

NOVUS UK (MALACCA STRAIT) LIMITED

DIRECTORS' AND AUDITORS' REPORTS AND ACCOUNTS

31 DECEMBER 1998

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 1998.

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 Malacca Strait Production Sharing Contract.

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

Production

The amended terms of the PSC became effective on 1 January 1998, as part of the agreement relating to the PSC extension.

Net production has again held up well at 2,373 bopd for 1998 compared to 2,466 bopd in 1997. This represents only 4% decline in production, an excellent result for a mature asset. 1998 saw the drilling of the first horizontal development wells in the PSC. Three horizontal wells were drilled on producing oil fields, AI and BK, which are part of the Selatan development. In addition a small gas field, Kuat was developed for an internal gas fuel project. Exploration drilling was put on hold during the year, pending the results of a large 3D survey that was acquired during the year. Processing and interpretation of the survey will be carried out throughout 1999 and may result in a new drilling campaign in 2000. In the mean time the operator is concentrating on production optimisation in the field and has some small projects planned for 1999 that will contribute to the maintenance of production levels throughout the coming year.

Results

The results for the year are summarised below:

	1998 US\$'000	1997 US\$'000
Turnover	11,034	17,386
Profit on ordinary activities before taxation	1,552	3,048
Tax on profit on ordinary activities	(648)	(1,312)
Profit for the year	904	1,736

NOVUS UK (MALACCA STRAIT) LIMITED

Directors' Report (continued)

Dividends

An interim dividend of AUD\$ 1,240,000 declared by the Directors in respect of the year ending 31 December 1997 was paid in April 1998.

The Directors do not recommend payment of a final dividend 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:

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

None of the Directors had any interest in the shares of the Company at 31 December 1998 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.

Millenium IT Risk

Given the nature and size of Novus UK (Malacca Strait) Limited, the directors confirm that the Millenium IT risk will not have a significant effect on the company. The company has however actively encouraged the operator of the Malacca Strait Joint Venture to employ best practice in developing its Year 2000 strategy and contingency plans.

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 1998, the company had an average of 45 days purchases outstanding in trade creditors.

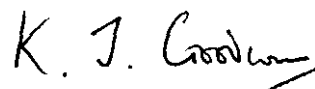
NOVUS UK (MALACCA STRAIT) LIMITED

Directors' Report (continued)

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 1999

NOVUS UK (MALACCA STRAIT) LIMITED

Statement of Directors' Responsibilities in Respect of the Accounts

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.

The Directors confirm that they have complied with these requirements.

NOVUS UK (MALACCA STRAIT) LIMITED

Profit and Loss Account

For the Year Ended 31 December 1998

	NOTES	1998 US\$'000	1997 US\$'000
Turnover	3	11,034	17,386
Cost of sales	4	<u>(9,692)</u>	<u>(14,323)</u>
Gross Profit		1,342	3,063
Dry hole costs		-	<u>(214)</u>
Operating Profit	7	1,342	2,849
Exchange loss		-	(92)
Interest received from a Fellow Subsidiary		203	291
Interest received from other parties		<u>7</u>	<u>-</u>
Profit on ordinary activities before taxation		1,552	3,048
Tax on profit on ordinary activities	8	<u>(648)</u>	<u>(1,312)</u>
Profit for the year		<u>904</u>	<u>1,736</u>
Dividends			
Ordinary dividends on equity shares		-	<u>(1,731)</u>
Profit retained for the financial year		<u>904</u>	<u>5</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.

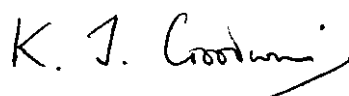
NOVUS UK (MALACCA STRAIT) LIMITED

Balance Sheet

At 31 December 1998

	NOTES	1998 US\$'000	1997 US\$'000
Fixed Assets			
Tangible assets	9	<u>5,793</u>	<u>4,687</u>
Current Assets			
Debtors – amounts falling due within one year	10	<u>4,090</u>	<u>5,225</u>
Current Liabilities			
Creditors - amounts falling due within one year	11	<u>(151)</u>	<u>(1,662)</u>
Net Current Assets		<u>3,939</u>	<u>3,563</u>
Total Assets Less Current Liabilities		9,732	8,250
Provisions for liabilities and charges	12	<u>(2,729)</u>	<u>(2,151)</u>
		<u>7,003</u>	<u>6,099</u>
Represented by:			
Capital and Reserves			
Called up share capital	13	8	8
Profit and loss account	16	<u>6,995</u>	<u>6,091</u>
Shareholders' Funds – Equity Interest		<u>7,003</u>	<u>6,099</u>

Approved by the Board of Directors
on October 19th, 1999 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 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 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 for decommissioning is made in the accounts.

NOVUS UK (MALACCA STRAIT) 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.

(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 arising on re-translation are taken to the profit and loss account.

(f) Year 2000 Costs

The directors are confident that given the nature and size of Novus UK (Malacca Strait) Limited, that the Millenium IT risk will not have a significant effect on the company. Accordingly, software modification costs have been borne by the Ultimate Parent Undertaking, Novus Petroleum Limited

(g) Euro Conversion Costs

The company transacts business substantially in United States dollars. To this end, European monetary union is not expected to have a significant impact on the company and no costs have been incurred in preparing for this.

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.

NOVUS UK (MALACCA STRAIT) LIMITED

Notes to the Accounts (continued)

4) Cost of Sales

	1998 US\$'000	1997 US\$'000
Operating Costs	3,647	5,559
Royalty Expense	3,757	7,257
Depreciation, depletion and amortisation	724	1,278
Other	1,564	229
	<u>9,692</u>	<u>14,323</u>

5) Employee Information

The Company had no employees, other than directors, during 1998 and 1997.

6) Directors Remuneration

The Directors who served during the year ended 31 December 1998 received no fees or remuneration for their services as directors of the company (1997 - \$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:

	1998 US\$'000	1997 US\$'000
United Kingdom		
UK corporation tax	70	398
Less: Double tax relief	<u>(70)</u>	<u>(303)</u>
	-	95
Indonesia		
Current	70	421
Deferred	<u>578</u>	<u>796</u>
	<u>648</u>	<u>1,312</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 31% (1997 - 31.5%) on the taxable profits for the year and is fully covered by double tax relief.

An Indonesian / UK Branch Profit Tax rate of 10% has been assumed for 1998 (1997 10%).

NOVUS UK (MALACCA STRAIT) LIMITED

Notes to the Accounts (continued)

9) Fixed Assets - Tangible Assets

	1998 US\$'000	1997 US\$'000
Properties, plant and equipment		
At 1 January	94,320	91,395
Additions	1,830	3,139
Dry hole costs	-	(214)
At 31 December	<u>96,150</u>	<u>94,320</u>
Depreciation, depletion and amortisation		
At 1 January	89,633	88,355
Charge for the year	724	1,278
At 31 December	<u>90,357</u>	<u>89,633</u>
Net Book Value at 31 December	<u>5,793</u>	<u>4,687</u>

10) Debtors - Amounts Falling Due Within One Year

	1998 US\$'000	1997 US\$'000
Trade Debtors	253	17
Fellow subsidiary undertakings	3,641	4,925
Other	196	283
	<u>4,090</u>	<u>5,225</u>

11) Creditors - Amounts Falling Due Within One Year

	1998 US\$'000	1997 US\$'000
Parent	-	93
Taxation	70	4
Dividends Payable	-	1,240
Trade	81	325
	<u>151</u>	<u>1,662</u>

NOVUS UK (MALACCA STRAIT) 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:

At 1 January
Charge for the year
At 31 December

1998 US\$'000	1997 US\$'000
2,151	1,355
578	796
<u>2,729</u>	<u>2,151</u>

The potential liability for deferred taxation is:

Accelerated capital allowances
Deferred Branch Profit Tax Liability

1998 US\$'000	1997 US\$'000
2,299	1,731
430	420
<u>2,729</u>	<u>2,151</u>

All of which has been provided for in the accounts for the year ended 31 December 1998.

13) Share Capital

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

1998 US\$'000	1997 US\$'000
8	8

14) 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 1998 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.

15) 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)

16) Profit and Loss Account

	1998 US\$'000	1997 US\$'000
At 1 January	6,091	6,086
Profit for the year	904	1,736
Dividends	-	(1,731)
At 31 December	<u>6,995</u>	<u>6,091</u>

17) Reconciliation of Movements in Shareholder's Funds

	1998 US\$'000	1997 US\$'000
At 1 January	6,099	6,094
Profit for the year	904	1,736
Dividends	-	(1,731)
At 31 December	<u>7,003</u>	<u>6,099</u>

18) Related party transactions

Certain services were provided by Novus Management Services Pty Limited, a related company on behalf of Novus UK (Malacca Strait) Limited. A service charge of US\$ 214,931 has been included in the accounts to reflect the services provided by this Company (1997 US\$ 156,835).

REPORT OF THE AUDITORS
to the members of Novus UK (Malacca Strait) 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. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

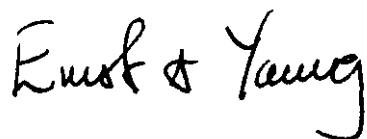
Basis of opinion

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 group'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 1998 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 1999