction from shareholders' funds	(381,220)	(333,183)
Opening shareholders' funds	1,281,086	1,614,269
Closing shareholders' funds	<u>899,866</u>	<u>1,281,086</u>

Notes to financial statements (continued)

20 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings 2000 £	Land and Buildings 1999 £
Operating lease which expires within one year	<u>30,360</u>	<u>26,400</u>

Capital commitments

	2000 £	1999 £
Contracted for but not provided for in the financial statements	<u>11,713</u>	<u>28,504</u>

In addition, as a party to certain exploration licences, the Company is committed to its share of future exploration and appraisal costs associated with those licences.

21 Notes to the cash flow statement

a) Gross cash flows

	2000 £	1999 £
Returns on investments and servicing of finance		
Interest received	12,591	24,936
Interest paid	-	(462)
	<u>12,591</u>	<u>24,474</u>
Capital expenditure		
Purchase of intangible fixed assets	(255,729)	(189,345)
Purchase of tangible fixed assets	(716)	(36,173)
Sale of tangible fixed assets	-	887,849
	<u>(256,445)</u>	<u>662,331</u>

Proceeds from the sale of tangible fixed assets in 1999 includes £876,709 in connection with the disposal of Forties in late 1998 (see note 3).

Notes to financial statements (continued)

21 Notes to the cash flow statement (continued)

b) Reconciliation of net cash flow to movement in net funds

	2000 £	1999 £
(Decrease)/increase in cash before exchange differences	(388,283)	488,771
Exchange differences	-	-
(Decrease)/increase in cash after exchange differences	(388,283)	488,771
Net funds/(debt) at beginning of period	436,238	(52,533)
Net funds at end of period	47,955	436,238

c) Analysis of net funds

	At 1 January 2000 £	Cash flow £	At 31 December 2000 £
Cash at bank and in hand, representing net funds	436,238	(388,283)	47,955

22 Derivatives and other financial instruments

This note provides the narrative and numerical disclosures required by FRS 13 "Derivatives and Other Financial Instruments: Disclosures". As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Objectives and policies

The Group's objective and policy is to use financial instruments to manage its risk profile commensurate with the complexity of its underlying operations. During the year, the Group had available the following financial instruments:

- Cash at bank and in hand
- Short term loan facility with DNO ASA

These are used to manage the working capital requirements of the Group.

The Group does not use derivative financial instruments.

Notes to financial statements (continued)

22 Derivatives and other financial instruments (continued)

Interest rate profile

At 31 December 2000 the Group had no financial assets other than sterling denominated cash at bank and in hand of £47,955 which is part of the working capital financing arrangements of the Group. This cash balance comprises deposits placed with banking institutions that are available on demand.

There was no drawdown on the short term loan facility at 31 December 2000. The facility carries interest at 4% above the UK base rate, is secured by a floating charge over the Company and is repayable by 30 April 2001. Further details of the current status of this loan are provided in note 1b).

Currency exposures

The Group does not currently have any significant currency exposures, as its monetary assets and liabilities are materially denominated in the operating (or 'functional') currency of the operating unit involved.

Fair values

The fair values of the Group's financial assets and liabilities at 31 December 2000 are materially equivalent to their carrying value.