Newfield Petroleum UK Limited

Directors' Report and Financial Statements
Year ended 31 December 2004

Registered number: 4487586

Directors' report
For the period ended 31 December 2004

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year to 31 December 2004.

Principal activities and business review

Newfield Petroleum UK Limited ("Newfield") was incorporated on 16 July 2002 with share capital of £100. During the year the issued share capital was increased from £7,537,300 to £20,325,000.

The company acquired a 20% interest in block 49/9b, which includes the Windermere producing gas field, and a 40.2632% interest in block 49/4a, which includes the undeveloped Chiswick prospect in December 2003. During 2004, net production from Windermere averaged 1.65 mmcf of gas per day and 17.67 bbls of condensate.

The 49/4b-6 Cumbria well, in which the company has a 100% interest, was spudded on 8th August but was unsuccessful and was plugged and abandoned as a dry hole.

In July, Newfield completed an acquisition of interests in six blocks in the Cleaver Bank North area of the Southern North Sea gas basin from Shell/Exxon and on 26th November, the company, as operator, spudded the 49/10a-4 Grove well. This well was completed in February 2005 having found about 120 feet (net) of gas pay in the Leman and Barren Red Measures Sands. The company plans to fabricate a production facility with first production expected in late 2006, subject to regulatory approval.

In September, the company signed an agreement with BP to explore and develop the remaining hydrocarbon potential surrounding its West Sole Field, located on block 48/6.

After the year-end, Newfield agreed to sell its interests in Windermere, Chiswick and block 49/4b, with completion being achieved in June 2005.

Future developments

The company is pursuing various acquisition and farm-in opportunities, in order to acquire a portfolio of interests and to find and develop significant new reserves.

Results and dividends

The company made a loss of £10,254,755 (2003 £893,286) for the year to 31 December 2004. The directors do not recommend the payment of a dividend.

Directors' report (continued)
For the period ended 31 December 2004

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 of the profit or loss for that year. 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; and
- prepare the financial statements 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 financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors and their interests

The directors who served during the period were as follows:

D. R. Phillips
W. D. Schneider
D. A. Trice

None of the directors who held office at 31 December 2004 had any beneficial interests in the shares, options to acquire shares, debentures or loan stock of the company requiring disclosure under Schedule 7 Companies Act 1985.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and not having to be re-elected, will therefore do so for the ensuing year.

21 Dartmouth Street,
London
SW1H 9BP

On behalf of the Board

D. R. Phillips
Director

30 June 2005

Independent auditors' report to the members of Newfield Petroleum UK Limited

We have audited the financial statements which comprise of the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Company 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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 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 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 the Company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
WC2N 6RH

30 June 2005

Profit and loss account
For the period ended 31 December 2004

	Notes	2004 £	2003 £
Turnover	2	1,530,968	105,000
Cost of sales		(10,690,558)	(79,728)
Gross (loss)/profit		(9,159,590)	25,272
Administrative costs	3	(1,072,915)	(826,397)
Operating (loss)	4	(10,232,505)	(801,125)
Interest receivable and similar income	5	11,300	1,403
Interest payable and similar charges	6	(33,550)	(93,564)
(Loss) on ordinary activities before taxation		(10,254,755)	(893,286)
Tax on (loss) on ordinary activities	7	-	-
(Loss) for the period	14	(10,254,755)	(893,286)
Retained (loss) at the beginning of the period		(1,311,328)	(418,042)
Retained (loss) at the end of the period		(11,566,083)	(1,311,328)

There were no recognised gains or losses during 2004 other than those included in the profit and loss account for the period.

The accompanying statement of principal accounting policies and other notes are an integral part of these financial statements.

Balance Sheet

31 December 2004

	Notes	2004	2003
		£	£
Fixed assets			
Intangible assets	8	12,567,319	4,300,872
Tangible assets	8	1,197,413	2,351,718
		13,764,732	6,652,590
Current assets			
Debtors	9	375,871	236,750
Cash at bank and in hand		95,303	78,199
		471,174	314,949
Creditors			
Amounts falling due within one year	10	(4,798,510)	(97,341)
Net current assets		(4,327,336)	217,608
Total assets less current liabilities		9,437,396	6,870,198
Creditors			
Amounts falling due after more than one year	11	(749)	(46)
Provisions for liabilities and charges	12	(677,730)	(644,180)
Net assets		8,758,917	6,225,972
Capital and reserves – equity interests			
Equity:			
Called-up share capital	13	20,325,000	7,537,300
Profit and loss account	14	(11,566,083)	(1,311,328)
Shareholder's funds		8,758,917	6,225,972

Signed on behalf of the Board

D. R. Phillips   Director

30 June 2005

The accompanying statement of principal accounting policies and other notes are an integral part of these financial statements.

Notes to financial statements
31 December 2004

1. Statement of principal accounting policies

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

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with applicable financial reporting and accounting standards. The financial statements are prepared on a going concern basis, which the directors believe to be appropriate, as the parent company has confirmed that it will continue to provide financial support to the company for the foreseeable future.

(b) Consortium accounting

The company's exploration, development and production activities are generally conducted in joint ventures with other companies and are accounted for as joint arrangements that are not entities under Financial Reporting Standard 9 ("FRS 9") such that the company accounts directly for its share of transactions conducted through the joint arrangement.

(c) Intangible oil and gas assets

Intangible oil and gas assets comprise the pre-licence, licence acquisition, exploration and appraisal costs relating either to unevaluated properties or properties waiting further evaluation. When a decision to develop these properties has been taken, or there is evidence of impairment, the costs are transferred to the tangible oil and gas assets cost pool.

(d) Exploration and development expenditure

The company follows the full-cost method of accounting for oil and gas properties under which all exploration and development expenditure including financing costs and related foreign exchange differences in respect of properties under development is capitalised in a depreciable cost pool. Proceeds from the disposal of interests are deducted from the cost pool.

(e) Depreciation

All capitalised costs within the pool of tangible oil and gas assets together with estimated future development costs are depreciated using the unit of production method based on commercial reserves. Other tangible fixed assets are depreciated on a straight-line basis over their estimated economic lives.

(f) Ceiling test

Each year management assesses the recoverability of the oil and gas asset pool by comparison with the estimated discounted future net revenues of proven reserves within the pool in accordance with Financial Reporting Standard 11. A provision is made where there has been impairment in the capitalised value of the cost pool.

(g) Commercial reserves

Commercial reserves are proved developed and undeveloped oil and gas reserves, as defined in the Statement of Recommended Practice "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" published by the Oil Industry Accounting Committee.

(h) Abandonment
Provision is made for the present value of the future cost of abandonment of production platforms, pipelines and terminal facilities. This provision is recognised when the asset is installed. The estimated costs, based on engineering cost levels prevailing at the balance sheet date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. The corresponding amount is capitalised as part of tangible fixed assets and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of decommissioning is capitalised, whilst the charge arising from the unwinding of the discount applied to the abandonment provision is treated as a component of the interest charge.

(i) Deferred taxation
Provision is made for deferred corporation tax at current rates of tax on timing differences between results stated in the financial statements and results computed for corporation tax purposes, only where it is expected that a taxation liability will arise in the foreseeable future when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not, there will be suitable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. No deferred tax assets have been recognised as of 31 December 2004 or 31 December 2003.

(j) Foreign currency
Foreign currency transactions are translated at the average monthly exchange rate. Foreign currency balances at year-end are translated at the exchange rates ruling at the balance sheet date, except those covered by foreign exchange contracts in which case the forward exchange rate is used. Foreign currency gains or losses related to exploration and development projects, and the financing thereof, are capitalised and amortised as described above. Other exchange gains and losses are recognised in the profit and loss account.

(k) Effect of changing estimates
Changes in reserve and throughput estimates, anticipated future development costs, future abandonment costs and other variables used in unit of production calculations are accounted for prospectively over the estimated remaining life of the relevant field, with effect from the beginning of the period in which they arise.

(l) Turnover
Turnover represents the invoiced value for the sale of oil, gas and condensate.

2. Turnover

Sales during the year to north west Europe amounted to £1,530,968 (2003 £105,000).

3. Administrative costs

	2004	2003
	£	£
Overhead costs	(1,715,840)	(1,060,481)
Less amount capitalised	724,678	304,572
Depreciation of other fixed assets	(81,753)	(70,488)
	(1,072,915)	(826,397)

4. Operating loss

	2004	2003
	£	£
Operating loss for the period is stated after charging:		
Auditors' remuneration – audit fee	12,000	6,000
Employee costs	540,883	165,848
Depreciation of tangible assets	862,441	98,897
Depreciation of abandonment asset	53,465	11,319
Write off of oil and gas assets	9,131,741	-
Unrealised foreign currency loss	44,278	-
Operating lease costs – office rent	133,166	130,660

The average number of employees (excluding non-executive directors) during the period was	9	1

Employee costs in the period amounted to:

	£	£
Staff costs, excluding executive director	369,500	-
Social security costs	34,733	-
Directors' emoluments	136,650	165,548

5. Interest receivable and similar income

	2004	2003
	£	£
Bank interest	11,300	1,403

6. Interest payable and similar charges

	2004	2003
	£	£
Interest payable and similar charges	-	(93,564)
Unwinding of discount on decommissioning provision	(33,550)	-
	(33,550)	(93,564)

7. Tax on profit on ordinary activities

The charge for the year is made up as follows:

	2004	2003
	£	£
UK corporation tax	-	-

Factors affecting the tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004	2003
	£	£
(Loss) on ordinary activities before taxation	(10,254,755)	(893,286)
(Loss) on ordinary activities multiplied by aggregate standard corporation tax rates in the UK – 40% (2003 – 40%)	(4,101,902)	(357,314)
Effects of:		
Expenses not deductible for tax purposes	28,900	5,778

Accelerated capital allowances and other timing differences	(1,753,246)	(1,178,158)
Losses not utilised	5,826,248	1,529,694
Current year current tax charge	-	-

No provision has been made in these accounts for a potential net deferred tax asset of £4,187,853 resulting from carry forward trading losses and accelerated capital allowances. A deferred tax asset would only be recognised where there is reasonable certainty that suitable taxable profits will be generated in the future.

8. Fixed Assets

	Intangible Assets	Tangible Assets		Total
	Exploration and Appraisal Costs	Oil & Gas	Office Equipment	
	£	£	£	£
Cost				
At 1 January 2004	4,300,872	2,261,036	232,087	6,793,995
Additions	17,398,188	(184,359)	27,713	17,241,542
At 31 December 2004	21,699,060	2,076,677	259,800	24,035,537
Depreciation				
At 1 January 2004	-	39,728	101,677	141,405
Amounts written off	9,131,741	-	-	9,131,741
Charge for year		915,906	81,753	997,659
At 31 December 2004	9,131,741	955,634	183,430	10,270,805
Net book value				
At 31 December 2004	12,567,319	1,121,043	76,370	13,764,732
At 31 December 2003	4,300,872	2,221,308	130,410	6,652,590

Oil and gas assets relate to the development costs capitalised in the UK full cost pool and include abandonment costs capitalised, the net book amount of which at 31 December 2004 is £579,396 (2003 - £632,861).

9. Debtors: due within one year

	2004	2003
	£	£
Trade debtors	226,511	105,000
Other debtors	149,360	131,750
	375,871	236,750

10. Creditors: Amounts falling due within one year

	2004	2003
	£	£
Trade creditors	4,693,919	40,000
Other creditors	68,330	39,191
Taxation and social security	36,261	18,150
	4,798,510	97,341

11. Creditors: Amounts falling due after more than one year

	2004	2003
	£	£
Amount due to parent company	749	46

Amounts due to parent company are unsecured and payable on demand. The parent company has confirmed that it will not demand repayment of the amounts due within one year.

12. Provisions for liabilities and charges

	Abandonment provision	Deferred corporation tax	Total
	£	£	£
At beginning of year	644,180	-	644,180
Amounts provided	33,550	-	33,550
At end of year	677,730	-	677,730

13. Called-up share capital

	2004	2003
	£	£
Equity share capital		
Authorised:		
1,000,000 ordinary shares of £100 each	100,000,000	100,000,000
Allotted, called-up and fully paid:		
203,250 (2003: 75,373) Ordinary shares of £100 each	20,325,000	7,537,300

14. Movements on reserves

The movement on reserves for the period is as follows:

	Profit and Loss Account
	£
At 1 January 2004	(1,311,328)
Loss for the year	(10,254,755)
At 31 December 2004	(11,566,083)

15. Reconciliation of movement in shareholder's funds

	2004	2003
	£	£
Opening shareholder's funds	6,225,972	(417,942)
Loss for the period	(10,254,755)	(893,286)
Net proceeds of issue of equity share capital	12,787,700	7,537,200
Closing shareholder's funds	8,758,917	6,225,972

16. Guarantees and other financial commitments

The company has no capital commitments. The company rents office space on a quarterly basis for which the commitment is £34,569.

17. Contingent liability

The company has agreed that, depending on the development programme, further payments may be made to the seller of the Chiswick interest in line with the original Purchase Agreement. The maximum potential exposure is £1.4m. Following the sale of the Chiswick interest, the company may receive a payment which will reduce the contingent liability to £0.9m.

18. Cashflow statement

The company is a wholly owned subsidiary of Newfield Exploration Company and is included within the consolidated statements of Newfield Exploration Company, which are publicly available at the address set out in Note 19. Consequently, the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1.

19. Ultimate parent company

The company is a subsidiary undertaking of Newfield Exploration Company, a company incorporated in the United States of America, which has agreed to provide continuing financial support to enable the company to continue its operations.

The largest group in which the results of Newfield Petroleum UK Limited are consolidated is that headed by Newfield Exploration Company, whose principal place of business is the United States of America. The consolidated accounts of this group are available to the public and may be obtained from 363 N. Sam Houston Pkwy. E, Suite 2020, Houston, Texas 77060, USA.

20. Related party balances

The company is a 100% subsidiary of Newfield Exploration Company and, therefore, utilises the exemption contained in paragraph 3 (c) of FRS 8 Related Party Disclosures, not to disclose any transactions with any entities that are a part of that group. The address at which the consolidated financial statements are publicly available is detailed in Note 19.

21. Post Balance Sheet Event

The company completed the sale of its interests in Windermere, Chiswick and block 49/4b to CH4 Energy Limited for £5 million on 17 June 2005.