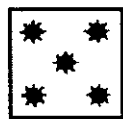


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LEPCO plc



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Annual Report and Financial Statements 1999

Directors, Secretary and Advisers

Directors

P.J. Bassett (Non-Executive Chairman)
P.K. Wilde (Managing Director)
Dr. E.J. Butler (Non-Executive Director)
Prof. A.M. Lees OBE (Non-Executive Director)
J.G. West (Non-Executive Director)

Company Secretary

J.E. Bushell FCCA

Principal Office

Vigilant House
120 Wilton Road
London SW1V 1JZ
Tel: 020 7233 5245 Fax: 020 7873 0869
E-mail: enquire@lepcopl.co.uk

Registered Office

61 Brook Street
London W1Y 2BL

Nominated Adviser

Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4EY

Nominated Broker

Rathbone Neilson Cobbold Limited
Port of Liverpool Building
Pier Head
Liverpool L3 1NW

Solicitors

Salans Hertzfeld & Heilbronn HRK
Clements House
14-18 Gresham Street
London
EC2V 7NN

Auditors

Arthur Andersen
Chartered Accountants
1 Surrey Street
London WC2R 2PS

Bankers

Bank of Scotland
PO Box No 10
38 St Andrew Square
Edinburgh EH2 2YR

Registrars

IRG plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

Chairman's statement

For the year ended 31 December 1999

In 1999 conditions within the exploration and production industry remained difficult. The year started with historically low oil prices and gas prices continued to fall throughout the year. Since the oil price collapse in 1998 the industry, particularly in the North Sea, has remained introspective focusing on mergers rather than asset rationalisation. Even with the recovery in the oil price over the last twelve months this trend has continued, with many companies being reluctant to sell proved reserves and capital budgets remaining low.

Given this background, LEPCO's activities in 1999 were focused on developing its existing assets as well as seeking to acquire assets at fair value. In this regard, the most important development was the settlement of the Company's dispute with Mustang Oil Limited, resulting in the Group acquiring effectively all of the equity on block 47/9c (subject to small carried interests) and being approved by the Department of Trade and Industry as operator of the block. This is LEPCO's first operatorship.

Block 47/9c contains a significant gas prospect close to the southern part of the Easington Catchment Area. Phase 1 of this project, including the Mercury field on the immediately adjacent block 47/9b and operated by BG plc, recently commenced production.


Following a review of previous activity on the block, we announced on 9 May 2000 that the Company had agreed with Montrose Industries Limited for them to earn a 5% interest in the block in return for providing the services of Dr Richard Stabbins (formerly Exploration Director of Goal Petroleum plc) to manage an evaluation programme. This evaluation programme includes a full review and reinterpretation of 3-D seismic and other data over the licence. The evaluation is currently in progress and we will be making a further announcement as to the outcome of this review. LEPCO has also furthered its exploration effort in the same geological basin by an application for acreage in the UK onshore 9th round which is currently in progress.

The board and management continue to pursue opportunities to acquire producing oil and gas interests in both the UK and the Netherlands. In particular, we reached agreement in 1999 on two separate transactions to acquire producing gas interests in the Dutch North Sea. We announced in January 2000 that the principal transaction concerned – involving the acquisition of a package of producing gas interests in Netherlands North Sea from Total Oil and Gas Nederland B.V. – had been pre-empted. Following this we withdrew from the remaining agreed transactions as they no longer satisfied LEPCO's criteria.

The financial results of the Group to 31 December 1999 reflect LEPCO's current focus on exploration activities since the disposal of its interest in the Forties field in January 1999. In particular, overhead costs have been cut significantly and the directors intend to keep costs consistent with the activities and resources of the Group.

Chairman's statement (continued)

In spite of recent difficult conditions in our sector, the directors believe that LEPCO is well placed to develop as one of the UK's few quoted independents as activity increases in the industry. In addition to progressing activity on the Group's exploration programme, the board is continuing to review all options for the Group's future development, including discussions with interested parties, to assist in the significant growth of the business. I look forward to keeping shareholders informed of progress.

A handwritten signature in black ink, reading "P.J. Bassett", is written over a horizontal line. The signature is slanted to the right and includes a small flourish at the end.

P.J. Bassett
Chairman

29 June 2000

Directors' report

For the year ended 31 December 1999

The directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 1999.

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 1999 and the future prospects for the Group are reviewed in the Chairman's statement.

Results and dividends

The Group made a loss after tax of £333,709 during the year (1998 – loss after tax of £1,112,356). This loss, together with the accumulated deficit of £1,073,241 brought forward, leaves an accumulated deficit of £1,406,950 to be carried forward as a balance on the Group Profit and Loss Account.

The directors do not recommend the payment of a dividend (1998 - £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		
	23 June 2000	31 December 1999	31 December 1998
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 after seven years. The options still held by the directors and not exercised under these schemes, and the subscription price for each scheme, were as follows on 31 December 1999:

Scheme:	1996	1995	1994	1993	1992 *
Subscription price per share:	60p	50p	25p	20p	10p
P.J. Bassett	30,000	30,000	50,000	50,000	17,500
Dr. E.J. Butler	50,000	50,000	50,000	41,000	-
Prof. A.M. Lees	20,000	20,000	20,000	20,000	-
J.G. West	20,000	30,000	-	-	-
P.K. Wilde	50,000	50,000	50,000	50,000	-

* not executed until September 1993.

In addition to the above, the estate of the late J.C. Bassett also holds 2,500 options (1998 - 2,500) outstanding from the 1992 scheme.

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 currently in compliance with this policy.

Service contracts

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

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 ordinary share capital of the Company at 23 June 2000.

Ordinary shares of 10p each	Number	%
3i Group plc	1,854,971	18.87
Endeavour Oil & Gas Limited	1,801,000	18.32
P.J. Bassett	1,121,392*	11.40
Prof A. M. Lees	354,577	3.61
P.K. Wilde	329,000	3.35
Funds under the control of Ashcourt Asset Management	327,500	3.33

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

Directors' report (continued)

Year 2000

There have been no significant Year 2000 related problems with the software used by the Group nor have there been any knock-on effects from interfaces with customers, suppliers or other relevant parties. No significant expenditure has been incurred or is anticipated in the foreseeable future in connection with the Year 2000 issue.

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 45 (1998 – 58 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.

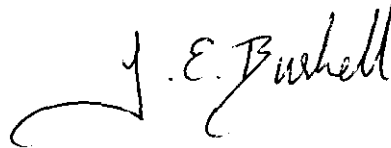
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding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

29 June 2000

Auditors' report

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 15.

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 1a) of the financial statements concerning the uncertainty as to whether the Group will have sufficient funding to continue in existence beyond 30 June 2001. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

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 1999 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

Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

29 June 2000

Consolidated profit and loss account

For the year ended 31 December 1999

	Notes	1999 £	1998 £
Turnover	1(c)		
Continuing		37,125	19,146
Discontinued		-	1,873,938
		<u>37,125</u>	<u>1,893,084</u>
Cost of sales			
Continuing		(46,630)	(11,242)
Discontinued	4	(64,362)	(2,468,792)
	3	<u>(110,992)</u>	<u>(2,480,034)</u>
Gross (loss) profit			
Continuing		(9,505)	7,904
Discontinued		(64,362)	(594,854)
		<u>(73,867)</u>	<u>(586,950)</u>
Administrative expenses			
Abortive acquisition costs			
- continuing	13	(83,382)	-
- discontinued		-	(168,217)
Other (continuing)		(212,074)	(186,160)
		<u>(295,456)</u>	<u>(354,377)</u>
Operating loss			
Continuing		(304,961)	(178,256)
Discontinued		(64,362)	(763,071)
		<u>(369,323)</u>	<u>(941,327)</u>
Profit on sale of tangible fixed assets (continuing)		11,140	-
Loss on disposal of discontinued operations	4	-	(189,310)
Investment income	5	24,936	5,029
Interest payable and similar charges	6	(462)	(26,354)
Loss on ordinary activities before taxation	7	<u>(333,709)</u>	<u>(1,151,962)</u>
Taxation	10	-	39,606
Retained loss for the year		<u>(333,709)</u>	<u>(1,112,356)</u>
Loss per share (basic and diluted)	12	<u>3.39p</u>	<u>13.2p</u>

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 1999

	1999 £	1998 £
Loss for the financial year	(333,709)	(1,112,356)
Gain on foreign currency translation	<u>526</u>	<u>768</u>
Total recognised gains and losses relating to the year	<u>(333,183)</u>	<u>(1,111,588)</u>

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

Consolidated balance sheet

31 December 1999

	Notes	1999 £	1998 £
Fixed assets			
Intangible assets	13	877,434	714,761
Tangible assets	14	18,532	30,499
		<u>895,966</u>	<u>745,260</u>
Current assets			
Debtors	16	23,254	987,188
Investments	17	-	106,647
Cash at bank and in hand		436,238	44,559
		<u>459,492</u>	<u>1,138,394</u>
Creditors: Amounts falling due within one year	18	<u>(74,372)</u>	<u>(269,385)</u>
Net current assets		<u>385,120</u>	<u>869,009</u>
Total assets less current liabilities, being net assets		<u>1,281,086</u>	<u>1,614,269</u>
Capital and reserves			
Called-up equity share capital	19	983,273	983,273
Share premium account	20	1,669,145	1,669,145
Other reserves	20	35,618	35,092
Profit and loss account	20	(1,406,950)	(1,073,241)
Total equity shareholders' funds	21	<u>1,281,086</u>	<u>1,614,269</u>

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

Company balance sheet

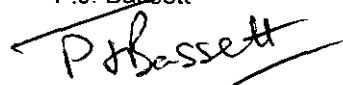
31 December 1999

	Notes	1999 £	1998 £
Fixed assets			
Intangible assets	13	729,510	533,006
Tangible assets	14	5,090	13,567
Investments	15	37,678	37,678
		<u>772,278</u>	<u>584,251</u>
Current assets			
Debtors	16	253,230	1,167,391
Investments	17	-	106,647
Cash at bank and in hand		410,434	42,049
		<u>663,664</u>	<u>1,316,087</u>
Creditors: Amounts falling due within one year	18	<u>(66,607)</u>	<u>(248,982)</u>
Net current assets		<u>597,057</u>	<u>1,067,105</u>
Total assets less current liabilities, being net assets		<u>1,369,335</u>	<u>1,651,356</u>
Capital and reserves			
Called-up equity share capital	19	983,273	983,273
Share premium account	20	1,669,145	1,669,145
Profit and loss account	20	(1,283,083)	(1,001,062)
Total equity shareholders' funds		<u>1,369,335</u>	<u>1,651,356</u>

Signed on behalf of the Board on 29 June 2000

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 1999

	1999 £	1998 £
Operating loss	(369,323)	(941,327)
Depletion and amounts written off tangible fixed assets	32,777	292,416
Depreciation	8,477	7,246
Amounts written off intangible fixed assets	83,382	-
Provision for decommissioning	-	345,675
Decrease in debtors	87,225	491,511
Decrease in creditors	(40,572)	(260,265)
Decrease in stocks	-	77,965
Net cash (outflow) inflow from operations	<u>(198,034)</u>	<u>13,221</u>

Consolidated cash flow statement

For the year ended 31 December 1999

	Notes	1999 £	1998 £
Net cash (outflow) inflow from operations		(198,034)	13,221
Returns on investments and servicing of finance	23a)	24,474	(21,325)
Capital expenditure	23a)	662,331	(628,160)
Net cash inflow (outflow) before financing		488,771	(636,264)
Financing	23a)	-	711,255
Increase in cash	23b)	<u>488,771</u>	<u>74,991</u>

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

Notes to financial statements

For the year ended 31 December 1999

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.

Going concern

Since the disposal of the Forties interest in January 1999 the Group has had no significant source of revenue and, whilst the directors are continuing to progress a number of negotiations to acquire revenue producing assets, no transaction has as yet been finalised. The Group's principal asset is its 98.5% equity interest in licence P.775, covering acreage on block 47/9c in the UK Southern Gas Basin and which includes an unappraised gas discovery. The Group has operated block 47/9c since November 1999. The Group is at an advanced stage of evaluating the prospectivity of block 47/9c.

Given the absence of revenues, the Group currently has finite cash resources and a significant proportion of these is committed to the Group's activity on block 47/9c.

In agreeing to commit resources to block 47/9c, the directors have fully considered and taken account of the potential value of the block to the Group, as disclosed in note 13.

In order to protect the existing value of the Group's assets and ensure that the Group has adequate future funding, the board of directors is currently looking to:

- Realise the value of block 47/9c either by means of a farm-out and development of the discovery or the disposal of the asset; or
- Complete a transaction to acquire revenue producing assets.

In the absence of achieving one of the above options the Group would have to raise additional funding in the second half of 2001.

The directors have already taken action to significantly reduce the Group's overhead costs to ensure that the Group's limited cash resources are focused on adding value to and safeguarding existing assets. The directors have also agreed in principal that, if necessary, management and administrative costs will be reduced within the next few months to a minimum until such time as the Group has obtained additional funding.

Based on the plans and relevant actions outlined above, 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 2001 as being the foreseeable future for this purpose.

Notes to financial statements (continued)

Accounting policies (continued)

b) 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.

c) Turnover

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

d) 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.

e) 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.

e) Oil and gas interests (continued)

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.

For material interests, reserve data supplied by operators is used.

Notes to financial statements (continued)

1 Accounting policies (continued)

f) *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

g) *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.

h) *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.

i) *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.

Investments

Fixed asset investments are shown at cost less provision for permanent diminution in value. Current asset investments are stated at the lower of cost and net realisable value.

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.

Notes to financial statements (continued)

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	
	1999	1998	1999	1998	1999	1998	1999	1998
	£	£	£	£	£	£	£	£
Turnover*	-	1,873,938	-	-	37,125	19,146	37,125	1,893,084
Loss before taxation	(310,939)	(1,151,570)	(15,940)	(14,106)	(6,830)	13,714	(333,709)	(1,151,962)
Net assets	1,099,450	1,429,926	166,295	152,527	15,341	31,816	1,281,086	1,614,269

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

3 Cost of sales

	1999	1998
	£	£
Operating costs	9,507	1,734,365
Forties insurance	-	101,654
Royalty	4,346	5,924
Depletion and amounts written off tangible fixed assets	32,777	292,416
Provision for decommissioning	-	345,675
Forties settlement costs (see note 4)	64,362	-
	<u>110,992</u>	<u>2,480,034</u>

4 Loss on disposal of discontinued operations

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 have been recorded within discontinued cost of sales.

5 Investment income

	1999	1998
	£	£
Interest receivable and similar income	<u>24,936</u>	<u>5,029</u>

Notes to financial statements (continued)

6 Interest payable and similar charges

	1999 £	1998 £
Bank overdraft	<u>462</u>	<u>26,354</u>

7 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:

	1999 £	1998 £
Depreciation of tangible fixed assets	8,477	7,246
Auditors' remuneration - audit fees	8,000	9,000
- non-audit	23,520	34,272
Operating lease rentals	<u>23,750</u>	<u>28,051</u>

8 Employee information

The average monthly number of employees (including executive directors) during the year was 4 (1998 - 5). Due to the small size of the Company there is no formal classification of duties.

Employee costs during the year amounted to:

	1999 £	1998 £
Wages and salaries	191,619	177,451
Social security costs	<u>17,922</u>	<u>17,421</u>
	<u>209,541</u>	<u>194,872</u>

9 Directors' remuneration

Aggregate remuneration

Directors' remuneration for the year comprised emoluments of £145,404 (1998 - £97,662). Emoluments included £30,000 (1998 - £49,000) that has been capitalised. The Company does not provide pension arrangements to its directors.

Notes to financial statements (continued)

9 Directors' remuneration (continued)

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

	1999 £	1998 £
Executive director		
P. K. Wilde	87,588	63,779
Non-executive directors		
P.J. Bassett	15,000	7,500
Dr E. J. Butler	21,816	15,883
Prof. A. M. Lees	10,000	5,000
J. G. West	11,000	5,500
Aggregate emoluments	<u>145,404</u>	<u>97,662</u>

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

No emoluments were waived by the directors during 1999. However, the directors irrevocably waived a proportion of the emoluments that they were entitled to during 1998, as follows:

	1998 £
P.J. Bassett	7,500
Dr E. J. Butler	5,278
Prof. A. M. Lees	5,000
J. G. West	5,500
P.K. Wilde	<u>21,260</u>
Aggregate emoluments	<u>44,538</u>

In addition, during 1998 P.K. Wilde and Dr E.J. Butler irrevocably waived bonuses of £35,000 and £12,500 respectively that had been awarded to them in respect of 1997. No bonuses were awarded in respect of 1998 and the Remuneration Committee of the Board has recommended that no bonuses be awarded in respect of 1999.

Notes to financial statements (continued)

9 Directors' remuneration (continued)

Directors' share options

Details of options to acquire ordinary shares in the Company granted to or held by the directors as at the beginning and end of the year are as follows:

	Number
P.J. Bassett	177,500
Dr. E.J. Butler	191,000
Prof. A.M. Lees	80,000
J.G. West	50,000
P.K. Wilde	200,000
Total	<u>698,500</u>

No 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 and end of the year, with no options granted, exercised or lapsed during the year.

The options are exercisable at any time within 7 years of the agreement being granted. The market price of the ordinary shares at 31 December 1999 was 18.5p (1998: 21.5p) and the range during the year was 10.5p to 21.5p (1998: 21.5p to 95.5p).

10 Taxation

The tax credit comprises:

	1999 £	1998 £
Deferred corporation tax credit	<u>-</u>	<u>39,606</u>

There is no provision for deferred tax at 31 December 1999 (1998 - £nil). Deferred tax not provided for is as follows:

	1999 £	1998 £
Accelerated capital allowances	202,186	133,240
Less: corporation tax losses carried forward	<u>(344,903)</u>	<u>(321,753)</u>
Deferred tax asset	<u>(142,717)</u>	<u>(188,513)</u>

Notes to financial statements (continued)

11 Loss attributable to LEPCO plc

The loss for the financial year dealt with in the accounts of LEPCO plc was £282,021 (1998 – loss of £1,092,691). As provided by s230 of the Companies Act 1985, no profit and loss account is presented in respect of LEPCO plc.

12 Earnings per share

The calculation of basic earnings per share is based on the loss for the financial year of £333,709 (1998 – loss of £1,112,356) and on 9,832,733 (1998 - 8,456,253) 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.

13 Intangible fixed assets

	Group	Company
	Unevaluated oil and gas interests £	Unevaluated oil and gas interests £
Cost and net book value		
At 31 December 1998	714,761	533,006
Additions	177,323	173,239
Transfer from current asset investments (see note 17)	106,647	106,647
Transfer to tangible fixed assets	(29,270)	-
Abortive acquisition costs written off	(83,382)	(83,382)
Exchange adjustment	(8,645)	-
At 31 December 1999	<u>877,434</u>	<u>729,510</u>

The Company is recognised by the UK Department of Trade and Industry as the operator for the remaining oil and gas interests it has in the UK North Sea.

The Company's unevaluated oil and gas interest at 31 December 1999 is its 98.5% equity interest in licence P.775, covering acreage on block 47/9c in the UK Southern Gas Basin and which includes an unappraised gas discovery. The Group has operated block 47/9c since November 1999. The Group is at an advanced stage of evaluating the prospectivity of block 47/9c.

The directors have fully considered and reviewed the potential value of this licence, including analysis made by an independent consultant. The directors have also considered the likely opportunities for realising the value of the licence, either by the farm-out of the asset leading to the development of the discovery or by the disposal of the asset, and have concluded that the likely value is significantly in excess of its net book value.

Notes to financial statements (continued)

14 Tangible fixed assets

Group	Oil and gas interests £	Computer equipment £	Total £
Cost			
At 31 December 1998	21,303	31,996	53,299
Additions	17	-	17
Transfers	29,270	-	29,270
Disposals	(297)	-	(297)
At 31 December 1999	<u>50,293</u>	<u>31,996</u>	<u>82,289</u>
Depreciation			
At 31 December 1998	4,371	18,429	22,800
Charge for the year	3,508	8,477	11,985
Impairment losses	29,269	-	29,269
Disposals	(297)	-	(297)
At 31 December 1999	<u>36,851</u>	<u>26,906</u>	<u>63,757</u>
Net book value			
At 31 December 1998	<u>16,932</u>	<u>13,567</u>	<u>30,499</u>
At 31 December 1999	<u>13,442</u>	<u>5,090</u>	<u>18,532</u>
Company			
Cost			
At 31 December 1998	-	31,996	31,996
Additions	5	-	5
At 31 December 1999	<u>5</u>	<u>31,996</u>	<u>32,001</u>
Depreciation			
At 31 December 1998	-	18,429	18,429
Charge for the year	5	8,477	8,482
At 31 December 1999	<u>5</u>	<u>26,906</u>	<u>26,911</u>
Net book value			
At 31 December 1998	<u>-</u>	<u>13,567</u>	<u>13,567</u>
At 31 December 1999	<u>-</u>	<u>5,090</u>	<u>5,090</u>

Notes to financial statements (continued)

15 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

16 Debtors

	Group		Company	
	1999 £	1998 £	1999 £	1998 £
Amounts falling due within one year:				
Trade debtors	2,023	933,970	-	932,120
Amounts owed by subsidiary undertakings	-	-	232,207	183,741
VAT	5,475	6,477	5,267	6,487
Prepayments and accrued income	15,756	46,741	15,756	45,043
	<u>23,254</u>	<u>987,188</u>	<u>253,230</u>	<u>1,167,391</u>

Trade debtors include £nil (1998 - £876,709) in connection with the disposal of Forties.

17 Current asset investments

	Group		Company	
	1999 £	1998 £	1999 £	1998 £
Unlisted shares held awaiting disposal	-	106,647	-	106,647

The balance at 31 December 1998 represents shares in Mustang Oil Limited ("Mustang"). During the year the shares were converted into deferred shares in part consideration of acquiring an additional interest in a UK North Sea licence (see note 13).

Notes to financial statements (continued)

18 Creditors: Amounts falling due within one year

	Group		Company	
	1999 £	1998 £	1999 £	1998 £
Bank overdraft	-	97,092	-	97,092
Trade creditors	31,130	34,740	23,809	30,648
Amount owed to joint venture partners	-	21,489	-	21,489
Other taxation and social security	8,249	-	8,249	-
Other creditors	-	16,313	-	-
Accruals and deferred income	34,993	99,751	34,549	99,753
	<u>74,372</u>	<u>269,385</u>	<u>66,607</u>	<u>248,982</u>

19 Called-up equity share capital

	1999 £	1998 £
<i>Authorised:</i>		
15,000,000 (1998 – 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>		
9,832,733 (1998 - 9,832,733) ordinary shares of 10p each	<u>983,273</u>	<u>983,273</u>

Notes to financial statements (continued)

20 Reserves

Group	Share Premium Account £	Other reserves £	Profit and loss Account £	Total £
At 31 December 1998	1,669,145	35,092	(1,073,241)	630,996
Loss for the year	-	-	(333,709)	(333,709)
Gain on foreign currency translation	-	526	-	526
At 31 December 1999	<u>1,669,145</u>	<u>35,618</u>	<u>(1,406,950)</u>	<u>297,813</u>

Company

	Share premium account £	Profit and loss Account £	Total £
At 31 December 1998	1,669,145	(1,001,062)	668,083
Loss for the year	-	(282,021)	(282,021)
At 31 December 1999	<u>1,669,145</u>	<u>(1,283,083)</u>	<u>386,062</u>

21 Reconciliation of movements in Group shareholders' funds

	1999 £	1998 £
Loss for the year	(333,709)	(1,112,356)
Other recognised gains and losses relating to the year	526	768
	<u>(333,183)</u>	<u>(1,111,588)</u>
New shares issued (net)	-	735,505
Deferred AIM listing costs written off	-	(213,660)
Net deduction from shareholders' funds	<u>(333,183)</u>	<u>(589,743)</u>
Opening shareholders' funds	1,614,269	2,204,012
Closing shareholders' funds	<u>1,281,086</u>	<u>1,614,269</u>

Notes to financial statements (continued)

22 Financial commitments

Operating leases

	1999 Land and Buildings £	1998 Land and Buildings £
Operating lease which expires within one year	<u>26,400</u>	<u>22,800</u>

Capital commitments

	1999 £	1998 £
Contracted for but not provided for in the financial statements	<u>28,504</u>	<u>28,163</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.

23 Notes to the cash flow statement

a) Gross cash flows

	1999 £	1998 £
Returns on investments and servicing of finance		
Interest received	24,936	5,029
Interest paid	(462)	(26,354)
	<u>24,474</u>	<u>(21,325)</u>
Capital expenditure		
Purchase of intangible fixed assets	(189,345)	(282,486)
Sale of tangible fixed assets	887,849	-
Purchase of tangible fixed assets	(36,173)	(345,674)
	<u>662,331</u>	<u>(628,160)</u>
Financing		
Issue of ordinary share capital (net)	-	735,505
Other	-	(24,250)
	<u>-</u>	<u>711,255</u>

Proceeds from the sale of tangible fixed assets includes £876,709 in connection with the disposal of Forties in late 1998 (see note 4).

Notes to financial statements (continued)

23 Notes to the cash flow statement (continued)

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

	1999 £	1998 £
Increase in cash before exchange differences	488,771	74,991
Exchange differences	-	1,816
Increase in cash after exchange differences	488,771	76,807
Net debt at beginning of period	(52,533)	(129,340)
Net funds (debt) at end of period	436,238	(52,533)

c) Analysis of net debt

	At 1 January 1999 £	Cash flow £	At 31 December 1999 £
Cash at bank and in hand	44,559	391,679	436,238
Overdrafts	(97,092)	97,092	-
Net funds (debt)	(52,533)	488,771	436,238

24 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 streamlined its underlying activities and has therefore only utilised the following financial instruments:

- Cash at bank and in hand
- Bank overdraft
- Investment in Mustang

The first two items are used to manage the working capital requirements of the Group. The investment in Mustang was converted into deferred shares in part consideration of acquiring an additional interest in a UK North Sea licence during the year (see note 17).

The Group does not use derivative financial instruments.

Notes to financial statements (continued)

24 Derivatives and other financial instruments (continued)

Interest rate profile

At 31 December 1999 the Group had no financial assets other than sterling denominated cash at bank and in hand of £436,238 which is part of the working capital financing arrangements of the Group. This cash balance comprises deposits placed with banking institutions that are repayable on demand.

There was no overdraft balance at 31 December 1999. The floating interest rate on the overdraft balance outstanding during the year was 3% above US Dollar LIBOR.

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 1999 equate to their carrying value.