ANDERSEN

LEPCO plc

and subsidiary undertakings

Consolidated financial statements for the year ended
31 December 2001 together with Chairman's statement,
directors' report and auditors' report

Registered number: 1757721



Chairman's statement

For the year ended 31 December 2001

It is my pleasure to write to you again as your new Chairman following the Board changes last summer. There have been a number of important developments in the Company which have, I believe, significantly improved its prospects going forward.

In my interim statement in September 2001, I set out our objectives of achieving an increase in our oil & gas producing assets and cash flow, the strengthening of our technical team, the introduction of exploration upside and an improvement in our balance sheet. I stated that we would prefer our initial move to be equity-led.

Consistent with these objectives, I am pleased to announce today a deal to acquire the entire share capital of Sterling Energy Limited, for a consideration of £9.5m (based on the mid-market price of 5p) to be satisfied by the issue of new ordinary shares. Sterling is a private UK oil & gas company with producing interests in the Gulf of Mexico and exploration interests in S. E. Asia.

In addition, the Company plans to raise further funds to provide additional working capital to develop these new assets and to give it greater flexibility for new acquisitions. This funding will be raised by way of a Placing and Open Offer to new and existing shareholders. The acquisition of Sterling is subject to this funding and to shareholder approval.

The Sterling deal will bring to the Company an enhanced production level and reserves in North America, an increase in its operating cash flow and will strengthen the balance sheet. We believe that the Sterling assets offer substantial drilling upside, which we will look to realise over the next two years. It also brings an experienced executive management team who, following the acquisition, will have a significant equity stake in the enlarged group. It is a major step in revitalising and growing the Company.

Full details of the acquisition and fund raising will be set out in a prospectus that will be sent to you in due course. In the meantime dealings in our shares on AIM have been suspended.

The last few years have been difficult for the Company as it struggled to make progress in what was a difficult environment for oil & gas independents. This resulted in the need to restructure the share capital and raise approximately £1m of new equity in July last year. A number of Board changes were made at the same time to strengthen the oil & gas experience available to the Company. Those changes, together with the Sterling deal and the completed Westmount transaction summarised below, will enable the Company to become a more active participant in the oil & gas sector.

Results for the year

In September 2001, I announced interim results which reflected the difficult circumstances faced by the Company. Following the Open Offer funding in July, we have settled substantially all of our debts, have kept overheads to a minimum, reviewed the existing asset base, completed a production purchase partly for shares and negotiated the Sterling deal.

The results for the year reflect the difficult circumstances the Company found itself in. They do not, however, reflect the recent positive developments.

The net current assets position improved during the year from a deficit of £26,000 in the prior year to a surplus of £437,000 at the end of December 2001. This was principally due to the open offer raising approximately £990,200 (before expenses of £215,000). In addition, during the year, a further issue of a total of 4,385,000 shares was made to settle approximately £300,000 of liabilities of the Group.

Two major items have affected the results for the year. Firstly, the costs associated with the transaction to purchase assets in the Republic of Yemen, aborted in March 2001. These costs totalled £303,000 in the year.

Secondly, the Directors have undertaken a detailed technical review of the North Sea 47/9c license interest and an extensive farm-out campaign to find a partner to drill a well. In light of a number of factors, the Company has decided that it is appropriate to provide fully against the book value of this licence and has taken a non-cash write-down of £944,000. Whilst we remain hopeful that a partner can be found to pay for the costs of a well, in the event that this is not achieved, we expect that the licence will be relinquished as we do not believe it appropriate for the Company to drill such a high-cost well from its own resources.

The overall cash outflow from operations, which includes the above mentioned abort costs, was £453,000. This was principally funded from the open offer proceeds.

Developments in 2002

Since the year-end, the outlook for the Company has been more positive.

Firstly, in February 2002, the Company acquired further producing interests through the purchase of Westmount Resources, Inc. for a consideration of approximately £495,000, the consideration being paid in 6.5 million shares at 4.5p each together with cash of £202,500. The Westmount deal increased the net current assets of the Group by approximately £147,500 and gave it producing interests which in the six months to the end of December 2001 yielded a cash flow from operations of approximately £24,000. Workovers and additional wells may be drilled on these non-operated properties in the future. Secondly, the Sterling acquisition brings significant opportunities to the Company.

As you would expect with the major Sterling purchase, the Company has had to commit itself to necessary evaluation and negotiation costs, such as legal, independent evaluation consultants and accounting. These costs will absorb a significant proportion of our cash balances. As such, if the Company does not proceed with the acquisition and requisite funding, your board believes that the group's ability to continue to operate as a going concern could be seriously jeopardised.

Strategy

The key strategic objectives of the Company are;

- To generate an increasing cash flow from a rising level of production and reserves. Our current area of focus is the Gulf of Mexico where in our view good quality deals are readily available.

- To offer high potential exploration upside in areas which we know. It is our intention to manage the risk by bringing in drilling partners on a promoted basis to cover part or all of our costs. Our key areas of effort are S.E. Asia and the Middle East including North Africa.

- To develop the Company into an international oil and gas company, with a clear focus on geographic areas and assets where we can add value.

The intention is to offer the prospect of capital growth while managing the downside of exploration activities. If we are successful in achieving this, it should translate into greater liquidity for the shares of the Company.

Outlook

I thank all the former staff, my fellow directors and Peter Bassett, who retired as chairman last year, for all their efforts. We have also recently welcomed new shareholders, who include Westmount Energy Limited and DNO ASA. With the changes already made as outlined above, the Sterling deal and the new management team, we have the ingredients to invigorate the Company to the benefit of us all.

I can personally assure you that we are all committed to making the Company successful and look forward with optimism to the challenges. We have some exciting projects to work on which have the potential to add significant value to the Company.

H G Wilson

Chairman 

28 June 2002

Directors' report

For the year ended 31 December 2001

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 2001.

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 2001 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 £1,493,000 during the year (2000 – loss after tax of £391,000). This leaves an accumulated deficit of £3,291,000 (2000 - £1,798,000) to be carried forward as a balance on the Group profit and loss account.

The directors do not recommend the payment of a dividend (2000 - £nil).

Changes in share capital

A circular ("the Circular") to shareholders, dated 20 June 2001, set out details of an Open Offer to raise £990,200 (before expenses) at 4 pence per share and to change the nominal value of the issued shares from 10p by subdividing each ordinary share into one ordinary share of 1p and one deferred share of 9p. The necessary resolutions were passed at an Extraordinary General Meeting of shareholders held on 18 July 2001 and a total of 24,755,000 ordinary of 1p each were issued for cash. The deferred shares carry no significant rights (see note 16). For each 1p ordinary share issued in the Open Offer, one warrant entitling the holder to subscribe for a further 1p par ordinary share at 6p per share no later than 30 June 2003 was also issued. At the end of 2001 none of the 24,755,000 warrants in issue, whose terms and conditions were summarised in the Circular, had been exercised. Prior to the end of the year a further 4,385,000 ordinary shares of 1p each were issued in settlement of indebtedness due at prices of 4-7p.

Directors and their interests

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

	Ordinary shares of 1p each		
	21 June 2002	31 December 2001	31 December 2000
P.J. Bassett (resigned 18 July 2001)	n/a	n/a	1,121,392
H.G. Wilson (appointed 18 July 2001)*	10,540,872	10,540,872	n/a
Dr. E.J. Butler	213,800	213,800	88,800
Prof. A.M. Lees (resigned 18 July 2001)	n/a	n/a	354,577
J.G. West (resigned 18 July 2001)	n/a	n/a	105,000
P.K. Wilde	500,000	490,000	329,000
R. O'Toole (appointed 18 July 2001)*	10,540,872	10,540,872	n/a
G.P. Thomson (appointed 18 July 2001)*	10,540,872	10,540,872	n/a

Directors and their interests (continued)

Beneficial shareholdings include the shareholdings of a director's spouse. At no time did any of the directors have any non-beneficial shareholdings.

* Mr Wilson, Mr O'Toole and Mr Thomson have an interest in these shares, as a result of being members of a concert party, as defined under the City Code. At the date of their appointment and at the end of the year they had interests, directly or indirectly in Endeavour Oil and Gas LP ("Endeavour"), which was the beneficial owner of 10,340,872 ordinary shares of 1p each and of 16,039,872 warrants to subscribe for further shares at 6p each no later than 30 June 2003. Since the year-end these shares and warrants have been distributed in specie to the partners of Endeavour. Included in the concert party shares are a further 200,000 shares which are beneficially owned by R. Brown, who is not a director of the Company but is considered to be a member of the concert party.

The individual interests of Mr Wilson, Mr O'Toole and Mr Thomson arising from their direct and indirect ownership of shares at 21 June 2002 were as follows:

H.G. Wilson:	1,546,290 ordinary shares and 2,398,473 warrants held by Park Holdings, a partnership in which he has a 50% interest and his wife has a 50% interest, together with 828,140 ordinary shares and 1,284,541 warrants held by Roselea Limited, a company in which he holds a 26% interest.
R O'Toole:	1,073,293 ordinary shares and 1,664,799 warrants.
G.P. Thomson, together with his immediate family:	800,713 ordinary shares and 1,241,997 warrants.

Mr Wilde has an interest in 161,000 warrants and Dr Butler has an interest in 125,000 warrants.

In July 2001, the shareholders voted in favour of a share option scheme ("the Scheme") entitling the directors, staff and others, to subscribe at a given subscription price for ordinary shares in the Company. A total of 681,000 options under prior schemes were cancelled as part of the Open Offer. Details of the options held by the directors and not exercised under the Scheme are in note 7 to the financial statements.

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.

Substantial shareholders

Except for the holdings of ordinary shares listed below, the directors are not aware of any person holding 3% or more of the 45,542,733 issued ordinary shares of 1p each of the Company at 21 June 2002:

Ordinary shares of 1p each	Number	%
Former partners of Endeavour Oil & Gas Limited Partnership & others*	10,540,872	23.1
Westmount Energy Limited	6,500,000	14.3
Pershing Keen Nominees A/C KKCLT	6,500,000	14.3
Aectra Investments Limited	5,543,898	12.2
DNO ASA	3,760,000	8.3
H.G. Wilson**	2,374,430	5.2
WB Nominees	2,288,000	5.0
Peter Bassett	1,621,392	3.6
BGMM Nominees Ltd	1,636,496	3.6

* See directors' interests on pages 4 and 5 of this report.

** Mr Wilson's shareholding of 2,374,430 shares is included in the 10,540,872 shares held by former partners of Endeavour Oil & Gas Limited Partnership and others listed above.

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 65 days (2000 – 54 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.

Directors' responsibilities (continued)

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.

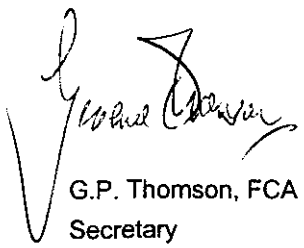
Notice of AGM

The notice of the AGM is to be dispatched to shareholders with the Circular convening an EGM for the proposed fundraising and acquisition of Sterling Energy Limited, as described in the Chairman's Statement, as well as certain other matters.

Auditors

In the UK, an agreement for the partners and personnel of Arthur Andersen to join Deloitte & Touche has recently been concluded subject to regulatory consent. As a consequence of this, the board has concluded that it is now appropriate to propose a resolution at the Annual General Meeting to appoint Deloitte & Touche as auditors to the Company and Group for the ensuing year.

By order of the Board,



G.P. Thomson, FCA
Secretary

Mardall House
7-9 Vaughan Road
Harpenden
Herts
AL5 4HU

28 June 2002

ANDERSEN

To the Shareholders of LEPCO plc:

We have audited the financial statements of LEPCO plc and subsidiaries for the year ended 31 December 2001 which comprise the Profit and loss account, Balance sheets, Cash flow statement, Reconciliation of operating loss to net cash outflow from operations and the related notes numbered 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities in the Directors' report. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 obtain the necessary shareholder approvals for the proposed refinancing and reverse takeover by Sterling Energy Limited and complete the proposed fundraising. In view of the significance of the fact that the preparation of the financial statements on the going concern basis assumes the successful conclusion of this matter, we consider that these disclosures should be drawn to your attention but our opinion is not qualified in this respect.

ANDERSEN

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 at 31 December 2001 and of the Group's loss 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

180 Strand
London
WC2R 1BL

28 June 2002

Consolidated profit and loss account

For the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Turnover	1(c)	49	32
Cost of sales		(24)	(10)
Gross profit	3	25	22
Administrative expenses			
Amounts written off intangible fixed assets	11	(944)	(148)
Abortive acquisition and deal costs	3	(303)	(67)
Other		(259)	(211)
		(1,506)	(426)
Operating loss		(1,481)	(404)
Investment income	4	13	13
Interest payable and similar charges	5	(25)	-
Loss on ordinary activities before taxation	3	(1,493)	(391)
Taxation	8	-	-
Loss for the financial year		(1,493)	(391)
Loss per share (basic and diluted)	10	6.7p	4.0p

There were no material recognised gains and losses other than the loss for each year.

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

Consolidated balance sheet

31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Intangible assets	11	26	915
Tangible assets	12	7	11
		33	926
Current assets			
Debtors	14	20	30
Cash at bank and in hand		566	48
		586	78
Creditors: Amounts falling due within one year	15	(149)	(104)
Net current assets/(liabilities)		437	(26)
Total assets less current liabilities, being net assets		470	900
Capital and reserves			
Called-up share capital	16	1,282	990
Share premium account	17	2,443	1,672
Other reserves	17	36	36
Profit and loss account	17	(3,291)	(1,798)
Shareholders' funds	18	470	900
Shareholders' funds may be analysed as:			
Equity interests		(421)	900
Non-equity interests	16	891	-
		470	900

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

Company balance sheet

31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Intangible assets	11	21	912
Investments	13	38	38
		59	950
Current assets			
Debtors	14	40	266
Cash at bank and in hand		547	26
		587	292
Creditors: Amounts falling due within one year	15	(133)	(98)
Net current assets		454	194
Total assets less current liabilities, being net assets		513	1,144
Capital and reserves			
Called-up share capital	16	1,282	990
Share premium account	17	2,443	1,672
Profit and loss account	17	(3,212)	(1,518)
Shareholders' funds		513	1,144
Shareholders' funds may be analysed as:			
Equity interests		(378)	1,144
Non-equity interests	16	891	-
		513	1,144

Signed on behalf of the Board on 28 June 2002

G.P. Thomson, FCA Director

H.G. Wilson 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 2001

	2001 £000	2000 £000
Operating loss	(1,481)	(404)
Depreciation	4	8
Amounts written off intangible fixed assets	944	215
Decrease in debtors	10	14
Increase in creditors	70	23
Net cash outflow from operations	(453)	(144)

Consolidated cash flow statement

For the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Net cash outflow from operations		(453)	(144)
Returns on investments and servicing of finance	20a)	1	12
Capital expenditure	20a)	(55)	(256)
Cash outflow before financing		(507)	(388)
Financing	20a)	1,025	-
Increase/(decrease) in cash	20b)	518	(388)

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

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 has a 94.5% net equity interest in licence P775, covering acreage on block 47/9c in the UK Southern Gas Basin, which includes an unappraised gas discovery.

Since the approval of the 2000 financial statements the Group has taken a number of steps to realise the potential value of the licence to the Group but has ultimately concluded that due to the many uncertainties surrounding its future it is appropriate to fully provide against its carrying value. Further details are provided in note 11.

The Directors have continued to look for other opportunities to secure the future of the Group. Agreement was reached in June 2002 with the owners of Sterling Energy Limited (SEL), a related party entity (see note 21), for LEPCO to require the entire share capital of SEL and its subsidiary, the consideration for which will be the issue of shares to SEL's ultimate controlling party. The SEL group has a portfolio of producing interests in the Gulf of Mexico and therefore production revenues. At the same time the Company intends raising additional working capital by means of a share placing and a concurrent Open Offer. The overall effect of this transaction will be a reverse takeover of LEPCO by SEL.

The above transaction and refinancing is subject to a number of conditions, the most significant of which are shareholder approval and completion of the proposed fundraising.

If the above transaction and refinancing is not completed, certain transaction costs are committed to which would significantly reduce the Group's available cash balances. In addition, the Group would have no sizeable future source of revenue and could need to secure further funds and effect cost reductions. As such, if the Company does not proceed with the acquisition and requisite funding, the Group's ability to continue to operate as a going concern could be seriously jeopardised.

However, the Directors anticipate that the above transaction and refinancing will obtain the necessary shareholder approvals and be completed. Accordingly, the Directors have a reasonable expectation that the Group will have 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 2003 as being the foreseeable future for this purpose. The financial statements do not include any adjustments that would result should the proposed transaction and refinancing not take place.

1 Accounting policies (continued)

c) Consolidation

The Group accounts consolidate the accounts of LEPCO plc and its subsidiary undertakings drawn up to 31 December annually. 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.

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.

1 Accounting policies (continued)

f) Oil and gas interests (continued)

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.

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) Investments

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

k) 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	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
Turnover*	-	-	-	-	49	32	49	32
(Loss)/profit before taxation	(1,491)	(260)	1	(150)	(3)	19	(1,493)	(391)
Net assets	453	871	-	16	17	13	470	900

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

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2001 £000	2000 £000
Depreciation of tangible fixed assets	4	8
Depletion	-	3
Amounts written off intangible fixed assets (see note 11)	944	215
Abortive acquisition and deal costs (see below)	303	67
Auditors' remuneration:		
- audit fees	8	8
- non-audit	68	25
Operating lease rentals	18	27

The non-audit fees disclosed above of £68,000 include £14,000 that has been recorded against the share premium account in connection with the Open Offer (see note 16a) and £48,000 in connection with the abortive acquisition costs (see below).

3 Loss on ordinary activities before taxation (continued)

Abortive acquisition and deal costs

In 2001 these were wholly comprised of costs incurred in connection with the abortive DNO transaction. 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. DNO withdrew from the deal when it became apparent that major shareholders in the Company would not support the revised transaction. The loan from DNO plus interest was converted into ordinary shares in September 2001, as set out in Note 16c. The costs incurred in 2000 of £67,000 were also principally related to this abortive transaction.

4 Investment income

	2001 £000	2000 £000
Interest receivable and similar income	13	13

5 Interest payable and similar charges

	2001 £000	2000 £000
Interest and fees arising on loans (see below)	23	-
Other	2	-
	25	-

Included in the costs are interest charges from DNO of £13,000 on its loan advances of up to £250,000 (see note 3). The remaining charge was for fees and interest payable to Park Resources Limited ("Park"), as General Partner of and on behalf of Endeavour Oil & Gas Limited Partnership ("EOGL"). Park granted a facility to the Company to lend it up to £300,000, repayable from the proceeds of the Open Offer in July 2001, details of which are set out in note 16. A total of £150,000 of this loan was drawn-down and then repaid during the period. See note 21 for further details.

6 Employee information

The average monthly number of employees (including executive directors) during the year was 2 (2000 - 4). Due to the small size of the Company there is no formal classification of duties.

Employee costs during the year (including executive directors) amounted to:

	2001 £000	2000 £000
Wages and salaries	175	146
Social security costs	14	12
	189	158

Included within wages and salaries above is £nil (2000 - £29,000) which has been capitalised. Included in wages and salaries in 2001 is a total of £57,000 relating to compensation for loss of office (2000 - £nil).

7 Directors' remuneration

Aggregate remuneration

Directors' remuneration for the year comprised emoluments of £178,736 (2000 - £107,370), of which £51,000 relates to compensation for loss of office. Emoluments included £nil (2000 - £29,000) that has been capitalised. The Company does not provide pension arrangements to its directors.

Directors' emoluments, all of which relate to basic salaries, fees and compensation for loss of office, consist of the following:

	2001 £	2000 £
Executive directors		
P.K. Wilde (see note a. below)	93,288	58,392
H.G. Wilson (from 18 July 2001; see note b. below)	13,568	-
Non-executive directors		
P.J. Bassett (until 18 July 2001)	8,427	10,000
Dr E. J. Butler (see note c. below)	46,235	24,978
Prof. A. M. Lees (until 18 July 2001)	5,618	6,667
R. O'Toole (from 18 July 2001)	2,710	-
G.P. Thomson (from 18 July 2001)	2,710	-
J. G. West (until 18 July 2001; see note d. below)	6,180	7,333
Aggregate emoluments	178,736	107,370

7 Directors' remuneration (continued)

Aggregate remuneration (continued)

a. Mr Wilde was an executive director until the end of July 2001 and received £45,322 for compensation for loss of office as managing director at that time. His fees since then as a non-executive director totalled £2,710.

b. The services of Mr Wilson were charged by Park Holdings, a partnership in which he has a 50% interest and his wife has a 50% interest.

c. Dr Butler was an executive director until the end of July 2001 and received £6,000 as compensation for loss of office at that time. Her fees since that date as a non-executive director totalled £2,710.

d. The services of Mr West were provided through Jimmy West Associates Limited.

e. The Company provides limited directors and officers liability insurance, at a cost of approximately £5,000 in 2001. This cost is not included in the above table.

Details of directors' interests in the shares of the Company are shown in the Directors' report. Details of other material transactions with the Group in which certain directors had an interest are provided in note 21.

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	50,447

No emoluments were waived by the directors during 2001.

7 Directors' remuneration (continued)

Directors' share options

Details of options to acquire ordinary shares in the Company are as follows:

	1 January 2001	Cancelled	Granted	At 31 December 2001
H.G. Wilson (through Park Holdings)	-	-	700,000	700,000
Dr E.J. Butler	191,000	(191,000)	250,000	250,000
R. O'Toole	-	-	700,000	700,000
G.P. Thomson	-	-	700,000	700,000
P.K. Wilde	200,000	(200,000)	250,000	250,000
P.J. Bassett	160,000	(160,000)	-	-
Prof. A.M. Lees	80,000	(80,000)	-	-
J.G. West	50,000	(50,000)	-	-
	681,000	(681,000)	2,600,000	2,600,000

The share options outstanding at 31 December 2001 are exercisable at 4p at any date up to 24 July 2011.

The mid-market price of the ordinary shares at 31 December 2001 was 4.5p (2000: 15p), being the price at which the shares were suspended on AIM, and the range during the year was 4p to 15p (2000 - 14p to 18.5p).

At 31 December 2001, Mr Wilson, Mr O'Toole and Mr Thomson also held beneficial interests in a total of 16,039,872 warrants to subscribe for further shares at 6p each no later than 30 June 2003. Further details are provided in the Directors' report.

At 31 December 2001, Dr Butler held beneficial interests in a total of 125,000 warrants, and Mr Wilde held beneficial interests in a total of 161,000 warrants.

8 Taxation

There is no provision for current or deferred tax at 31 December 2001 (2000 - £nil). Deferred tax not provided for is as follows:

	2001 £000	2000 £000
Accelerated capital allowances	59	219
Less: corporation tax losses carried forward	(459)	(385)
Deferred tax asset	(400)	(166)

9 Loss attributable to LEPCO plc

The loss for the financial year dealt with in the accounts of LEPCO plc was £1,694,000 (2000 – loss of £235,000). As provided by s230 of the Companies Act 1985, no profit and loss account is presented in respect of LEPCO plc.

10 Loss per share

The calculation of basic earnings per share is based on the loss for the financial year of £1,493,000 (2000 – loss of £391,000) and on 22,146,233 (2000 – 9,879,400) 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 anti-dilutive.

11 Intangible fixed assets

	Group	Company
	Unevaluated oil and gas interests £000	Unevaluated oil and gas interests £000
Net book value		
At 31 December 2000	915	912
Additions	55	53
Amounts written-off assets in the North Sea (see a. below)	(944)	(944)
At 31 December 2001	26	21

a. The Company has a 94.5% net equity interest in the oil and gas licence P.775, covering acreage on block 47/9c in the UK Southern Gas Basin. This licence includes an un-appraised gas discovery. The Group has operated this Block since November 1999. The Group paid the licence fee due in July 2001 and has agreed with the UK Department of Trade and Industry to drill an appraisal well subject to finding a suitable farm-in partner(s) to pay the costs of such a well.

The recoverability of the book value of the Block is dependent on a number of factors such as the finding of a farminee(s), the terms that may be agreed and the commerciality (or otherwise) of any further gas reserves on the Block that may be discovered through further work.

The Directors have undertaken a detailed technical review of the North Sea 47/9c licence interest and an extensive farm-out campaign to find a partner to drill a well. In light of a number of factors, the Company has decided that it is appropriate to provide fully against the book value of this licence and has taken a non-cash write-down of £944,000. Whilst the Directors remain hopeful that a partner can be found to pay for the costs of a well, in the event that this is not achieved it is likely that the licence will be relinquished as it is not considered appropriate for the Company to drill such a high-cost well from its own resources.

b. The write off in the prior year related to the Group's interest in the Donkerbroek field in the Netherlands.

12 Tangible fixed assets

Group	Oil and gas interests £000	Computer equipment* £000	Total £000
Cost			
At 31 December 2000	51	32	83
Disposals	-	(32)	(32)
At 31 December 2001	51	-	51
Depreciation			
At 31 December 2000	40	32	72
Charge for the year	4	-	4
Disposals	-	(32)	(32)
At 31 December 2001	44	-	44
Net book value			
At 31 December 2000	11	-	11
At 31 December 2001	7	-	7

* This column reflects the movement in tangible fixed assets for the Company.

13 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%	Non-trading
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

14 Debtors

	Group		Company	
	2001	2000	2001	2000
Amounts falling due within one year:	£000	£000	£000	£000
Trade debtors	7	-	-	-
Amounts owed by subsidiary undertakings	-	-	27	235
VAT	13	3	13	3
Prepayments and accrued income	-	27	-	28
	20	30	40	266

15 Creditors: Amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Trade creditors	89	21	86	17
Taxation and social security	-	8	-	8
Other creditors	13	10	-	10
Accruals and deferred income	47	66	47	63
	149	104	133	98

16 Called-up equity share capital

	2001	2000
	£000	£000
Authorised		
210,875,403 ordinary shares of 1p each and 9,902,733 deferred shares of 9p each (2000 - 15,000,000 ordinary shares of 10p each)	3,000	1,500
Called-up, allotted and fully paid		
39,042,733 ordinary shares of 1p each (2000 - 9,902,733 ordinary shares of 10p each (see below))	391	990
9,902,733 deferred shares of 9p each (see below)	891	-
	1,282	990

16 Called-up equity share capital (continued)

a. A circular ("the Circular") to shareholders dated 20 June 2001 set out details of an Open Offer to raise £990,200 (before expenses) and to change the nominal value of the issued shares from 10p by subdividing each ordinary share into one ordinary share of 1p and one deferred share of 9p. The necessary resolutions were passed at an Extraordinary General Meeting of shareholders held on 18 July 2001 and a total of 24,755,000 ordinary shares with a nominal value of £247,550 were issued for cash at 4p per share, including a premium of 3p per share. For each 1p ordinary share issued in the Open Offer one warrant entitling the holder to subscribe for a further 1p ordinary share at 6p per share no later than 30 June 2003 was also issued. At the end of 2001 none of the 24,755,000 warrants in issue had been exercised.

The deferred shares carry no rights to either dividends or to voting and their rights to participate in any surplus on a winding up are limited to a specific amount. Accordingly they are classified as non-equity shares.

b. A further 625,000 ordinary shares with a nominal value of £6,250 were issued at 4p each, including a premium of 3p each, in settlement of certain costs incurred in connection with the Open Offer.

c. As set out in note 3, the Company issued 3,760,000 ordinary shares with a nominal value of £37,600 to DNO on 20 September 2001 at an issue price of 7p each, including a premium of 6p each. This was in full settlement of the loan and interest outstanding of £263,200 to DNO.

d. Note 7 sets out the movement in share options issued during the year to directors. At the year-end a total of 2,650,000 options to purchase shares at 4p per share up to 24 July 2011 were in issue. In addition, a total of 24,755,000 warrants to subscribe for a further 1p par ordinary share at 6p per share no later than 30 June 2003 were in issue at the year end.

17 Reserves

Group	Share premium *account* £000	Other *reserves* £000	Profit and loss *account* £000	Total £000
At 31 December 2000	1,672	36	(1,798)	(90)
Premium on shares issued (see Note 16)	986	-	-	986
Expenses of Open Offer (see Note 16)	(215)	-	-	(215)
Loss for the year	-	-	(1,493)	(1,493)
At 31 December 2001	2,443	36	(3,291)	(812)

17 Reserves (continued)

Company	*Share premium account £000*	*Profit and loss account £000*	*Total £000*
At 31 December 2000	1,672	(1,518)	154
Premium on Open Offer (see note 16)	986	-	986
Expenses of Open Offer (see note 16)	(215)	-	(215)
Loss for the year	-	(1,694)	(1,694)
At 31 December 2001	2,443	(3,212)	(769)

18 *Reconciliation of movements in Group shareholders' funds*

	2001 £000	2000 £000
Loss for the year	(1,493)	(391)
Shares issued (net of expenses)	1,063	10
Net deduction from shareholders' funds	(430)	(381)
Opening shareholders' funds	900	1,281
Closing shareholders' funds	470	900

19 Financial commitments

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

	Land and Buildings *2001* £000	Land and Buildings *2000* £000
Operating lease which expires within one year	-	30

Capital commitments

	2001 £000	2000 £000
Contracted for but not provided for in the financial statements	-	12

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, the precise costs of which cannot be known at this time.

20 Notes to the cash flow statement

a) Gross cash flows

	2001 £000	2000 £000
Returns on investments and servicing of finance		
Interest received	13	12
Interest paid	(12)	-
	1	12
Capital expenditure		
Purchase of intangible fixed assets	(55)	(256)
	(55)	(256)
Financing		
Issue of ordinary shares, net of expenses (see note 16a)	775	-
New loans	450	-
Repayment of loan	(150)	-
	1,025	-

Included in the new loans was a loan from DNO was repaid during the year via an issue of shares, as described in note 16c.

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

	2001 £000	2000 £000
Increase/(decrease) in cash	518	(388)
Net funds at beginning of period	48	436
Net funds at end of period	566	48

c) Analysis of net funds

	At 1 January 2001 £000	Cash flow £000	At 31 December 2001 £000
Cash at bank and in hand, representing net funds	48	518	566

21 Related party transactions

The following material related party transactions have taken place in the year:

- Mr Wilson, Mr O'Toole and Mr Thomson have direct or indirect interests in Endeavour Oil & Gas Limited ("EOGL"). Mr O'Toole is a director of Park Resources, the general partner of EOGL (together with EOGL, "Endeavour") and exercises managerial influence over EOGL through his position as a director of EOGL. Endeavour was paid a 3% fee (£29,706) for underwriting the whole of the Open Offer, plus a fee of £10,000 for providing a loan of up to £300,000 (see note 5), plus interest arising of £1,244. At the end of the year Endeavour was the largest shareholder in the Company, owning 10,340,872 ordinary shares of 1p each and 16,039,872 warrants.

- Sterling Energy Limited ("SEL") has charged £23,765 to the Company for administration, accommodation and technical support since the Open Offer was closed. Mr Wilson, Mr O'Toole and Mr Thomson are directors of SEL and have, directly or indirectly, a beneficial interest in and jointly control SEL, through its ultimate owner Sterling Energy Limited Partnership.

- Certain other transactions with directors as disclosed in note 7.

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 and with Park Resources as general partner for EOGL (see notes 3 and 5)

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

The Group does not use derivative financial instruments.

Interest rate profile

At 31 December 2001 the Group had no financial assets other than cash at bank and in hand of £566,000, which is the largest part of its working capital. This cash balance comprises deposits placed with banking institutions, that are available on demand and which are principally denominated in pounds, and carry interest at prevailing floating rates. There were no loan facilities available to the Group at 31 December 2001.

22 Derivatives and other financial instruments (continued)

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, which for the Group is principally in Sterling.

Fair values

The fair values of the Group's financial assets and liabilities at 31 December 2001 are materially equivalent to their carrying value.

23 Post balance sheet event

On 28 February 2002, the Company announced the acquisition of a US corporation, Westmount Resources, Inc. ("WRI"), for a consideration of approximately £495,000. WRI has a mixture of royalty and working interests in producing fields in the Gulf of Mexico area of the USA. The consideration payable comprised £292,500 in ordinary shares of 1p each, being 6,500,000 shares issued at 4.5p each to the vendor, Westmount Energy Limited (an AIM listed company), together with a cash payment of £202,500. At closing WRI had net current assets of not less than approximately £350,000, increasing the Group's net current assets by approximately £147,500.