

NOVUS UK (KAKAP 2) LIMITED

DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 December 2001

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 2001.

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/Exploration

The Kakap PSC, in the West Natuna Sea, continues to deliver as a core asset, although lower oil production was evident during 2001. Production averaged 715 bopd (860 bopd in 2000), the decrease primarily a result of natural decline, but also maintenance operations which occurred during the year. The impact of this decline was offset by the commencement of deliveries from the West Natuna Gas scheme in March 2001, average production for 2001 being 208boed.

As noted above, gas deliveries commenced in March 2001, which was well ahead of the originally envisaged starting date of 1 July. Gas sales peaked at 85MMscfd (gross) during the second quarter but decreased in the third quarter due to the commencement of deliveries from West Natuna Block B.

During the year one exploration well, KF North West — 1, was drilled. Although the well encountered some pay gas, the JV considered that completing and producing this gas pool would be uneconomical.

Development

As noted above, deliveries from the West Natuna gas development began in early 2001, and are expected to average between 55-60MMscfd (gross). The 22-year gas sales contract to Singapore, including take-or-pay provisions, came into effect in July 2001.

NOVUS UK (KAKAP 2) LIMITED

Directors' Report (continued)

Results

The results for the year to 31 December 2001 are summarised below:

	<u>2001</u> <u>US\$'000</u>	<u>2000</u> <u>US\$'000</u>
Turnover	<u>7,759</u>	<u>9,524</u>
Profit on ordinary activities before taxation	3,050	2,058
Tax on profit on ordinary activities	(1,607)	(1,122)
Profit for the year	<u>1,443</u>	<u>936</u>

Dividends

During the year no dividend was paid. In respect of the year ended 31 December 2000, a dividend of \$1,240,000 was paid.

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 2001 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)

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 2001, the Company had an average of 45 days purchases outstanding in trade creditors.

Auditors

Ernst & Young LLP was re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under section 386 Companies Act 1985.

By order of the Board



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

October 25, 2002

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.

NOVUS UK (KAKAP 2) LIMITED

Profit and Loss Account

For the Year Ended 31 December 2001

	NOTES	2001 US\$'000	2000 US\$'000
Turnover	3	7,759	9,524
Cost of sales	4	<u>(4,717)</u>	<u>(7,493)</u>
Gross Profit		<u>3,042</u>	<u>2,031</u>
Operating Profit		3,042	2,031
Bank interest received		<u>8</u>	<u>27</u>
Profit on ordinary activities before taxation		3,050	2,058
Tax on profit on ordinary activities	8	<u>(1,607)</u>	<u>(1,122)</u>
Profit for the year		<u><u>1,443</u></u>	<u><u>936</u></u>
Dividends			<u>(1,240)</u>
Retained Profit/(Loss) for the year		<u><u>1,443</u></u>	<u><u>(304)</u></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 or loss 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 2001

	NOTES	2001 US\$'000	2000 US\$'000
Fixed Assets			
Tangible assets	9	<u>16,209</u>	<u>16,892</u>
Current Assets			
Cash		504	736
Debtors	10	3,250	1,809
Stock	11	<u>390</u>	<u>404</u>
Total Current Assets		<u>4,144</u>	<u>2,949</u>
Current Liabilities			
Creditors - amounts falling due within one year	12	<u>(2,569)</u>	<u>(4,045)</u>
Net Current Assets/(Liabilities)		<u>1,575</u>	<u>(1,096)</u>
Total Assets Less Current Liabilities		17,784	15,796
Provisions for liabilities and charges	13	<u>(4,826)</u>	<u>(4,281)</u>
		<u><u>12,958</u></u>	<u><u>11,515</u></u>
Represented by:			
Capital and Reserves			
Called up share capital	14	-	-
Share Premium Account	15	10,208	10,208
Profit and loss account	18	<u>2,750</u>	<u>1,307</u>
Shareholders Funds — Equity Interests		<u><u>12,958</u></u>	<u><u>11,515</u></u>

Approved by the Board of Directors
on October 26, 2002 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

Certain services were provided by Novus Management Services Pty Limited, a related company. A service charge of US\$ 46,932 has been included in the accounts to reflect the services provided by that company (2000 US\$ 95,654).

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

	2001 US\$'000	2000 US\$'000
Operating Costs	1,893	2,424
Royalty Expense	466	2,829
Depreciation, depletion and amortisation	1,751	1,906
Other	607	334
	<u>4,717</u>	<u>7,493</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

5) Employee Information

The Company had no employees, other than directors, during 2001.

6) Directors' Remuneration

The Directors who served during the year ended 31 December 2001 received no fees or remuneration for their services as directors of the company (2000 - \$Nil).

Mr K Goodwin and Mr J Hornabrook are directors of Novus UK (Indonesian Holdings) Ltd, (the parent undertaking) in whose accounts information required by the Companies Act 1985 as to emoluments is given.

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>2001</u> <u>US\$'000</u>	<u>2000</u> <u>US\$'000</u>
United Kingdom		
UK corporation tax	847	252
Less : Double tax relief	<u>(844)</u>	<u>(244)</u>
	<u>3</u>	<u>8</u>
Indonesia		
Current	1,059	248
Deferred	<u>545</u>	<u>866</u>
	<u>1,604</u>	<u>1,114</u>
Taxation charge for the year	<u>1,607</u>	<u>1,122</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% (2000 — 30 %) 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 2001 (2000: 10%).

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

9) Fixed Assets - Tangible Assets

	2001 US\$'000	2000 US\$'000
Interest in Petroleum Properties		
At 1 January	11,898	11,249
Additions	252	649
Dry hole costs	-	-
At 31 December	<u>12,150</u>	<u>11,898</u>
Depreciation, depletion and amortisation		
At 1 January	5,544	4,999
Charge for the year	554	545
At 31 December	<u>6,098</u>	<u>5,544</u>
Net Book Value at 31 December	<u>6,052</u>	<u>6,354</u>
Property, Plant and Equipment		
At 1 January	16,670	11,356
Additions	816	5,314
At 31 December	<u>17,486</u>	<u>16,670</u>
Accumulated Depreciation		
At 1 January	6,132	4,771
Charge for the year	1,197	1,361
At 31 December	<u>7,329</u>	<u>6,132</u>
Net Book Value at 31 December	<u>10,157</u>	<u>10,538</u>
Total Net Book Value at 31 December	<u>16,209</u>	<u>16,892</u>

10) Debtors

	2001 US\$'000	2000 US\$'000
Trade Debtors	773	1,156
Fellow Subsidiary Undertakings	1,807	-
Other	670	653
	<u>3,250</u>	<u>1,809</u>

11) Stock

	2001 US\$'000	2000 US\$'000
Warehouse stock and drilling materials	<u>390</u>	<u>404</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

12) Creditors - Amounts Falling Due Within One Year

	<u>2001 US\$'000</u>	<u>2000 US\$'000</u>
Taxation	381	247
Fellow Subsidiary Undertakings	-	1,057
Trade Creditors	<u>2,188</u>	<u>2,741</u>
	<u>2,569</u>	<u>4,045</u>

13) Provisions for Liabilities and Charges

Deferred Taxation

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

	<u>2001 US\$'000</u>	<u>2000 US\$'000</u>
At 1 January	4,281	3,415
Charge for the year	<u>545</u>	<u>866</u>
At 31 December	<u>4,826</u>	<u>4,281</u>

The potential liability for deferred taxation is:

	<u>2001 US\$'000</u>	<u>2000 US\$'000</u>
Accelerated Capital Allowances	4,298	3,798
Deferred Branch Profit Tax Liability	<u>528</u>	<u>483</u>
	<u>4,826</u>	<u>4,281</u>

All of which has been provided for in the accounts for the year ended 31 December 2001.

14) Share Capital

	<u>2001 US\$'000</u>	<u>2000 US\$'000</u>
Authorised, allotted, called up and fully paid 251 ordinary shares of \$ 1.	-	-

15) Share Premium Account

	<u>2001 US\$'000</u>	<u>2000 US\$'000</u>
At 1 January and 31 December	<u>10,208</u>	<u>10,208</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

16) 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 2001 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.

17) 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.

In terms of specific commitments, at the end of 2001, the company was committed to drilling one exploration well before the end of 2005 (total commitment of \$0.625m).

18) Profit and Loss Account

	2001 US\$'000	2000 US\$'000
At 1 January	1,307	1,611
Profit for the year	1,443	936
Dividends	-	(1,240)
At 31 December	<u>2,750</u>	<u>1,307</u>

19) Reconciliation of Movements in Shareholder's Funds

	2001 US\$'000	2000 US\$'000
At 1 January	11,515	11,819
Profit for the year	1,443	936
Dividends	-	(1,240)
At 31 December	<u>12,958</u>	<u>11,515</u>

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOVUS UK (KAKAP 2) LIMITED

We have audited the company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, the Company Balance Sheet, and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the 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 with the company is not disclosed.

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

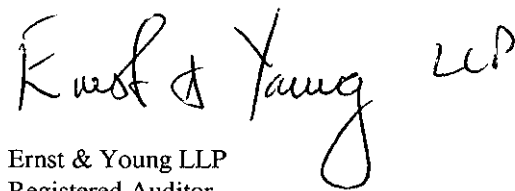
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 affairs of the company as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP

Registered Auditor

Address

Date 25 October 2002