

NOVUS UK (KAKAP 2) LIMITED

(Formerly PRECIS (1400) LIMITED)

DIRECTORS' AND AUDITOR'S REPORTS AND ACCOUNTS

18 October 1995 - 31 December 1996

Registered Number 3115420



NOVUS UK (KAKAP 2) LIMITED

Directors' Report

The Directors present their report and the audited accounts for the period 18 October 1995 to 31 December 1996.

The Company was incorporated on 18 October 1995 as Precis (1400) Limited. The Company changed its name to Marathon Oil Petroleum U.K. Kakap Limited on 21 March 1996 and again to Novus UK (Kakap 2) Limited on 20 May 1996.

The Company was acquired by Novus UK (Indonesian Holdings) Limited on 27 March 1996 pursuant to a Stock Purchase Agreement with Marathon International Oil Company dated 5 February 1996.

Business Review

The Company acquired a 6.25% interest in the Kakap PSC pursuant to an Asset Transfer Agreement dated 26 March 1996. The effective date of the transaction was 1 January 1996 with control being achieved on 1 February 1996.

Production

The 4 fields which are on production in the Kakap block produced an average of 2,472 bopd net to the Company in 1996.

The 2 pools which comprise the KG field came on production in April 1995 from 3 wells and have continued to surpass expectations in terms of production and ultimately recoverable reserves. Average gross production for 1996 of 15,364 bopd was 32% above the operator's forecast. Due to this performance an additional KG development well will be drilled in 1997.

The KRA field which also came on production in 1995, involves a different, deeper reservoir than the other fields in the block. During 1996, 10 development wells were drilled with mixed success. The KRA reservoir proved to be more variable and complex than anticipated by the original operator. As a result, the field averaged 17,176 bopd gross in 1996 compared to 31,420 bopd forecast at startup.

Development

Three oilfields (KR, KRN and KG5) are under development in the Kakap PSC. Discovered in 1995, these fields will be developed using subsea technology and tied back to existing facilities on the KG and the KRA platforms. Startup is due in May 1997.

The Kakap oil fields in the West Natuna Sea have about 300 bcf of free and associated gas and the joint venture has been working for some time to develop a market for it. An option which emerged strongly during 1996 was to form a West Natuna Gas Gathering System (WNGGS) with adjacent oil producers with a view to supplying gas to Singapore via a new pipeline. In April 1997, a letter of agreement between Pertamina (the Indonesian state oil company) and Sembawang Engineering and Construction was signed to this effect. First deliveries are expected by mid 2000.

NOVUS UK (KAKAP 2) LIMITED

Directors' Report (continued)

Results

The results for the period 18 October 1995 to 31 December 1996 are summarized below:

	1996 US\$'000
Turnover	17,917
Profit on ordinary activities before taxation	6,294
Tax on profit on ordinary activities	(3,825)
Profit for the period	<hr/> 2,469 <hr/>

Dividends

The were no dividends paid during the period.

The Directors, on 27 November 1996, declared an interim dividend of US\$ 6,374.50 per share amounting to US\$ 1,600,000 to be paid to Novus UK (Indonesian Holdings) Limited no later than 31 January 1997.

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.

NOVUS UK (KAKAP 2) LIMITED

Directors' Report (continued)

Directors and their Interests

The Directors who served during the period were:

John Dillon	appointed 18 October 1995	resigned 26 February 1996
Leon Neal	appointed 18 October 1995	resigned 26 February 1996
Rajeshwar Sahni	appointed 26 February 1996	resigned 27 March 1996
John Donahue	appointed 26 February 1996	resigned 27 March 1996
John Evans	appointed 25 March 1996	resigned 27 March 1996
Jim T. Hornabrook	appointed 27 March 1996	
Keith J. Goodwin	appointed 27 March 1996	
Robert C. Williams	appointed 27 March 1996	

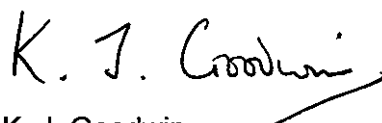
None of the Directors had any interest in the share capital of the Company at 31 December 1996 or at the date of signing this report.

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.

Elective Regime

In accordance with the resolution passed on 13 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
34 South Molton Street
LONDON W1Y 2BP

August 4, 1997

NOVUS UK (KAKAP 2) LIMITED

Statement of Directors' Responsibilities

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- 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

18 October 1995 to 31 December 1996

	NOTES	1996 US\$'000
Turnover	3	17,917
Cost of sales	4	<u>(11,713)</u>
Gross Profit		6,204
Dry hole costs		<u>0</u>
Operating Profit		6,204
Interest received		<u>90</u>
Profit on ordinary activities before taxation	7	6,294
Tax on profit on ordinary activities	8	<u>(3,825)</u>
Profit for the period		<u><u>2,469</u></u>

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

The Company has not recognized gains and losses other than the profit above and therefore no separate statement of total recognized 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

31 December 1996

	NOTES	1996 US\$'000
Fixed Assets		
Tangible assets	9	<u>10,997</u>
Current Assets		
Debtors	10	<u>4,166</u>
Current Liabilities		
Creditors - amounts falling due within one year	11	(745)
Provisions	12	<u>(1,600)</u>
Net Current Assets		<u>1,821</u>
Total Assets Less Current Liabilities		12,818
Provisions for liabilities and charges	13	<u>(1,741)</u>
		<u>11,077</u>
Capital and Reserves		
Called up share capital	14	0
Share Premium Reserve	15	10,208
Profit and loss account	18	<u>869</u>
		<u>11,077</u>

Approved by the Board of Directors
on August 4, 1997 and signed on its behalf by


J.T. Hornabrook
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 period is set out below.

(a) Basis of preparation of accounts

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

The Company has taken advantage of the exemption given in FRS 1 "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 prepared by the ultimate holding company.

(b) Joint Ventures

The Company conducts the majority of its exploration, development and production activities in association with other companies. The accounts reflect those shares of costs which the Company has incurred under its various joint operating agreements. Revenues are recognized on a similar basis.

(c) Oil and Gas expenditure

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

Capitalization Policy - Acquisition costs are capitalized 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 capitalized initially; however, if it is determined that an exploratory well does not contain proved reserves, such capitalized costs are charged to expense, as dry hole costs, at that time. Development costs are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are generally expensed.

Leasehold Impairment - Costs of unproved properties which are determined to be impaired are charged to the profit and loss account in the current period.

Depreciation, Depletion and Amortization - The acquisition costs of proved properties are depleted by the unit-of-production method based on proved reserves. Other capitalized costs of proved properties are depreciated by the unit-of-production method based on proved developed reserves.

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

Termination - 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 is made for dismantlement, restoration, abandonment or salvage values.

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

(d) Deferred Taxation

Deferred tax is calculated by applying the liability method. Provisions are made when timing differences are expected to reverse in the foreseeable future.

2) Related Party Transactions

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

3) Operating Revenue

Sales of crude oil are recorded on the entitlement method. Differences between actual production and entitlements result in a receivable when underproduction occurs and a payable when overproduction occurs.

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 realized prices from sales of crude to third parties. The resulting difference is treated as a royalty expense which is included in cost of sales.

4) Cost of Sales

Cost of sales consisted of the following:

	1996 US\$'000
Operating Costs	1,431
Royalty Expense	7,803
Depreciation, depletion and amortization	1,952
Other	527
	<u>11,713</u>

5) Employee Information

The Company had no employees, other than directors, during the period. 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 \$ 288,060 (A\$ 361,657) has been included in the accounts to reflect the services provided by this Company.

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

6) Directors Remuneration

The Directors who served during the period received no fees or remuneration from the Company. Messrs. Goodwin, Hornabrook and Williams are Directors or senior executives of the Novus Group of Companies.

7) Profit on Ordinary Activities Before Taxation is Stated After Charging

	1996 US\$'000
Auditors' remuneration	<u>0</u>

The audit fees of the Company are borne by a related party.

8) Taxation

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

	1996 US\$'000
United Kingdom	
UK corporation tax	2,089
Less : Double tax relief	<u>(2,058)</u>
	31
Indonesia	
Current	2,053
Deferred	<u>1,741</u>
	<u>3,825</u>

Deferred taxation is calculated on temporary timing differences arising principally from differences between tax and accounting bases of properties, plant and equipment.

The effective rates for the 1996 provision vary from the Indonesian statutory rate due to differences between crude sales prices recorded and prices required to be used for Indonesian tax purposes, and United Kingdom sourced income taxed at 33 percent.

An Indonesian / UK Branch Profit Tax rate of 10% has been assumed for 1996.

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

9) Fixed Assets - Tangible Assets

	1996 US\$'000
Properties, plant and equipment	
At 18 October 1995	0
Acquisition	10,245
Additions	2,704
Dry hole costs	0
At 31 December	<u>12,949</u>
Accumulated depreciation, depletion and amortization	
At 18 October 1995	0
Charged during the year	1,952
At 31 December	<u>1,952</u>
Net Book Value at 30 June	<u>10,997</u>

10) Debtors - Amounts Falling Due Within One Year

	1996 US\$'000
Fellow Subsidiary	3,460
Trade debtors	575
Other	131
	<u>4,166</u>

11) Creditors - Amounts Falling Due Within One Year

	1996 US\$'000
Parent	31
Taxation	283
Other	431
	<u>745</u>

12) Provisions

	1996 US\$'000
Dividend	<u>1,600</u>

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

13) Provisions for Liabilities and Charges

Deferred Taxation (see below)

	1996 US\$'000
At 18 October 1995	0
Transferred from profit and loss account	1,741
At 30 June	1,741

Deferred taxation, all of which has been provided in the financial statements, is as follows:

	1996 US\$'000
Tax effect of timing differences because of excess of tax allowances over related expenses for financial reporting purposes	1,485
Deferred Branch Profit Tax Liability	256

14) Called Up Share Capital

	1996 US\$'000
Authorized allotted and fully paid 251 ordinary shares of \$ 1.	0

15) Share Premium Reserve

	1996 US\$'000
Share premium reserve at the beginning of the period	0
Issue 100 shares at a premium of \$ 102,082.33 per share.	10,208
Share premium reserve at the end of the period	10,208

16) Ultimate Holding Company

The Directors regard Novus Petroleum Limited of Sydney, Australia, a company incorporated in Australia, as the ultimate parent undertaking as of 31 December 1996 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 into which these results are first consolidated is Novus UK (Indonesian Holdings) Limited, a company incorporated in England and Wales.

NOVUS UK (KAKAP 2) LIMITED

Notes to the Accounts (continued)

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.

18) Profit and Loss Account

	1996 US\$'000
Retained profits at the beginning of the period	0
Retained profit for the period	2,469
Dividends paid	0
Dividends provided	(1,600)
Retained profits at the end of the period	<u>869</u>

19) Reconciliation of Movements in Shareholder's Funds

	1996 US\$'000
Opening shareholder's funds	0
Profit for the period	2,469
Share Premium Reserve	10,208
Dividends paid	0
Dividends provided	(1,600)
Closing shareholder's funds	<u>11,077</u>

20) Segment Results

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.

REPORT OF THE AUDITORS

to the members of Novus UK (Kakap 2) Limited

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

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

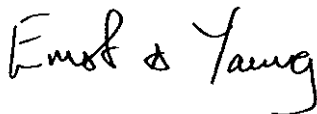
Basis of opinion

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 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 1996 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

4 August 1997