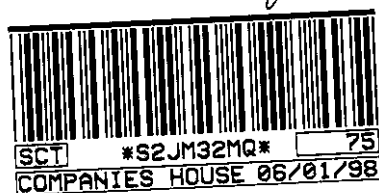


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PENTEX OIL PLC
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 1997



Company No. 152506

PENTEX OIL PLC

FINANCIAL STATEMENTS

For the year ended 30 June 1997

Company registration number:	152506
Registered office:	100 Union Street Aberdeen AB9 1QQ
Directors:	H O Cameron G Lane M L Manderson
Secretaries:	Peterkins
Agent bank:	Bank of Scotland 38 St Andrews Square Edinburgh
Bank syndicate:	Bank of Scotland Mees Pierson NV Den Norske Bank Christiania Bank og Kreditkasse
Solicitors:	Peterkins 100 Union Street Aberdeen AB9 1QQ
Auditors:	Grant Thornton Registered auditors Chartered accountants Melton Street Euston Square London NW1 2EP

PENTEX OIL PLC

FINANCIAL STATEMENTS

For the year ended 30 June 1997

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The directors present their report together with financial statements for the year ended 30 June 1997.

Principal activities

The group's principal activities during the year continued to be the exploration for, and the development and production of, oil and gas. The company is a holding company.

Review of the business

There was a profit for the year after taxation amounting to £3,670,000 (1996: £5,353,000). The directors recommend dividends absorbing £14,500,000 (1996: £nil) leaving £(10,830,000) retained (1996: £5,353,000).

Directors and their interests

The present membership of the board is set out below. All directors served throughout the period except as stated below.

H O Cameron
G Lane
M L Manderson

R F M Adair retired from the Board on 7 April 1997.

No director had any interests in the shares of the company as at 1 July 1996 and 30 June 1997 except as stated below.

The directors interests in the share capital of Pentex Energy plc, the company's ultimate parent undertaking, at 1 July 1996 and 30 June 1997, were as follows:

	Ordinary shares of 5p	
	30 June 1997	1 July 1996
M L Manderson	36,450	36,450

Messrs H O Cameron, G Lane and R F M Adair had an interest in the share capital of the company by virtue of their interest in the share capital of Pentex Energy plc (formerly Melrose Energy plc), the ultimate parent undertaking. The directors' interests in the share capital of Pentex Energy plc are disclosed in that company's financial statements.

Payment policy

It is the company's policy to follow the CBI Code of Practice for Buyers in relation to the payment of its suppliers for the forthcoming year. Copies of, and further information on, the CBI Code can be obtained from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DV.

Directors' responsibilities for the financial statements

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 the group and of the profit or loss of the group for that period. 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
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



18th November 1997

REPORT OF THE AUDITORS TO THE MEMBERS OF PENTEX OIL PLC

We have audited the financial statements on pages 4 to 21 which have been prepared under the accounting policies set out on pages 4 to 6.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.


Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 30 June 1997 and of the result of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON**

18th November 1997

Accounting convention

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of Pentex Oil Plc and all its subsidiary undertakings drawn up to 30 June each year. No profit and loss account is presented for Pentex Oil Plc as permitted by section 230 of the Companies Act 1985.

Goodwill arising on the acquisition of subsidiary companies in earlier periods, being the excess of cost over fair value of the net tangible assets acquired, has been written off against reserves in the year of acquisition.

Oil and gas assets

The group accounts for oil and gas expenditure under the full cost method of accounting.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, appraisal and development are capitalised as tangible fixed assets in a global cost pool. The amount capitalised includes attributable interest incurred on significant developments before commencement of production and an appropriate allocation of overheads.

Costs relating to evaluated properties are depleted on a unit of production method based on commercial proven and probable reserves.

The amortisation calculation takes account of the estimated future costs of development reserves, based on current price levels. Changes in reserve quantities and cost estimates are recognised prospectively.

Proceeds from the disposal of oil and gas assets accounted for in the pool are deducted from capitalised costs with no gain or loss being recognised.

Additional depletion is charged if the capitalised costs of evaluated properties exceed the estimated value of the related commercial reserves of oil and gas within the pool. The value is based on the directors' estimate at the period end of future costs and revenues after taxation attributable to such reserves.

Decommissioning

Where the directors consider that there is a material liability for the removal of production facilities and site restoration at the end of the producing life of a field, provision is made for the estimated cost at current price levels on a unit of production method based on commercial proven and probable reserves. Changes in reserve quantities and cost estimates are recognised prospectively.

Depreciation

Other tangible fixed assets are depreciated on a straight line basis over their estimated useful lives as follows:

Motor vehicles	four years
Equipment	five to ten years

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under leases are charged to income on a straight line basis over the term of the lease.

Stocks

Stocks comprise oil in tanks and pipelines and materials which are stated at the lower of cost and net realisable value. Quantities of oil which are over-lifted or under-lifted are valued at market value and are included in creditors or debtors respectively.

Petroleum revenue tax (PRT)

PRT is provided on a unit of production basis over the life of each field to the extent that there is likely to be a liability using current oil prices and costs, after taking account of available benefits and allowances, including exploration and appraisal relief.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that the liability will crystallise.

Pension costs

The group contributes to a defined contribution pension scheme which is administered by Standard Life Assurance Company. Contributions are charged to the profit and loss account as they become payable.

Foreign currencies

Transactions in foreign currencies during the period are recorded in sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date.

Exchange differences resulting from the translation of assets and liabilities of foreign currency denominated branches into sterling at year end rates of exchange, together with those differences resulting from the restatement of profits and losses from average to year end rates, are taken directly to reserves. All other exchange differences are taken to the profit and loss account.

PENTEX OIL PLC**GROUP PROFIT AND LOSS ACCOUNT**

For the year ended 30 June 1997

	Note	Year ended 30 June 1997 £'000	Period ended 30 June 1996 £'000
Turnover	1	22,698	33,293
Operating costs	2	<u>(15,626)</u>	<u>(24,115)</u>
Operating profit		7,072	9,178
Other income	5	<u>839</u>	<u>1,209</u>
		7,911	10,387
Interest payable	6	<u>(2,785)</u>	<u>(5,034)</u>
Profit on ordinary activities before taxation		5,126	5,353
Tax on profit on ordinary activities	7	<u>(1,456)</u>	<u>0</u>
Profit on ordinary activities after taxation		3,670	5,353
Dividends		<u>(14,500)</u>	<u>0</u>
(Loss)/profit retained for the year and transferred to reserves	19	<u><u>(10,830)</u></u>	<u><u>5,353</u></u>

The accompanying accounting policies and notes form an integral part of these financial statements.

PENTEX OIL PLC

GROUP BALANCE SHEET

At 30 June 1997

	Note	£'000	1997 £'000	£'000	1996 £'000
Fixed assets					
Tangible assets	8		55,099		57,372
Investments	9		15		15
			<u>55,114</u>		<u>57,387</u>
Current assets					
Stocks	11	191		271	
Debtors	12	3,418		2,862	
Cash at bank and in hand	13	<u>11,914</u>		<u>10,921</u>	
		15,523		14,054	
Creditors: amounts falling due within one year	14	<u>(22,489)</u>		<u>(3,940)</u>	
Net current (liabilities)/assets			<u>(6,966)</u>		<u>10,114</u>
Total assets less current liabilities			48,418		67,501
Creditors: amounts falling due after more than one year	15		(32,158)		(40,556)
Provisions for liabilities and charges	16		<u>(5,674)</u>		<u>(4,865)</u>
			<u>10,316</u>		<u>22,080</u>
Capital and reserves					
Called up share capital	18		2,003		2,003
Other reserves	19		5,659		5,659
Profit and loss account	19		<u>2,654</u>		<u>14,418</u>
Shareholders' funds	20		<u>10,316</u>		<u>22,080</u>

The financial statements were approved by the Board of Directors on **18th November 1997.**

Directors

[Signature]
A.O. Gammie

The accompanying accounting policies and notes form an integral part of these financial statements.

PENTEX OIL PLC**COMPANY BALANCE SHEET**

At 30 June 1997

	Note	1997 £'000	1996 £'000
Fixed assets			
Investments	9	2,003	2,003
Current assets			
Amounts owed by group undertakings		14,913	0
Creditors: amounts falling due within one year			
Proposed dividend		<u>(14,500)</u>	<u>(575)</u>
Net current liabilities		<u>413</u>	<u>(575)</u>
Total assets less current liabilities		<u>2,416</u>	<u>1,428</u>
Capital and reserves			
Called up share capital	18	2,003	2,003
Profit and loss account	19	<u>413</u>	<u>(575)</u>
Shareholders' funds		<u>2,416</u>	<u>1,428</u>

The financial statements were approved by the Board of Directors on 18th November 1997

Directors

G. Hume
A.O. Cameron

The accompanying accounting policies and notes form an integral part of these financial statements.

PENTEX OIL PLC**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

For the year ended 30 June 1997

	Note	Year ended 30 June 1997 £'000	Period ended 30 June 1996 £'000
(Loss)/profit for the year		(10,830)	5,353
Exchange difference on translation of foreign currency denominated branches			
- oil and gas interests	20	(3,678)	424
- related borrowings	20	<u>2,744</u>	<u>(346)</u>
Total recognised gains and losses related to the year		<u>(11,764)</u>	<u>5,431</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

PENTEX OIL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 1997

1 TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, in respect of the group's deliveries of crude oil and other hydrocarbons.

An analysis of turnover by geographical market is given below:

	1997 £'000	1996 £'000
United Kingdom	22,662	33,233
Italy	36	60
	<u>22,698</u>	<u>33,293</u>

Turnover by origin and destination is not materially different.

2 OPERATING COSTS

	1997 £'000	1996 £'000
Decrease in stocks	80	19
Depletion and depreciation of owned fixed assets	5,556	7,487
Depreciation of assets held under finance leases	288	134
Site restoration provision	808	1,402
Staff costs (note 4)	1,835	2,492
Hire of plant and machinery	144	187
Operating lease costs		
- land and buildings	140	140
- other	18	18
(Profit) on foreign currency translation	(120)	(144)
Other operating costs	6,877	12,380
	<u>15,626</u>	<u>24,115</u>

Included in the above operating costs is £21,000 (1996: £18,000) in respect of auditors' remuneration.

PENTEX OIL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 1997

3 DIRECTORS' REMUNERATION

Remuneration in respect of directors was as follows:

	1997 £'000	1996 £'000
--	---------------	---------------

Emoluments (including pension contributions)	<u>541</u>	<u>495</u>
--	------------	------------

The emoluments of the highest paid director, excluding pension contributions, amounted to £168,000 (1996: £229,000)

4 STAFF COSTS

	1997 £'000	1996 £'000
Wages and salaries	1,623	2,194
Social security costs	162	232
Other pension costs	50	66
	<u>1,835</u>	<u>2,492</u>

The average number of persons employed by the group during the period, including directors was 67 (1996: 64).

5 OTHER INCOME

	1997 £'000	1996 £'000
Bank interest	719	981
Rent received from building	120	228
	<u>839</u>	<u>1,209</u>

PENTEX OIL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 1997

6 INTEREST PAYABLE

	1997 £'000	1996 £'000
On loans not wholly repayable within 5 years	2,586	4,882
Hire purchase and leasing	0	152
Other interest payable	199	0
	<u>2,785</u>	<u>5,034</u>

7 TAXATION

The tax charge represents:	1997 £'000	1996 £'000
Corporation tax at 32.5%	<u>1,456</u>	<u>0</u>

If full provision had been made for deferred taxation for the year, the taxation charge would have been increased by £23,000 (1996: £4,189,000) as follows:

	1997 £'000	1996 £'000
Capital allowances in advance of depletion	(146)	2,996
Future benefit of tax losses	322	1,657
Other timing differences	(153)	(464)
	<u>23</u>	<u>4,189</u>

PENTEX OIL PLC**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

8 TANGIBLE FIXED ASSETS

Group	Oil and gas cost pool £'000	Other £'000	Total £'000
Cost			
At 1 July 1996	72,790	3,130	75,920
Additions	4,808	1,228	6,036
Exchange adjustment	(4,833)	(56)	(4,889)
At 30 June 1997	<u>72,765</u>	<u>4,302</u>	<u>77,067</u>
Depreciation			
At 1 July 1996	17,737	811	18,548
Provided during the year	4,382	374	4,756
Exchange adjustment	(1,281)	(55)	(1,336)
At 30 June 1997	<u>20,838</u>	<u>1,130</u>	<u>21,968</u>
Net book amount at 30 June 1997	<u>51,927</u>	<u>3,172</u>	<u>55,099</u>
Net book amount at 31 June 1996	<u>55,053</u>	<u>2,319</u>	<u>57,372</u>

Included within the oil and gas cost pool above are costs of £11,870,000 (1996: £12,658,000) which are unevaluated and not subject to depletion. With the exception of these unevaluated properties all other costs in the oil and gas pool relate to evaluated production and development properties.

Other tangible fixed assets, comprise motor vehicles, fixture, fittings and equipment and includes assets with a net book value of £2,811,000 (1996: £2,012,000) held under finance leases and hire purchase arrangements.

Depreciation charged for the year on these assets was £258,000 (1996: £134,000).

PENTEX OIL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 1997

9 FIXED ASSET INVESTMENTS

	1997 £'000	Group 1996 £'000	1997 £'000	Company 1996 £'000
Shares in subsidiaries	<u>0</u>	<u>0</u>	<u>2,003</u>	<u>2,003</u>
Investment:				
Cost at 1 July 1996	150	150	0	0
Amounts provided	<u>(135)</u>	<u>(135)</u>	<u>0</u>	<u>0</u>
Net book amount at 30 June 1997	<u>15</u>	<u>15</u>	<u>0</u>	<u>0</u>
Total at 30 June 1997	<u>15</u>	<u>15</u>	<u>2,003</u>	<u>2,003</u>
Total at 30 June 1996	<u>15</u>	<u>15</u>	<u>2,003</u>	<u>2,003</u>

The subsidiary undertakings at 30 June 1997 were:

Subsidiary	Country of incorporation	Nature of business	Proportion of shares and voting rights held
<i>Held by the company</i>			
Pentex Oil (UK) Limited (formerly Melrose Oil (UK) Limited)	England	Oil and gas	100%
<i>Held by a subsidiary undertaking</i>			
Pentex Oil & Gas Limited (formerly Melrose Oil & Gas Limited)	England	Oil and gas	100%
Pentex Italia Limited	England	Oil and gas	100%
Pentex (Fife) Limited	Scotland	Dormant	100%
Dalco Petroleum (UK) Limited	England	Dormant	100%

All of the subsidiary undertakings have been consolidated in the group financial statements.

The above are all holdings of ordinary shares.

The market value of the investment which is quoted on the Unlisted Securities Market was £56,250 at 30 June 1997 (1996: £34,688).

PENTEX OIL PLC**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 1997

10 RESULTS OF THE COMPANY

Of the profit for the financial year, a profit of £988,000 is attributable to Pentex Oil Plc.

11 STOCKS

Group	1997 £'000	1996 £'000
Hydrocarbons	91	141
Materials and supplies	100	130
	<u>191</u>	<u>271</u>

12 DEBTORS

Group	1997 £'000	1996 £'000
Trade debtors	2,461	1,520
Other debtors	607	958
Prepayments	288	356
Amounts owed to group undertakings	62	28
	<u>3,418</u>	<u>2,862</u>

13 CASH AT BANK AND IN HAND

Included in cash at bank and in hand at 30 June 1997 is £7,115,000 (1996: £7,115,000) which is held in escrow principally as collateral for the group's abandonment obligations in respect of an offshore oil field.

PENTEX OIL PLC**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Group	1997 £'000	1996 £'000
Current instalments due on bank loan	3,966	1,606
Bank loans and overdrafts	210	428
Trade creditors	789	868
Corporation tax	1,456	0
Social security	58	39
Proposed dividends	14,500	0
Other creditors	834	406
Accruals	276	339
Amounts due under finance leases	400	254
	<u>22,489</u>	<u>3,940</u>

The overdraft is secured as detailed in note 15.

15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group	1997 £'000	1996 £'000
Bank loan	29,858	38,871
Amounts due under finance leases	2,300	1,685
	<u>32,158</u>	<u>40,556</u>

Borrowings

Borrowings are repayable as follows:	1997 £'000	1996 £'000
Within one year		
Bank loan	3,966	1,606
Amounts due under finance leases	400	254
After one and within two years		
Bank loan	7,931	14,048
Finance leases	434	276
After two and within five years		
Bank loan	11,898	15,363
Finance leases	1,485	979
After five years		
Bank loan	10,029	9,460
Finance leases	381	430
	<u>36,524</u>	<u>42,416</u>

PENTEX OIL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 1997

CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

The balance above of £33,824,000 (1996: £40,477,000) represents the amount drawn down by the company under the group dollar denominated banking facilities of \$79,000,000 (1996: \$79,000,000).

Pentex Oil Plc has granted a bond and floating charge over all of its property and undertakings. Interest is payable at between 0.5% and 1.5% above LIBOR on the outstanding balance. The facilities are available on a revolving credit basis with all amounts repayable by 31 December 2003. The scheduling of repayments is dependent upon six monthly borrowing base calculations which are determined by reference to production deriving from oil and gas reserves, operating and capital expenditures and economic assumptions including oil prices and exchange rates.

16 PROVISION FOR LIABILITIES AND CHARGES

Group	1997 £'000	1996 £'000
Decommissioning provision		
At 1 July 1996	4,865	3,463
Provided in the year	809	1,402
At 30 June 1997	<u>5,674</u>	<u>4,865</u>

17 DEFERRED TAXATION

No provision for deferred taxation at 30 June 1996 is necessary.

Deferred tax not provided in the accounts is as follows:	1997 £'000	1996 £'000
Capital allowances in advance of depletion	7,414	7,560
Future benefit of tax losses	(251)	(573)
Other timing differences	(1,759)	(1,606)
	<u>5,404</u>	<u>5,381</u>

PENTEX OIL PLC**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

18 SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised 30,000,000 ordinary shares of 10p each	<u>3,000</u>	<u>3,000</u>
Allotted, called up and fully paid 20,034,840 ordinary shares of 10p each	<u>2,003</u>	<u>2,003</u>

19 RESERVES

Group	Share capital £'000	Profit and loss £'000	Other reserves £'000
At 1 July 1996	2,003	14,418	5,659
Loss for the year	0	(10,830)	0
Exchange differences	0	(934)	0
At 30 June 1997	<u>2,003</u>	<u>2,654</u>	<u>5,659</u>

Company	Share capital £'000	Profit and loss £'000
At 1 July 1996	2,003	(575)
Profit for the year	0	988
At 30 June 1997	<u>2,003</u>	<u>413</u>

PENTEX OIL PLC**NOTES TO THE FINANCIAL STATEMENTS**For the year ended 30 June 1997

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	1997 £'000	1996 £'000
(Loss)/profit for the financial year	(10,830)	5,353
Exchange difference on translation of oil and gas interests	(3,678)	424
Exchange difference on translation of related borrowings	2,744	(346)
Net increase in shareholders' funds	(11,764)	5,431
Shareholders' funds at 1 July 1996	22,080	16,649
Shareholders' funds at 30 June 1997	<u>10,316</u>	<u>22,080</u>

21 PENSION FUND

The group contributions to a defined contribution pension scheme which is administered by Standard Life Assurance Company. Contributions are charged to the profit and loss account as they become payable.

22 CONTINGENT LIABILITIES

There were no contingent liabilities of the group or company at 30 June 1997 or 30 June 1996.

23 CAPITAL COMMITMENTS

	1997 £'000	1996 £'000
Contracted for but not provided in these financial statements	<u>1,075</u>	<u>1,644</u>

PENTEX OIL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 1997

24 OTHER FINANCIAL COMMITMENTS

At 30 June 1997 the group had annual commitments under non-cancellable operating leases as set out below:

	1997		1996	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Less than one year	0	40	0	6
Between one and five years	0	41	0	48
In five years or more	140	0	140	0
	<u>140</u>	<u>81</u>	<u>140</u>	<u>54</u>

25 ULTIMATE PARENT UNDERTAKING

Pentex Energy plc, which is registered in England and Wales, is the company's ultimate parent undertaking.

The largest group of undertakings for which group accounts have been drawn up is that headed by Pentex Energy plc. The smallest group of undertakings for which group accounts have been drawn up is that headed by Pentex Oil Plc.

Copies of the group accounts are available from Pentex Energy plc.