

NOVUS UK (MALACCA STRAIT) LIMITED

DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 DECEMBER 1997

Registered Number 509336



NOVUS UK (MALACCA STRAIT) LIMITED

Directors' Report

The Directors present their annual report and the audited accounts for the year ended 31 December 1997.

Business Review

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 Malacca Strait Production Sharing Contract.

Production

The Indonesian government has agreed to extend the Malacca Strait PSC to 2020 with improved terms applying from 1 January 1997.

Net production in 1997 has held up well at 2,466 bopd compared to 2,728 bopd in 1996. This has been despite the JV's reluctance to invest in long term projects pending renewal of the PSC. Now that tenure over Malacca Strait PSC is assured, the JV has plans to improve production through a series of initiatives. Firstly, an extensive 3D seismic survey is planned to locate new exploration targets and identify infill drilling targets in current fields. Secondly, drilling on larger exploration structures that could not be developed prior to 2000 has commenced. Thirdly, recent testing of the Menggala, a hitherto unproduced formation, has yielded very encouraging flows. Since many of our existing fields overlie potential Menggala reservoirs, they will be cheap and quick to develop if further testing is successful. And finally, gas exploration has been rejected in the past because of a lack of market and the requirement for long term planning. With the PSC renewal, and plans for a pipeline between Sumatra and Batam Island (and possibly on to Singapore), the JV now sees future opportunities for gas exploration once market conditions become more settled.

Results

The results for the year are summarised below:

	1997 US\$'000	1995 US\$'000
Turnover	17,386	19,440
Profit on ordinary activities before taxation	3,048	2,393
Tax on profit on ordinary activities	(1,312)	(1,511)
Profit for the year	1,736	882

NOVUS UK (MALACCA STRAIT) LIMITED

Directors' Report (continued)

Dividends

The following dividends declared in respect of the year ending 31 December 1996 or prior were paid during the year:

An interim dividend of AUD\$ 1,600,000 declared by the Directors in respect of the year ending 31 December 1995 was paid in January 1997.

An interim dividend of US\$ 790,000 declared by the Directors in respect of the year ending 31 December 1996 was paid in January 1997.

The following dividends have been declared in respect of the year ending 31 December 1997:

The Directors declared an interim dividend of US\$ 98.20 per share amounting to US\$ 491,000 to be paid to Novus UK (Indonesian Holdings) Limited no later than 31 August 1997. This dividend was paid in August 1997.

The Directors have declared a further interim dividend of US\$ 248 per share amounting to US\$ 1,240,000 to be paid to Novus UK (Indonesian Holdings) Limited no later than 30 April 1998. This dividend was paid in April 1998.

The Directors do not recommend payment of a final dividend in respect of 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.

Directors and their Interests

The Directors who served during the year were:

Jim T. Hornabrook	appointed	18 May 1995
Keith J. Goodwin	appointed	3 August 1995
Robert C. Williams	appointed	18 May 1995

None of the Directors had any interest in the share capital of the Company at 31 December 1997 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.

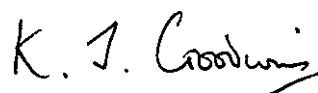
NOVUS UK (MALACCA STRAIT) LIMITED

Directors' Report (continued)

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
40 Lime Street
LONDON EC3M 5BS

July 27th, 1998

NOVUS UK (MALACCA STRAIT) LIMITED

Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts 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 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 (MALACCA STRAIT) LIMITED

Profit and Loss Account

Year Ended 31 December 1997

	NOTES	1997 US\$'000	1996 US\$'000
Turnover	3	17,386	19,440
Cost of sales	4	(14,323)	(17,481)
Gross Profit		3,063	1,959
Dry hole costs		(214)	0
Operating Profit		2,849	1,959
Exchange loss		(92)	0
Interest received from a Fellow Subsidiary		291	434
Profit on ordinary activities before taxation	7	3,048	2,393
Tax on profit on ordinary activities	8	(1,312)	(1,511)
Profit for the year		1,736	882
Dividends			
Ordinary dividends on equity shares		1,731	790
Profit retained for the financial year		5	92

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.

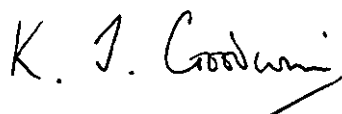
NOVUS UK (MALACCA STRAIT) LIMITED

Balance Sheet

31 December 1997

	NOTES	1997 US\$'000	1996 US\$'000
Fixed Assets			
Tangible assets	9	<u>4,687</u>	<u>3,040</u>
Current Assets			
Debtors	10	<u>5,225</u>	<u>7,978</u>
Current Liabilities			
Creditors - amounts falling due within one year	11	(422)	(1,594)
Provisions	12	<u>(1240)</u>	<u>(1,975)</u>
Net Current Assets		<u>3,563</u>	<u>4,409</u>
Total Assets Less Current Liabilities		8,250	7,449
Provisions for liabilities and charges	13	<u>(2,151)</u>	<u>(1,355)</u>
		<u>6,099</u>	<u>6,094</u>
Capital and Reserves			
Called up share capital	14	8	8
Profit and loss account	17	<u>6,091</u>	<u>6,086</u>
		<u>6,099</u>	<u>6,094</u>

Approved by the Board of Directors
on July 27th, 1998 and signed on its behalf by



K. J. Goodwin
Director

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

NOVUS UK (MALACCA STRAIT) 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 and with the preceding year 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 Parent Undertaking.

(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 recognised 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.

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.

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 Amortisation - The acquisition costs of proved properties are depleted by the unit-of-production method based on proved reserves. Other capitalised 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 Malacca Strait 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 (MALACCA STRAIT) 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.

(e) Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

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 are recorded on the entitlement method. Differences between actual production and entitlements result in a receivable when underlifting occurs and a payable when overlifting occurs.

Under the terms of the Malacca Strait 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. 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:

	1997 US\$'000	1996 US\$'000
Operating Costs	5,559	5,810
Royalty Expense	7,257	10,448
Depreciation, depletion and amortisation	1,278	850
Other	229	373
	<u>14,323</u>	<u>17,481</u>

NOVUS UK (MALACCA STRAIT) LIMITED

Notes to the Accounts (continued)

5) Employee Information

The Company had no employees, other than directors, during 1997 and 1996. Certain services were provided by the Novus Management Services Pty Limited, a related company on behalf of Novus UK (Malacca Strait) Limited. A service charge of US\$ 156,835 has been included in the accounts to reflect the services provided by this Company (1996 US\$ 311,645).

6) Directors Remuneration

The Directors who served during the year ended 31 December 1997 received no fees or remuneration from the Company and were Directors or senior executives of the Novus Group of Companies.

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

	1997 US\$'000	1996 US\$'000
Auditors' remuneration	0	0

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

8) Taxation

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

	1997 US\$'000	1996 US\$'000
United Kingdom		
Under / (over) provision prior year	2	0
UK corporation tax	396	893
Less: Double tax relief	(303)	(745)
	95	148
Indonesia		
Under / (over) provision prior year	0	0
Current	421	935
Deferred	796	428
	1,312	1,511

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 1997 and 1996 provisions 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 31.5 percent (33 percent in 1996).

An Indonesian / UK Branch Profit Tax rate of 10% has been assumed for 1997 (1996 10%).

NOVUS UK (MALACCA STRAIT) LIMITED

Notes to the Accounts (continued)

Any residual UK tax liability is assumed to be settled through the availability of Group Relief from the Parent entity or its wholly owned subsidiaries.

9) Fixed Assets - Tangible Assets

	1997 US\$'000	1996 US\$'000
Properties, plant and equipment		
At 1 January	91,395	90,570
Additions	3,139	825
Dry hole costs	(214)	0
At 31 December	<u>94,320</u>	<u>91,395</u>
Accumulated depreciation, depletion and amortisation		
At 1 January	88,355	87,505
Charged during the year	1,278	850
At 31 December	<u>89,633</u>	<u>88,355</u>
Net Book Value at 31 December	<u>4,687</u>	<u>3,040</u>

10) Debtors - Amounts Falling Due Within One Year

	1997 US\$'000	1996 US\$'000
Fellow subsidiary	4,925	7,023
Trade debtors	17	917
Other	283	38
	<u>5,225</u>	<u>7,978</u>

11) Creditors - Amounts Falling Due Within One Year

	1997 US\$'000	1996 US\$'000
Parent	93	148
Taxation	4	224
Other	325	1,222
	<u>422</u>	<u>1,594</u>

12) Provisions

	1997 US\$'000	1996 US\$'000
Dividend	<u>1,240</u>	<u>1,975</u>

NOVUS UK (MALACCA STRAIT) LIMITED

Notes to the Accounts (continued)

13) Provisions for Liabilities and Charges

	Deferred Taxation (see below)	
	1997 US\$'000	1996 US\$'000
At 1 January	1,355	927
Transferred (to) from profit and loss account	796	428
At 31 December	<u>2,151</u>	<u>1,355</u>

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

	1997 US\$'000	1996 US\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over related expenses for financial reporting purposes	1,731	987
Deferred Branch Profit Tax Liability	<u>420</u>	<u>368</u>
	<u>2,151</u>	<u>1,355</u>

14) Share Capital

	1997 US\$'000	1996 US\$'000
Authorised, allotted, called up and fully paid 5000 ordinary shares of £1 translated at the 31 December 1982 rate of exchange of US\$1.62/£1	<u>8</u>	<u>8</u>

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 1997 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.

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.

NOVUS UK (MALACCA STRAIT) LIMITED

Notes to the Accounts (continued)

17) Profit and Loss Account

	1997 US\$'000	1996 US\$'000
	0	
Retained profits at the beginning of the year	6,086	5,994
Retained profit for the year	1,736	882
Dividends provided and paid	(491)	0
Dividends provided	(1,240)	(790)
Retained profits at the end of the year	<u>6,091</u>	<u>6,086</u>

18) Reconciliation of Movements in Shareholder's Funds

	1997 US\$'000	1996 US\$'000
	0	
Opening shareholder's funds	6,094	6,002
Profit for the year	1,736	882
Dividends provided and paid	(491)	0
Dividends provided	(1,240)	(790)
Closing shareholder's funds	<u>6,099</u>	<u>6,094</u>

19) 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 (Malacca Strait) 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.

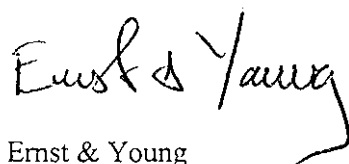
Basis of opinion

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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Ernst & Young', written in a cursive style.

Ernst & Young
Chartered Accountants
Registered Auditor
London

27 July 1998