

NOVUS UK (KAKAP 2) LIMITED

DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 December 1999

Registered Number 3115420



NOVUS UK (KAKAP 2) LIMITED

Directors' Report

The Directors present their annual report and the audited accounts for the year ended 31 December 1999.

Principal Activity and Review of Business

The principal activities of the Company remain unchanged and continue to comprise the exploration and production of hydrocarbons in areas of Indonesia granted by the Kakap Production Sharing Contract.

It is the intention of the directors that the above business of the company will continue for the foreseeable future.

Production

The Kakap PSC, in the West Natuna Sea, continues to deliver as a core asset. Average net production remained relatively steady in 1999 at 1,234 bopd, compared to 1,262 bopd in 1998. This production profile is a result of new investment offsetting the natural decline in the four initial producing fields (KH, KF, KG and KRA). The three, single-well subsea fields (KR, KRN and KG-5AX) commissioned in 1997 continue to perform well, and the KRA South and Jangkar developments brought on stream at the end of 1998 have significantly enhanced production.

The exploration programme in 1999 was limited to the drilling of one well, Sotong – 1, which did not contain commercial quantities of hydrocarbons. The well was plugged and abandoned at the end of 1999.

Development

Development activities continue to focus on bringing the West Natuna Gas project on line in early 2001, slightly earlier than the previously anticipated completion date of mid 2001. The WNG project provides for gas sales between Pertamina, the Indonesian state oil company, and SembCorp Gas Pte Ltd of Singapore. It will lead to the first international export of gas from Indonesia via a 470 km pipeline from the Natuna Sea. The GSA authorises the sale into Singapore of approximately 2.5 Tcf of gas over a period of 22 years from three PSCs in the Natuna Sea, including Kakap. Conoco's Block B and Premier's Anoa block are the other two PSCs involved in the project. After a brief build-up period, production is expected to reach 325 MMscf/d of which 58 MMscf/d is to be supplied from the Kakap block.

With the gas market established, the Kakap joint venture has a strong incentive to explore for more gas for which we believe there is great prospectivity. In keeping with this expectation of future gas sales growth, the facilities and export line have been designed to allow increased throughput for low incremental investment when required.

NOVUS UK (KAKAP 2) LIMITED

Directors' Report (continued)

Results

The results for the year to 31 December 1999 are summarised below:

	<u>1999</u> <u>US\$'000</u>	<u>1998</u> <u>US\$'000</u>
Turnover	<u>8,077</u>	<u>6,110</u>
Profit on ordinary activities before taxation	774	614
Tax on profit on ordinary activities	(211)	(436)
Profit for the year	<u>563</u>	<u>178</u>

Dividends

The Directors do not recommend payment of a dividend in respect of 1999. No dividend was recommended in respect of 1998.

Fixed Assets

Changes in tangible fixed assets are shown in Note 9 to the accounts.

Likely Future Developments

There are no additional immediate developments that are likely to have a material impact on the operations of the Company although the Company is continually reviewing opportunities for growth and development. In the opinion of the Directors, further information on the evaluations may prejudice the interests of the Company if included in this report.

Directors and their Interests

The Directors who served during the year were:

James T. Hornabrook
Keith J. Goodwin
Robert C. Williams

None of the Directors had any interest in the shares of the Company at 31 December 1999 or at the date of signing this report.

Messrs. Williams and Hornabrook are Directors of Novus Petroleum Limited, the ultimate parent company, and accordingly their and their families' interests in the ordinary shares of that company are disclosed in its accounts.

NOVUS UK (KAKAP 2) LIMITED

Directors' Report (continued)

Year 2000

As of the date of signing these accounts, Novus UK (Kakap 2) Ltd has not experienced problems associated with handling dates in the year 2000 and beyond. Neither has the company been affected by any supplier of goods and services whose computers may have year 2000 date processing problems. Novus UK (Kakap 2) Ltd believes that its computers and software have been and are year 2000 compliant. Novus UK (Kakap 2) Ltd will continue to monitor the position closely throughout the year 2000 and beyond.

Creditor Payment Policy and Practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 1999, the company had an average of 45 days purchases outstanding in trade creditors.

Elective Regime

In accordance with the resolution passed on 2 August 1996 the Company has dispensed with the requirement to hold general meetings after 1996, or to lay accounts before the Company in general meeting after 1995 pursuant to Sections 366A and 252 of the Companies Act 1985 (as amended) respectively and having satisfied the provisions of Section 386 of the Companies Act (as amended) a resolution to exempt the Company from the obligation to appoint auditors annually as otherwise required by Section 384 of the Act was also passed on that date.

By order of the Board



K. J. Goodwin
Secretary
40 Lime Street
LONDON EC3M 7AW

October 19th, 2000

NOVUS UK (KAKAP 2) LIMITED

Statement of Directors' Responsibilities in Respect of the Accounts

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

REPORT OF THE AUDITORS

to the members of Novus UK (Kakap 2) Limited

We have audited the accounts on pages 5 to 12, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

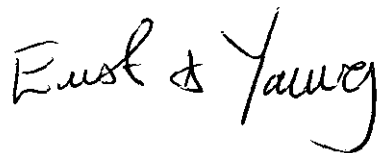
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

19 October 2000

NOVUS UK (KAKAP 2) LIMITED**Profit and Loss Account****For the Year Ended 31 December 1999**

	NOTES	1999 US\$'000	1998 US\$'000
Turnover	3	8,077	6,110
Cost of sales	4	<u>(6,901)</u>	<u>(4,804)</u>
Gross Profit		1,176	1,306
Dry hole costs		<u>(411)</u>	<u>(791)</u>
Operating Profit		765	515
Interest received from a Fellow Subsidiary undertaking		-	84
Interest received from other parties		<u>9</u>	<u>15</u>
Profit on ordinary activities before taxation		774	614
Tax on profit on ordinary activities	8	<u>(211)</u>	<u>(436)</u>
Profit for the year		<u>563</u>	<u>178</u>
Dividends		<u>-</u>	<u>-</u>
Retained Profit for the year		<u>563</u>	<u>178</u>

All profits and losses included in the profit and loss account derive from activities of a continuing nature.

The Company has not recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

The notes on pages 7 to 12 are an integral part of this profit and loss account.

NOVUS UK (KAKAP 2) LIMITED

Balance Sheet

At 31 December 1999

	NOTES	1999 US\$'000	1998 US\$'000
Fixed Assets			
Tangible assets	9	<u>13,486</u>	<u>14,033</u>
Current Assets			
Debtors – amounts falling due within one year	10	<u>3,876</u>	<u>2,142</u>
Current Liabilities			
Creditors - amounts falling due within one year	11	<u>(2,128)</u>	<u>(1,626)</u>
Net Current Assets		<u>1,748</u>	<u>516</u>
Total Assets Less Current Liabilities		15,234	14,549
Provisions for liabilities and charges	12	<u>(3,415)</u>	<u>(3,293)</u>
		<u>11,819</u>	<u>11,256</u>
Represented by:			
Capital and Reserves			
Called up share capital	13	0	0
Share Premium Account	14	10,208	10,208
Profit and loss account	17	1,611	1,048
Shareholders' Funds – Equity Interests		<u>11,819</u>	<u>11,256</u>

Approved by the Board of Directors
on October 19th, 2000 and signed on its behalf by:

K. J. Goodwin

K. J. Goodwin
Director

The notes on pages 7 to 12 are an integral part of this Balance Sheet

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts

1) Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year is set out below.

(a) Basis of preparation of accounts

The accounts are prepared under the historical cost convention and in accordance with the applicable UK accounting standards.

The Company has taken advantage of the exemption given in FRS 1 (Revised) "Cash Flow Statements" not to prepare a cash flow statement as a consolidated cash flow statement, which includes the cash flows of the Company, has been published by the Ultimate Parent Undertaking.

(b) Joint Ventures

The Company conducts the majority of its exploration, development and production activities in association with other companies under joint operating agreements. The accounts reflect the company's share of the costs and revenues resulting from such joint activities.

(c) Oil and Gas expenditure

The successful efforts method of accounting is followed for costs incurred in oil and gas exploration and production operations.

Capitalisation Policy - Acquisition costs are capitalised when incurred. Exploration costs, including geological and geophysical costs and costs of carrying and retaining unproved properties, are charged to the profit and loss account as incurred. Exploratory drilling costs are capitalised initially; however, if it is determined that an exploratory well does not contain proved reserves, such capitalised costs are charged to expense, as dry hole costs, at that time. Development costs are capitalised. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are generally expensed.

Depreciation, Depletion and Amortisation - All capitalised costs are depleted on a unit-of-production method based on proved reserves.

Disposal of Fixed Assets - Gains and losses on disposals of fixed assets are taken to the profit and loss account in the year in which they arise.

Decommissioning provision - Costs incurred by the joint venture for exploration, development and production are generally recoverable from production of reserves under the terms of the Kakap Production Sharing Contract. At the termination of the contract, possession of the equipment and facilities reverts to the Indonesian government. Therefore, no provision for decommissioning is made in the accounts.

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

(d) Deferred Taxation

Deferred tax is provided using the liability method on all timing differences which are expected to reverse in the foreseeable future, calculated at the rate at which such differences are anticipated to reverse.

2) Related Party Transactions

Novus Finance Pty Limited maintains a cash account for the benefit of the Company and other subsidiaries of the Ultimate Parent Undertaking. All costs related to and interest earned from this cash account have been transferred to the Company.

3) Operating Revenue

Sales of crude oil, which are stated net of value added tax are recorded on the entitlement method. When the company's share of production for a given period is greater than its entitlement, a royalty expense is recorded. When the volume of oil lifted is greater/(less) than the company's entitlement, a payable/(receivable) accrues.

Under the terms of the Kakap Production Sharing Contract, the Company is required to sell certain amounts of crude to the government of Indonesia at prices provided for in the contract. The Company has recorded revenue from such sales based on latest realised prices from sales of crude to third parties.

During the financial year the Company operated only in Indonesia and in one industry which consisted of exploration, development and production of crude oil, natural gas and associated liquids and all of its turnover is derived from such operations.

4) Cost of Sales

	<u>1999</u> <u>US\$'000</u>	<u>1998</u> <u>US\$'000</u>
Operating Costs	1,953	1,790
Royalty Expense	1,993	118
Depreciation, depletion and amortisation	2,558	2,276
Other	397	620
	<u>6,901</u>	<u>4,804</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

5) Employee Information

The Company had no employees, other than directors, during 1999.

6) Directors Remuneration

The Directors who served during the year received no fees or remuneration for their services as directors of the company (1998 - \$Nil).

7) Auditors Remuneration

Auditors' remuneration (and fees for other services) are borne by Novus Management Services Pty Limited, a related entity and a member of the Novus Petroleum Limited Group.

8) Taxation

The components of the provision for income taxes were as follows:

	<u>1999</u> <u>US\$'000</u>	<u>1998</u> <u>US\$'000</u>
United Kingdom		
UK corporation tax	3	-
Less : Double tax relief	-	-
	<u>3</u>	<u>-</u>
Indonesia		
Current	86	-
Deferred	122	436
	<u>208</u>	<u>436</u>
	<u>211</u>	<u>436</u>

The company is a member of a group for the purposes of relief under section 402 of the Income and Corporation Taxes Act 1988. Corporation Tax has been provided at 30.2465% (1998 – 31%) on the taxable profits for the year. Taxable profits are partly covered by double tax relief.

An Indonesian / UK Branch Profit Tax rate of 10% has been assumed for 1999 (1998: 10%).

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

9) Fixed Assets - Tangible Assets

	1999 US\$'000	1998 US\$'000
Interest in Petroleum Properties		
At 1 January	11,571	8,711
Additions	740	3,651
Dry hole costs	(411)	(791)
At 31 December	<u>11,900</u>	<u>11,571</u>
Depreciation, depletion and amortisation		
At 1 January	3,928	2,455
Charged during the year	1,071	1,473
At 31 December	<u>4,999</u>	<u>3,928</u>
Net Book Value at 31 December	<u>6,901</u>	<u>7,643</u>
Property, Plant and Equipment		
At 1 January	9,673	8,798
Additions	1,683	875
At 31 December	<u>11,356</u>	<u>9,673</u>
Accumulated Depreciation		
At 1 January	3,284	2,480
Charged during the year	1,487	803
At 31 December	<u>4,771</u>	<u>3,283</u>
Net Book Value at 31 December	<u>6,585</u>	<u>6,390</u>
Total Net Book Value at 31 December	<u>13,486</u>	<u>14,033</u>

10) Debtors - Amounts Falling Due Within One Year

	1999 US\$'000	1998 US\$'000
Trade Debtors	1,127	349
Fellow Subsidiary Undertakings	2,267	1,331
Other	482	462
	<u>3,876</u>	<u>2,142</u>

11) Creditors - Amounts Falling Due Within One Year

	1999 US\$'000	1998 US\$'000
Taxation	80	-
Trade Creditors	2,048	1,626
	<u>2,128</u>	<u>1,626</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

12) Provisions for Liabilities and Charges

Deferred Taxation

The movements in deferred taxation during the current and previous years are as follows:

	1999	1998
	US\$'000	US\$'000
At 1 January	3,293	2,857
Charge for the year	431	713
Overseas Tax Credit	<u>(309)</u>	<u>(277)</u>
At 31 December	<u>3,415</u>	<u>3,293</u>

Overseas tax credit represents a future tax benefit arising in respect of under-recovered costs on Indonesian PSCs in 1999.

The potential liability for deferred taxation is:

	1999	1998
	US\$'000	US\$'000
Accelerated Capital Allowances	3,053	3,217
Deferred Branch Profit Tax Liability	362	353
Future overseas tax benefit	-	<u>(277)</u>
	<u>3,415</u>	<u>3,293</u>

All of which has been provided for in the accounts for the year ended 31 December 1999.

13) Share Capital

	1999	1998
	US\$'000	US\$'000
Authorised, allotted, called up and fully paid 251 ordinary shares of \$ 1.	-	-
	<u>-</u>	<u>-</u>

14) Share Premium Reserve

	1999	1998
	US\$'000	US\$'000
At 1 January and 31 December	<u>10,208</u>	<u>10,208</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

15) Ultimate Parent Undertaking

The Directors regard Novus Petroleum Limited of Sydney, Australia, a company incorporated in Australia, as the ultimate parent undertaking as of 31 December 1999 and whose principal place of business is at 321 Kent Street, Sydney 2000, Australia. The consolidated accounts of the Group are available to the public and may be obtained from that address.

The company's immediate parent undertaking is Novus UK (Indonesian Holdings) Limited, a company incorporated in England and Wales.

16) Commitments

The Company conducts substantially all of its operations through memberships of a number of joint venture consortia. In the event of non-performance of obligations by another member, or members of such consortia, the Company would become subject to additional obligations. The Company does not anticipate non-performance by its joint venture partners.

At the end of 1999, the company was committed to develop the West Natuna Gas field at a cost of US\$ 14,760,500 over a period concluding at the end of 2001. Additionally, as part of the ongoing expenditure commitments under the terms of the Kakap PSC, the company was committed to drilling an exploration well between 2001 and 2003 at a cost of US\$ 1,018,000.

17) Profit and Loss Account

	<u>1999</u> <u>US\$'000</u>	<u>1998</u> <u>US\$'000</u>
At 1 January	1,048	870
Profit for the year	563	178
Dividends	-	-
At 31 December	<u>1,611</u>	<u>1,048</u>

18) Reconciliation of Movements in Shareholder's Funds

	<u>1999</u> <u>US\$'000</u>	<u>1998</u> <u>US\$'000</u>
At 1 January	11,256	11,078
Profit for the year	563	178
Dividends	-	-
At 31 December	<u>11,819</u>	<u>11,256</u>

19) Related party transactions

Certain services were provided by Novus Management Services Pty Limited, a related company on behalf of Novus UK (Kakap 2) Limited. A service charge of US\$ 134,755 has been included in the accounts to reflect the services provided by this Company (1998 US\$ 200,219).