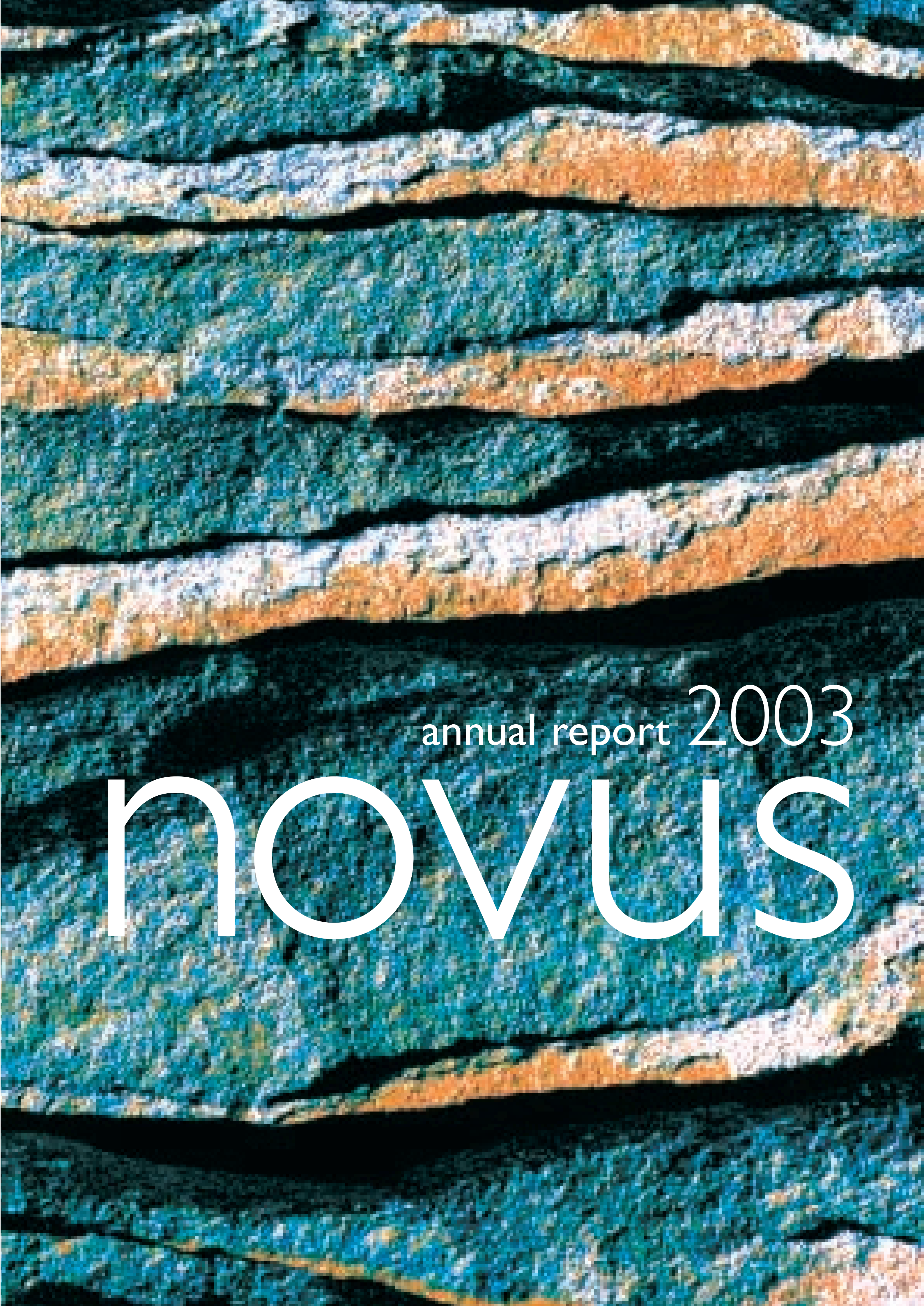
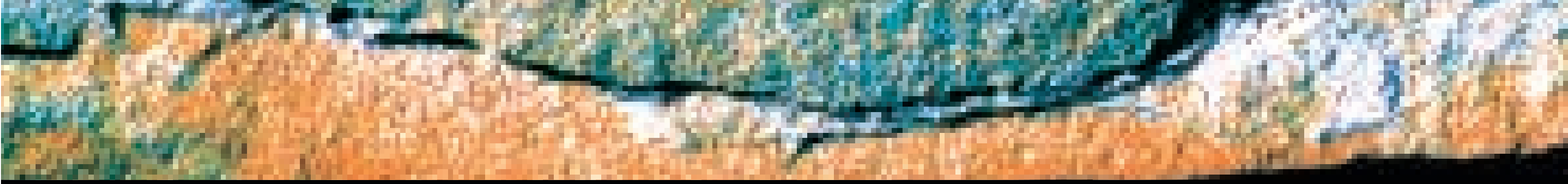


annual report 2003

novus



2003 operational highlights

- Returned a net profit of $12.3 million and operating profit increased 40% to $29.4 million
- Drilled first operated well in the United States which resulted in a gas discovery which was flowing at over 6 million cubic feet per day at year end
- Gained operatorship with acquisition of additional interest at Sorrento Dome property in onshore Louisiana
- Commenced active infill drilling programme and overhaul of gas gathering system at Stratton Field in onshore South Texas which has already led to increased production
- Expanded presence in Gulf of Mexico with acquisition of East Cameron 317/318 and Main Pass 64/65
- Drilled sidetrack and worked over a well at Main Pass which added gas reserves and increased oil production within a few months of acquiring property
- Spudded well to test the La Playa Deep prospect, the first of six planned deep exploration tests at Padre Island
- Fourth consecutive year of increased gas production at Brantas PSC in onshore East Java through successful development drilling; exceeded original full year production estimate
- Undertook onshore seismic acquisition programme over Northern Arabian Gas-Condensate Play which was completed in early 2004 with over 1,000 km acquired.

annual general meeting

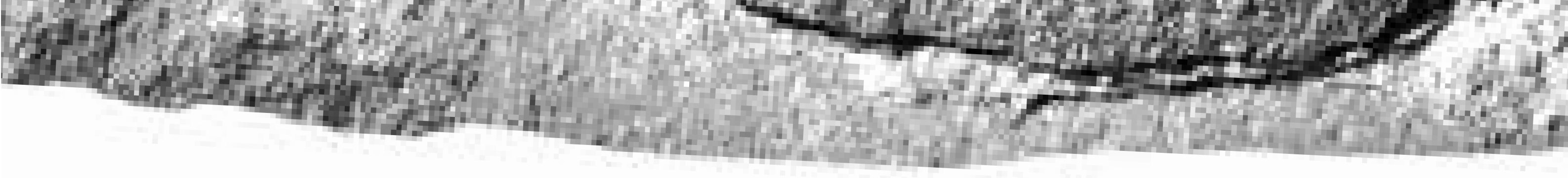
This year’s AGM will be held at the Grace Hotel, in Pinaroo rooms 4 and 5, 77 York Street, Sydney on 31 May 2004 commencing at 10am. A formal notice will be mailed to shareholders with the distribution of this report.

annual report for 2003 Novus Petroleum Limited

ABN 17 067 777 440

contents

Notes to and forming part of the Financial Statements



review of operations and activities

for period 1 January 2003 to 31 March 2004

The review of operations and activities for the period 1 January to 31 December 2003 has already been published in the Novus Petroleum Limited Annual Financial Report for the year ended 31 December 2003, and attached here. This operational update covers subsequent events that occurred between 1 January and 31 March 2004.

Novus has been the subject of two off-market takeover bids during the first quarter of 2004.

On 22 December 2003 Indonesian oil and gas company PT Medco Energi Internasional Tbk announced an unsolicited off-market takeover bid by a wholly-owned subsidiary (Medco Energi (Australia) Pty Limited) for all the issued share capital of Novus at $1.74 per share (“Medco Bid”). On 19 January 2004 Dr. R.C. Williams, Chief Executive Officer of Novus together with Hong Kong based investment banking group Crosby Capital Partners (the “Crosby Group”) announced their intention to make a bid for Novus at $1.77 per share through a new company called Sunov Petroleum Pty Ltd (“Sunov Bid”).

Novus released its Target’s Statement in response to the Medco Bid on 23 January 2004 and its Target’s Statement in response to the Sunov Bid on 31 March 2004.

In both cases each of the Independent Directors, David Blair, Jim Hornabrook and Steve Mann, recommended that shareholders reject the offers. The reasons for reaching this recommendation are set out in the Target’s Statement responding to each offer.

US Region

On 31 December Novus spudded the La Playa Mid Frio #1 well at Padre Island in Texas. This well was drilled to 15,040 ft measured depth and a liner was run to total depth. A number of gas shows were encountered during drilling, and wireline logs and sidewall cores suggest that these may be associated with pay in five zones of interest associated with laminated sands and shales. There were evidently no thick, well-developed sands in the well, however. Flow testing is required to determine if a commercial discovery has been made and a testing programme has been planned. Testing will be conducted using a smaller rig and testing of the various zones is expected to take several weeks during the second quarter of the year.

The La Playa Deep prospect is the first deep prospect to have been validly tested by a well at Novus’ Padre Island acreage. Novus’ plans remain to drill a further five wells on this acreage during 2004, targeting similar style prospects each with the potential to contain over 100 bcf of natural gas. Novus has continued its efforts to farm out these remaining prospects, and a number of companies are at various stages of evaluating these opportunities. Novus is planning to commence drilling the next prospect, Homerun, in early April 2004 irrespective of whether or not a farmin partner can be found.

Novus commenced exploitation activity at Main Pass during February. A sidetrack on the temporarily abandoned OCS-G-5093 #5 well was drilled. This well intersected several shallow gas sands which had previously been identified on logs but never completed. The well was brought on-line and, as of the date of this review, was unloading fluid lost during completion while flowing gas at a rate of 6 mmscfd. Additionally the Main Pass 64 #10 well was plugged back from the 7300 ft sand to the 6900 ft sand and re-completed. The well was brought on-line on 10 March 2004 and as at 31 March 2004 was choked back at a stable rate of 300 bopd and 0.35 mmscfd.

The infill drilling programme and work on the gas gathering system at Stratton in South Texas has contributed to increased production from the field (from 23.9 mmscfd at the start of the year to 27.1 mmscfd on 26 March 2004). To date 8 wells in this programme have been successfully drilled.

The NUL 13#1 well, on the Sorrento Dome onshore Louisiana, flowed for most of the quarter at approximately 6.5 mmscfd, but in the last few days of March suffered a sudden increase in water production with gas production reduced to less than 5 mmscfd. Evaluation in early April (as this report went to press) suggested that this is due to a mechanical failure in the well which may lead to some short term production loss and additional costs, but should not affect the ultimately recoverable reserves from the well.

NUL 14#1ST2 has been successfully drilled to a depth of 9,033 ft MD and logged 74 ft of MD pay. Completion operations are under way. Plans are to sidetrack the NUL 11#1 immediately after the 14#1ST2 is completed for production. The NUL 14#1ST2 is anticipated to be on production within 4-6 weeks.

Novus plans to commence its East Cameron 317/318 drilling programme in the near future.

Middle East

The 2D land seismic acquisition programme in Oman and the U.A.E. was completed. Novus has acquired a total of 1071km of seismic during this programme and several leads have been elevated to prospect status as a result. The seismic acquisition has more than satisfied the seismic work commitments of the blocks, and farmout discussions with several parties in respect of this acreage are in hand.

Indonesia

In Brantas, one development well on the Wunut gas field was completed and brought on stream during the quarter. A second well was completed and will be brought on stream in the second quarter. The Operator, Lapindo Brantas Inc., has proposed that two new exploration wells be drilled in 2004 at two locations in the "West Wunut" area to the west of the main Wunut field. Novus has agreed to add these wells to the programme. Operator is also seeking JV approval to drill a number of additional exploration and appraisal wells at other locations both onshore and offshore as part of the 2004 work programme.

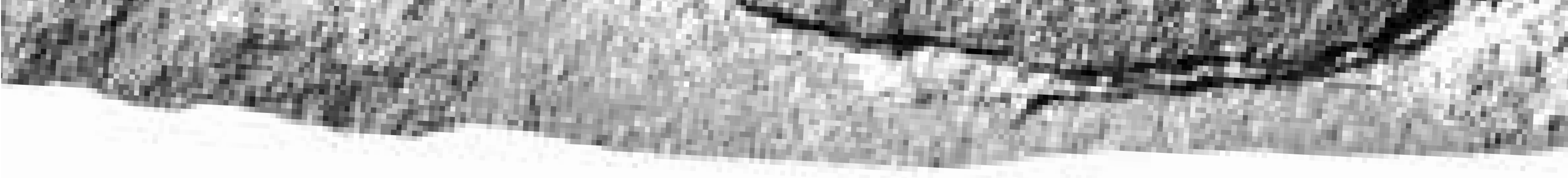
Meanwhile, discussions continue with the Indonesian authorities to grant approval for the development of the Tanggulangin field.

Australia

On 1 January 2004 there was a gas leak, followed by a fire at the Moomba processing facility in the Cooper Basin. There were no injuries. The incident resulted in the shut-down of the gas processing plant until the problem and its cause could be identified. In February Santos, the operator of Moomba, announced that gas supplies would return to normal ahead of schedule and in excess of initial estimates. By the end of the quarter, gas production and sales levels from the SACB were back to the nominal pre-incident levels. However, liquids sales continued to be significantly below forecast as gas-liquids were not being separated but left mixed in with the sales gas.

An insurance claim in respect of the losses due to the incident is being processed by Santos on behalf of the JV. Novus has announced that the incident is expected to reduce the Company's net profit after tax for the 2004 financial year by $2.0 million, and net cash flow by $2.5 million.

1 April 2004



financial report

for year ended 31 December 2003 Novus Petroleum Limited

ABN 17 067 777 440

DIRECTORS' REPORT

The directors hereby submit their financial report for the year ended 31 December 2003.

Website

This report contains statutory information and the financial results of Novus Petroleum Limited for the year 2003. Comprehensive information relating to the Company, including its assets and operations, personnel and all share market releases made to the Australian Stock Exchange, is available on the Company's website www.novuspetroleum.com.

Principal activities

During the year the principal activities of entities within the consolidated entity were the exploration for and production of crude oil, natural gas and associated liquids. No significant changes in the nature of these activities occurred during the year.

Results

The consolidated profit attributable to members of Novus Petroleum Limited for the financial year was $12.3 million (2002 – $34.0 million loss). This represents earnings per share of 6.7¢ after deducting non-operating losses from the operating profit per share of 9.3¢. A comparison with the prior year is set out in the following table.

	2003 Earnings per share ¢	2002 Earnings per share ¢
Profit after tax from operating activities	**16.0**	11.4
Loss after tax from non-operating activities	**(9.3)**	(29.9)
Consolidated profit/(loss) after tax	**6.7**	(18.5)

During 2003, the company was able to build upon the foundations of the strategy which had been laid in the preceding two years of refocusing the business on discovering, producing and selling gas in prime, lower-risk gas markets. The results of this process are manifest in the reduction of operating costs through the sale of mature producing properties, and in particular the significant revenue and earnings growth of the company's US operations, in part via acquisition of producing acreage and in part via successful exploration and development drilling.

These activities during the 2003 financial year are representative of the company diverting new investment towards the cost-effective acquisition of reserves in the USA, and certain countries in the Arabian Peninsula. This is largely an exploration-led strategy with a large proportion of the Company's available discretionary cash flows now directed towards this activity. On the other hand, the obligatory work and spending commitments on these newly acquired exploration areas are modest, imparting a great deal of flexibility in the exploration programs currently being executed. Large working interests have been acquired intentionally as they give the ability to manage capital deployment further by farming out. An example of this is the restructure of the Padre Island Joint Venture which saw Novus assume operatorship and a 70% working interest in most of the leases over the acreage.

A consequence of the Company's strategy is that exploration write-downs are likely to continue during this high investment phase due to the statistical inevitability of at least some failures. This is highlighted by our policy of writing off dry exploration wells as incurred, which we have always applied.

In the past, Novus has traded assets as part of its strategy, and this will continue where appropriate. Thus whilst no properties are actively being offered for sale, the Company is always on the lookout for circumstances that could lead to asset sales at attractive prices, particularly in areas of downgraded strategic importance. The sale at the end of 2002 of the Company's former interest in the Malacca Strait property in Indonesia fell into this category.

The revised strategy also contemplates the purchase of existing reserves and production where intrinsic value can be demonstrated and business synergies exist. Accordingly, during the second half of 2003, Novus completed the acquisition of several properties in the United States including:

- Burlington's interests in Sorrento Dome (taking our total working interest to 63%);
- Newfield's 41.8% working interest in East Cameron (EC317/318); and
- A further 58.2% working interest in the above East Cameron blocks and a 79.4% working interest in Main Pass (MP 64/65) (and with these interests, operatorship).

The earnings derived from these properties will be directed towards the funding of development drilling and exploration programs in the USA and the Middle East.

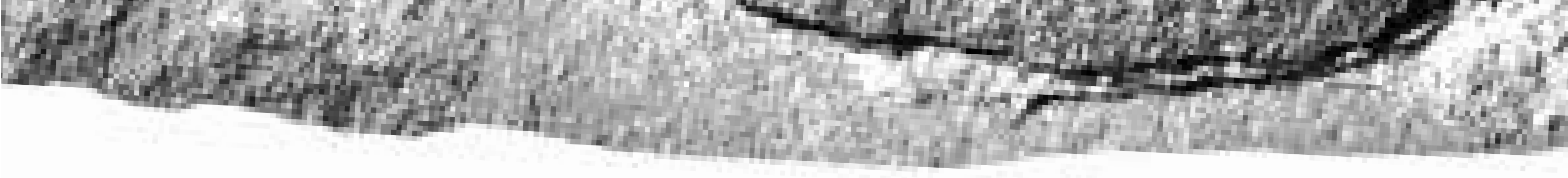
A detailed discussion of the group's earnings performance, financial position and cash flows is included at pages 15-17 under the heading of Discussion and Analysis of Financial Results.

Dividends paid or recommended

During the year no dividends were paid and the directors are recommending that no dividend be paid for the year ended 31 December 2003. Novus Petroleum Limited would have $3,200,000 in franking credits available upon entry, on 1 January 2004, into the tax consolidation regime.

The directors believe that it is in the best interests of the shareholders to deploy funds elsewhere that might otherwise have been paid as dividends. Novus is currently engaged in a significant exploration programme that the directors believe should significantly increase the Company's petroleum reserves. Successful reserves growth through efficient exploration would add significant value for shareholders.

Decisions with regard to future dividends or other capital returns will be made on an annual basis taking into consideration the financial circumstances of the Company at the time.



Directors

The names and details of the directors of the Company in office during the financial year and until the date of this report are:

D.H. Blair, LLB, FAICD – Non Executive Chairman (Age 55)

An investment banker for more than 25 years, Mr Blair was Deputy Managing Director of Indosuez Australia Limited and head of its natural resources financing activities. Mr Blair was appointed to the Board of Novus on 19 January 1995 and has been Chairman since November 1999. Mr Blair is Chairman of the Remuneration Committee and a member of the Audit Committee.

J.T. Hornabrook, BSc, DIC, FAICD – Non Executive Director (Age 72)

Mr Hornabrook brings more than 46 years of experience working in the international petroleum sector, particularly the Southern Asia region. Mr Hornabrook was an executive director of Monument Oil & Gas. He was appointed as a director of Novus on 17 March 1995 and is a member of the Remuneration Committee.

J.S. Mann, BSc, MBA – Non Executive Director (Age 46)

Mr Mann is currently Executive Vice-President Strategy and Business Development with Bluescope Steel Ltd. Prior to this, he was Executive General Manager, Customer Services, Qantas Airways Limited. He has held a number of senior roles with the TNT group in Australia and with Bass PLC and the LEK Partnership in England. Mr Mann commenced his career as an engineer in Norway with responsibility for offshore oil developments. Mr Mann was from 1997 until early 2000 a founding director of Australian Worldwide Exploration NL. He was appointed a director of Novus on 3 April 2000 and is Chairman of the Audit Committee and a member of the Remuneration Committee.

N. Tsuruta, BSc – Non Executive Director (Age 54) – Appointed 26 August 2003

Mr Tsuruta is currently based in Tokyo and is in charge of Mitsui's global E&P business development, as General Manager of the E&P division. Mr Tsuruta has undertaken a variety of trading and business development positions over 20 years in the upstream and downstream energy business with Mitsui. He has broad international business experience throughout Australia, the Middle East, South East Asia, Europe and the USA. He has worked in New York, London and more recently he was based in Singapore where he was President of Mitsui Oil Asia Pte. Ltd. (Singapore).

S. Takahashi, BCom – Non Executive Director (Age 61) – Resigned 26 August 2003

Mr Takahashi is currently Executive Senior Managing Director of Mitsui Oil Exploration Co., Limited with responsibilities in corporate planning and projects & new ventures. He has extensive international experience with Mitsui having worked in Tokyo, London and Los Angeles and representing Mitsui in several LNG joint ventures, including the Australian NW Shelf, Abu Dhabi and Qatar and was a director for Abu Dhabi Gas Liquefaction Co., Limited and Qatar Liquefied Gas Co., Limited.

R.C. Williams, PhD, BSc, FAICD, FGS – Managing Director (Age 54)

Dr Williams has over 25 years experience in the upstream oil and gas industry including an extensive international career with British Petroleum. In 1987 he was appointed General Manager, and subsequently a director, of Oil Search Limited. Dr Williams was appointed as a director of Novus on 19 January 1995 and Managing Director on 17 March 1995, and is a member of Novus' Audit Committee.

Directors' meetings

During the financial year 9 directors' meetings, 5 audit committee meetings and 4 remuneration committee meetings were held. The number of meetings in which directors were in attendance is shown in the table below.

	Directors' Meetings	Audit Committee[1]	Remuneration Committee[2]	Nomination Committee[3]
Number of meetings held:	9	5	4	–
Number of meetings attended:				
D.H. Blair	9	5	4	–
J.T. Hornabrook	9	1[a]	4	–
J.S. Mann	9	5	4	–
S. Takahashi	6	1[a]	1[a]	–
N. Tsuruta	3	–	–	–
R.C. Williams	9	5	3[a]	–

1. The members of the Audit Committee are J.S. Mann (Chairman), D.H. Blair and R.C. Williams.
2. The members of the Remuneration Committee are D.H. Blair (Chairman), J.T. Hornabrook and J.S. Mann.
3. On 18 September 2003, a Nominations Committee was established by the Board of Directors for the purpose of assessing and making recommendations to the Board regarding membership of the Board. The members of the Nominations Committee are D.H. Blair (Chairman), R.C. Williams and J.S.Mann. No meetings of this committee were held in 2003.

a. By invitation

Note - S. Takahashi and N. Tsuruta attended all meetings they were eligible to attend.

Insurance of directors

During the financial year the Company paid premiums to insure all directors and officers of the Company against claims brought against the individual while performing services for the Company and against expenses relating thereto. The amount of insurance premium paid during the period has not been disclosed as it would breach the confidentiality clause in the insurance policy.

Directors' interests

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	Fully paid shares[1]	EOP 6 Options[2]	ESOP 08.06.05 Options[3]
D.H. Blair	128,802	–	–
J.T. Hornabrook	118,375	–	–
J.S. Mann	13,500	–	–
N. Tsuruta	–	–	–
R.C. Williams	1,459,896	500,000	1,500,000

1. Held beneficially.
2. EOP 6 Options are exercisable at $1.44 from 16 June 2000 to 16 June 2004, at which time they lapse. Exercise of these options is subject to a share price related performance condition which has now been met.
3. ESOP 08.06.05 Options are exercisable at $1.46 from 9 June 2002 to 8 June 2005, at which time they lapse. Exercise of these options is subject to meeting certain performance conditions including Novus' total shareholder return performance compared with a peer group of companies. These conditions have been met to the extent that 750,000 of the ESOP 08.06.05 Options became exercisable. Due to the takeover offer, and following a Board resolution on 30 December 2003, the remaining options have also become exercisable.

Share options

Executives’ share options

Options are issued to executive directors and employees under the Executive Share Option Scheme (“the Scheme”) as an incentive scheme to reward employees if the Company’s share price achieves significant growth. At the time of each issue, the Directors determine the employees who are entitled to participate in the Scheme, the period during which the options may be exercised and other conditions that may need to be satisfied before the option can be exercised. Each option represents the right to acquire 1 ordinary share.

There were no options issued during the 2003 financial year, but during the financial year 198,167 employee options, with an average exercise price of $1.67, expired due to staff leaving the Company’s employment.

Supplier options

During the financial year 400,000 supplier options were exercised at a price of $0.50. No supplier options were issued during the year ended 31 December 2003.

Options on issue

At 31 December 2003 and at the date of this report there were 3,782,332 Employee options and 125,000 Supplier options outstanding that represent the right to acquire ordinary shares in the Company. Details of these options are contained in Note 19 to the financial report.

General

Due to the current takeover offer, and following a resolution of the Board on 30 December 2003, a written notice was issued to all option holders on 5 January 2004 informing them that all options have become exercisable immediately.

The names of all holders of options are entered in a register maintained by the Company, which may be inspected free of charge by shareholders.

No person entitled to exercise these options had or has any right, by virtue of the option, to participate in any share issue of any other body corporate.

No options have been issued since 1 January 2003.

Directors’ and other officers’ emoluments

The Remuneration Committee (“the Committee”) of the Board of Directors is responsible for reviewing compensation for directors and staff and recommending compensation levels to the Board. The Committee periodically assesses the appropriateness of the nature and amount of emoluments by reference to relevant employment market conditions, with the overall objective of maximising shareholder benefit by the retention of high quality personnel.

To achieve these objectives the Board links the nature and amount of executives’ and other staff emoluments to the Company’s financial and operational performance. The Staff Incentive Scheme provides cash bonus incentives when criteria relating to return on shareholders’ funds, reserves replacement and other growth targets are met. In addition, the Executive Share Option Scheme is applied to certain senior staff (see the section *Share Options* of this report).

The Employee Share Award Plan allows tax effective equity incentives of up to $1,000 per annum per Australian-based employee to be granted. An offer was made on 19 January 2004 to receive $1,000 worth of Novus shares. Nineteen employees elected to participate and the shares were subsequently bought on-market.

The nature and amount of each element of the emolument for the financial year of each director and of the five officers of the Group receiving the highest emolument are as follows:

Emoluments of Directors

	Annual				Long Term[3]	Total
	Base $	Bonus $	Options[1] $	Other[2] $	$	$
R.C. Williams	600,000	150,000	138,621	123,645	54,000	1,066,266
D.H. Blair	90,000	–		–	8,100	98,100
J.T. Hornabrook	79,714	–		–	–	79,714
J.S. Mann	60,000	–		–	5,400	65,400
S. Takahashi	38,959				–	38,959
N. Tsuruta	21,041	–		–	–	21,041

Emoluments of the 5 most highly paid officers

	Annual				Long Term[3]	Total
	Base $	Bonus $	Options[1] $	Other[2] $	$	$
M.J. Sandy	484,818	88,404	17,132	92,869	28,997	712,220
J.E. Slatten	321,330	163,740	–	14,373	–	499,443
P.D. Sadler	313,101	30,373	17,132	127,550	–	488,156
H.H. Wilson	336,060	139,620	–	–	–	475,680
M.W. Royle	267,963	52,253	87,931	–	24,117	432,264

1. There have been no options issued during the year. Disclosures relate to options issued in prior periods which remain outstanding at balance date. These notional emoluments have been valued using the Black-Scholes option pricing model, which takes account of factors such as the option exercise price, the current level of volatility of the underlying share price at the period of issue and the time to maturity of the option. These notional amounts have neither been paid to the individuals named, nor expensed through the Statement of Financial Performance.
2. Includes, where applicable, overseas housing, allowances and accompanied travel.
3. Includes retirement benefits.

Corporate governance

Since its inception the Company has consistently placed great importance on the governance aspects of Novus, and as a result Novus has a well established and comprehensive framework of corporate governance guidelines which are designed to properly balance performance and conformance. Novus, although not required to report against the ASX Corporate Governance Council Best Practice Recommendations until 2005, has undertaken a thorough review of its corporate governance practices and policies and is substantially compliant.

Novus continues to apply the highest standards of corporate governance practice, and as a result no major changes to Novus' existing corporate governance structure were made. After careful consideration the Directors decided to form a nominations committee and various minor changes to policies and the board committee charters were made prior to the beginning of the 2004 financial year.

The Company's Corporate Governance Statement is provided in this Annual Report on pages 48-51.

Environmental performance and regulation

The Board has approved written policies on Health, Safety and Environment ("HSE") which are circulated to staff at all locations.

Novus participates in ventures which are parties to various Production Sharing Contracts and exploration and development licences. These contracts and licences specify the environmental regulations applicable to the exploration, construction and operations of petroleum assets in the respective jurisdictions. The Board's objective is to adopt environmental practices at least equal to those required for similar activities in Australia. For properties operated by other companies, this can only be achieved by active encouragement and monitoring of their performance.

Similarly, the Board strives to achieve the highest standards of health and safety throughout its operations. At Novus' own offices and sites, Novus Group Policies are applied directly. Where Novus is not operator, the Board's policy is to ensure that, at the minimum, the operator's standards comply with local regulations and preferably match or exceed Australian standards with respect to the work place.

In addition, where incidents do occur the circumstances surrounding the incident are followed up to ensure adherence to HSE procedures and to implement improvements where possible.

Regular reporting to the Board on HSE is included in the Company's monthly reporting process and at board meetings.

Significant changes in the state of affairs

No significant change in the state of affairs of the consolidated entity occurred during the financial year that is not otherwise disclosed in this report.

Likely developments

Other than ongoing exploration results, as reported regularly to the Australian Stock Exchange, and the takeover announcements for the Company, described below, there are no immediate developments that are likely to have a material impact on the future operations of the consolidated entity although the Company is continually reviewing opportunities for growth and development.

Significant events after the balance date

On 22 December 2003, Indonesian oil and gas company PT Medco Energi International Tbk announced an unsolicited off-market takeover offer by a wholly-owned subsidiary (Medco Energi (Australia) Pty Limited) for all the issued share capital of Novus Petroleum Limited at $1.74 cash per share.

On 19 January 2004 Dr R.C.Williams, Chief Executive Officer of the Company together with Hong Kong based investment banking group Crosby Capital Partners (the “Crosby Group”) announced their intention to make an offer for the Company at $1.77 cash per share. At the date of this report the formal documentation, referred to as the Bidder’s Statement, had not been received by the Company.

On 1 January 2004, there was a gas leak, followed by a fire at the Moomba processing facility in the Cooper Basin. This incident resulted in the shut-down of the gas processing plant until the problem and its cause could be identified. The leak has no impact on the results of the 2003 financial year. The impact of the incident on subsequent periods has been the subject of various public disclosures (since the date of the incident) required by the Australian Stock Exchange.

The directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in the financial reports, that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

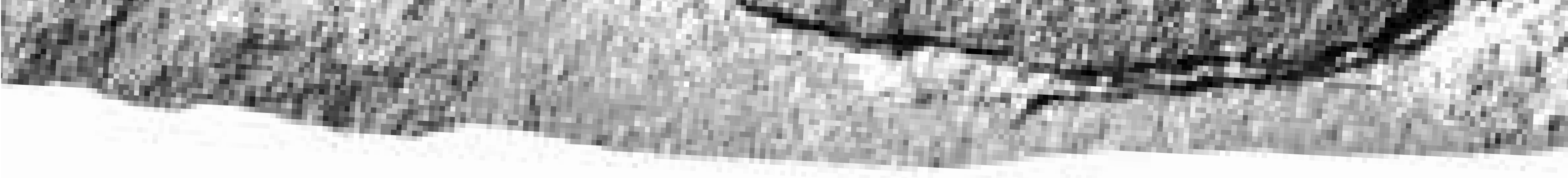
Rounding

The amounts contained in this report and in the financial reports have been rounded off under the option available to the Company under ASIC Class Order 98/0100 to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the directors.

D.H. Blair
Chairman

18 February 2004

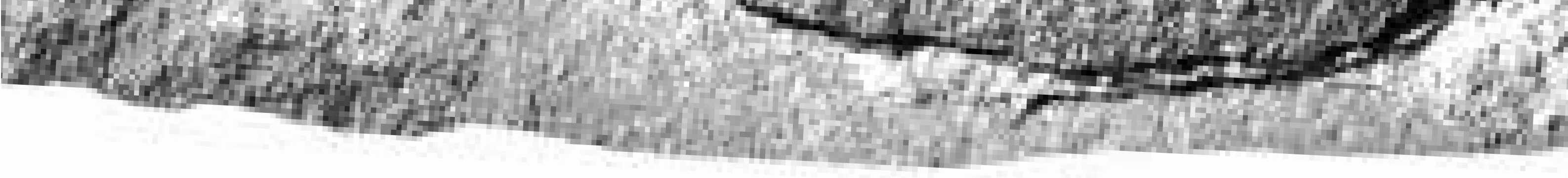


statement of financial performance year ended 31 december 2003

	Notes	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
Operating revenues from ordinary activities	2,6	**162,619**	176,685	**6,741**	8,061
Operating expenses from ordinary activities:					
– Operating expenses	3	**(47,290)**	(61,480)	**–**	–
– Changes in inventories of petroleum products	3	**2,100**	(528)	**–**	–
– Depreciation, amortisation and restoration	3	**(48,715)**	(48,718)	**–**	–
– Borrowing costs expensed	3	**(12,290)**	(15,747)	**–**	–
– Director and employee remuneration expenses		**(7,453)**	(6,080)	**(270)**	(270)
– Management fees charged by controlled entities		**–**	–	**(2,430)**	(2,562)
– Net foreign exchange gains/(losses)		**(798)**	456	**–**	–
– Other expenses		**(9,656)**	(9,680)	**(230)**	(328)
Profit from operating activities before income tax expense		**38,517**	34,908	**3,811**	4,901
Non-operating revenue and expenses:					
– Revenue from disposal of petroleum interests	2	**–**	25,812	**–**	–
– Cost of assets sold		**–**	(20,811)	**–**	–
– Write back in value of non-current assets		**–**	2,412	**–**	–
– Write off of exploration expenditure		**(17,059)**	(66,708)	**–**	–
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	6	**21,458**	(24,387)	**3,811**	4,901
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	5	**(9,166)**	(9,578)	**–**	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	6	**12,292**	(33,965)	**3,811**	4,901
– Net exchange difference on translation of financial statements of net investments in foreign controlled entities		**(57,704)**	35	**–**	–
NET MOVEMENTS RECOGNISED DIRECTLY IN EQUITY ATTRIBUTABLE TO MEMBERS OF NOVUS PETROLEUM LIMITED		**(57,704)**	35	**–**	–
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		**(45,412)**	(33,930)	**3,811**	4,901
Basic earnings/(loss) per share	24	**6.7¢**	(18.5¢)		
Diluted earnings/(loss) per share	24	**6.7¢**	(18.5¢)		

statement of financial position as at 31 december 2003

	Notes	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
		2003 $'000	2002 $'000	2003 $'000	2002 $'000
CURRENT ASSETS					
Cash Assets	8	**16,372**	21,515	**–**	–
Receivables	9	**26,578**	54,245	**4,303**	5,496
Inventories	11	**7,525**	6,367	**–**	–
Other	12	**1,649**	1,449	**–**	–
TOTAL CURRENT ASSETS		**52,124**	83,576	**4,303**	5,496
NON-CURRENT ASSETS					
Receivables	9	**–**	–	**192,461**	187,219
Investments	10	**–**	–	**126,855**	126,855
Interest in Petroleum Properties	13	**351,376**	392,114	**–**	–
Plant and Equipment	14	**101,881**	127,087	**–**	–
Other	12	**737**	757	**–**	–
TOTAL NON-CURRENT ASSETS		**453,994**	519,958	**319,316**	314,074
TOTAL ASSETS		**506,118**	603,534	**323,619**	319,570
CURRENT LIABILITIES					
Payables	15	**27,406**	22,144	**57**	19
Interest Bearing Liabilities	16	**574**	3,066	**–**	–
Tax Liabilities	17	**2,220**	12,291	**–**	–
Provisions	18	**538**	679	**–**	–
TOTAL CURRENT LIABILITIES		**30,738**	38,180	**57**	19
NON-CURRENT LIABILITIES					
Interest Bearing Liabilities	16	**138,667**	171,318	**–**	–
Tax Liabilities	17	**43,837**	62,306	**–**	–
Provisions	18	**12,359**	6,001	**–**	–
TOTAL NON-CURRENT LIABILITIES		**194,863**	239,625	**–**	–
TOTAL LIABILITIES		**225,601**	277,805	**57**	19
NET ASSETS		**280,517**	325,729	**323,562**	319,551
EQUITY					
Parent entity interest					
Contributed Equity	19	**287,336**	287,136	**287,336**	287,136
Reserves	20	**(54,760)**	2,944	**–**	–
Retained Profits	21	**47,941**	35,649	**36,226**	32,415
Total parent entity interest in equity		**280,517**	325,729	**323,562**	319,551
TOTAL EQUITY		**280,517**	325,729	**323,562**	319,551
Net tangible assets per share ($)	25	**1.52**	1.77		



statement of cash flows year ended 31 december 2003

	Notes	CONSOLIDATED 2003 $'000	CONSOLIDATED 2002 $'000	NOVUS PETROLEUM LIMITED 2003 $'000	NOVUS PETROLEUM LIMITED 2002 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from oil & gas operations		**174,519**	165,673	**–**	–
Payments to suppliers and employees		**(63,575)**	(72,249)	**(2,990)**	(5,420)
		110,944	93,424	**(2,990)**	(5,420)
Interest received		**231**	978	**8,077**	5,946
Borrowing costs		**(12,098)**	(15,308)	**–**	–
Income tax paid		**(23,298)**	(5,427)	**–**	–
Goods and services tax paid		**(3,107)**	(3,229)	**–**	–
Net cash flows from operating activities	23	**72,672**	70,438	**5,087**	526
CASH FLOWS USED IN INVESTING ACTIVITIES					
Payments for:					
Acquisition of oil & gas assets		**(37,499)**	–	**–**	–
Acquisition of shares in controlled entities		**–**	(4,516)	**–**	–
Exploration and development		**(65,794)**	(92,116)	**–**	–
Proceeds from:					
Sale of petroleum interests		**22,773**	1,271	**–**	–
Net cash flows used in investing activities		**(80,520)**	(95,361)	**–**	–
CASH FLOWS FROM/(USED) IN FINANCING ACTIVITIES					
Proceeds from exercise of options		**200**	307	**200**	307
Borrowings		**42,582**	27,578	**–**	–
Borrowings – repayments		**(35,873)**	(47,839)	**–**	–
Advances to controlled entities		**–**	–	**(5,287)**	(833)
Net cash flows from financing activities		**6,909**	(19,954)	**(5,087)**	(526)
NET INCREASE/(DECREASE) IN CASH HELD		**(939)**	(44,877)	**–**	–
Add cash at beginning of period		**18,449**	64,005	**–**	–
Effects of exchange rate changes on cash		**(1,712)**	(679)	**–**	–
CLOSING CASH	8	**15,798**	18,449	**–**	–

discussion and analysis of financial results

STATEMENT OF FINANCIAL PERFORMANCE

Earnings

The net profit for the financial year was $12.3 million (2002 – loss of $34.0 million) and was impacted by non-operating items, primarily exploration write offs, as follows:

	2003 $'000	2002 $'000
Operating profit after tax	**29,351**	20,972
Non-operating loss after tax	**(17,059)**	(54,937)
Net profit/(loss) attributable to members of Novus	**12,292**	(33,965)

Operating profits are those derived from production and new venture activities. For 2003 these rose to $29.4m from $21.0 million. The most significant factors impacting the result were stronger commodity prices (particularly gas in the first half of the year), the contribution from the US properties acquired in the second half of the year and production from the successful NUL 13 well in Louisiana which was drilled and completed during the year. During 2003, there was a 3% reduction in production and 1% reduction in entitlement compared to 2002. Adjusting for the sale of Malacca Strait at the end of 2002, production increased by 15% to 6.7mmboe of which Indonesia contributed close to half.

Illustrating the impact of commodity prices and foreign exchange movements is the realisation in 2003 of an average product price of US$21.26/boe compared to US$19.14/boe in the prior year, an increase of 11%. In Australian dollar terms the average realized price fell by 7% from A$35.04/boe in 2002 to A$32.62/boe in 2003, due to the Australian dollar strengthening from an average of 0.544 in 2002 to 0.652 in 2003.

The non-operating loss of $17.1 million is made up as follows:

	2003 $'000	2002 $'000
Profit on sale of petroleum interests	**–**	3,351
Write back/(write down) of non-current assets	**(8,760)**	2,412
Exploration write offs	**(8,299)**	(66,708)
Revision to deferred tax balances	**–**	6,008
	(17,059)	(54,937)

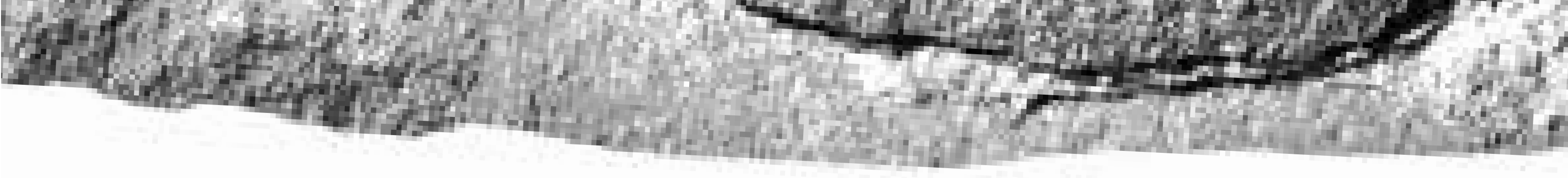
During 2003, the Group wrote off the cost of the Gregory River-3 well (which was plugged and abandoned) as well as past exploration costs associated with the Magnet Withers lease in the USA. Additionally, the carrying value of the Block 17 licence in Oman has been reduced reflecting the development challenges posed by the complex and unanticipated nature of the hydrocarbons contained in the Tibat prospect. This has resulted in the appraisal and potential development of the field being delayed until after other opportunities in the Greater Bukha area are exploited.

Segment Information

The operating results after tax attributable to members of Novus Petroleum Limited for the year ended 31 December by geographical segment are as follows:

	Operating Revenue		Results	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Australia[1]	**40,890**	41,720	**3,142**	4,783
South East Asia[2]	**81,320**	99,682	**27,954**	24,275
Middle East[3]	**11,613**	17,870	**2,444**	6,016
United States of America[4]	**28,553**	16,723	**7,858**	955
Contribution from operations	**162,376**	175,995	**41,398**	36,029
Net borrowing costs	**243**	690	**(12,047)**	(15,057)
Operating profit after tax	**162,619**	176,685	**29,351**	20,972
Operating earnings per share			**16.0¢**	11.4¢

1. Australia includes the Cooper Basin and head office general and administration expenses.
2. South East Asia includes contributions from Kakap and Brantas. In 2002, contributions from Lematang and Malacca Straits were included.
3. Middle East includes Oman, Pakistan and general and administration expenses.
4. United States includes contributions from East Cameron and Main Pass from 1 October 2003, Stratton, Padre Island and Sorrento, as well as general and administration expenses.



In Australia the Group's production from the Cooper Basin declined 8%, primarily due to lower gas volumes. Purchases of third party gas to meet existing gas contracts and build winter storage increased. This, combined with an increase in well perforation and optimisation spending, higher insurance costs, and an increase in DD&A following a reduction in reserves and an increase in estimated future expenditure on the plant, has resulted in a decline in operating profitability.

After adjusting for the 2002 sale of the Group's interest in the Malacca Strait and Lematang PSCs, South East Asian revenues have increased 11% in 2003 to $81.3m from $73.4m, while profits have increased 23% to $28.0m from $22.8m. These increases are a result of improved gas production from the Wunut field in East Java (more than double 2002) and growth in sales through the West Natuna Scheme.

The results of the Middle East segment reflects the impact of maintenance operations during 2003, where the overhaul and replacement of components of the Bukha production facilities resulted in liftings of condensate production being delayed until early 2004. Most of the condensate produced in the second half of 2003 remained in storage at 31 December and accordingly it was treated as inventory rather than revenue.

Results in the USA have been boosted significantly by high gas prices, particularly during the 1st half of the year, the acquisition of the interests in East Cameron and Main Pass and the bringing on line of the NUL 13 well in the Sorrento Dome area. The NUL 13 well was drilled and completed in 2003 and is currently producing gas at a rate of around 6.5mmscfd as well as small quantities of liquids.

Net borrowing costs decreased from $15.1 million to $12.0 million, due mostly to the appreciating Australian dollar (all borrowings are denominated in United States dollars) and lower average borrowings.

STATEMENT OF FINANCIAL POSITION

Changes in the composition of Assets

Total assets of the consolidated entity decreased from $603.5 million to $506.1 million. The decrease results from the effect of the strengthening Australian dollar on the translation of the balance sheets of USD denominated overseas subsidiaries. Other significant movements in assets related to the receipt of funds in respect of the 2002 sale of the interests in Malacca Straits and Lematang, as well as exploration write offs.

Changes in the composition of Liabilities

Total liabilities of the consolidated entity decreased from $277.8 million to $225.6 million. The decrease again included the translation effect of converting United States denominated overseas subsidiaries to Australian dollars as a result of the stronger Australian dollar. Other significant movements in liabilities relate to the settlement of tax liabilities in Indonesia in the early part of 2003.

Contributed Equity

Contributed equity by members of Novus Petroleum Limited increased by $0.2 million to $287.3 million following the exercise of supplier options during the financial year.

Net Debt to Equity

The level of net debt decreased by $30.0 million from $152.9 million at the start of the year to $122.9 million by 31 December 2003. All debt is denominated in US dollars and this reduction is due to the translation effect of appreciation of the Australian dollar. At the end of 2003 drawings on available debt facilities totalled US$104.0m compared to US$97.0m at the end of 2002.

The ratio of net debt to shareholders' funds at 31 December 2003 is 44% compared with 47% at the end of the prior year.

THE STATEMENT OF CASH FLOWS

Cash Flows from Operations

The operating cash flow generated for the year was $72.7 million representing a $2.3m increase from 2002. This increase has been achieved on the back of strong commodity prices and lower operating costs, with each of these offsetting the effect of the stronger Australian dollar and tax payments relating to Indonesian operations.

EBITDA (earnings before interest, tax, depreciation and amortisation) for the year was $99.3 million which represents an increase of $0.6 million compared to 2002. This static position reflects the contribution made by the US and Indonesian operations to replace the contribution made by Malacca Strait.

Investing Activities

Expenditure incurred on exploration and appraisal activity during the year decreased from $61.6 million to $45.1 million. This reflects both the translation effect of the stronger Australian dollar as well as reduced exploration expenditure in the USA. In 2002, there were three wells drilled and paid for, however with the re-organisation of the Padre Island joint venture in Texas in the first half of the year drilling expenditures were delayed during 2003. The other areas in which significant exploration activity was undertaken during 2003 were Block 17 Oman, where significant testing costs were incurred, and Sorrento Dome Louisiana, where the drilling and completion of the NUL 13 well took place.

Development expenditure of $20.7 million was incurred in 2003 compared with $30.5 million in the prior year. Significant expenditures were incurred in the Cooper Basin (mainly associated with the Moomba facility and expansion of existing production capacity), Stratton (infill development drilling) and Brantas (further development of the Wunut field).

During the year proceeds were received from the 2002 sale of Novus' interests in the Malacca Straits and Lematang PSCs.

Facilities Available

At 31 December 2003 the consolidated entity has the following financing facilities available:

- US$80 million 10-year bonds fully drawn on which repayments commence in December 2005;
- US$86 million syndicated facility maturing in August 2006 of which US$24 million was drawn;
- an overdraft facility of US$5 million, none of which was drawn; and
- cash in Novus operated bank accounts equivalent to US$8.1 million.

notes to and forming part of the financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Principles of Consolidation

The consolidated financial report comprises the financial statements of Novus Petroleum Limited, being the parent entity, and its controlled entities ("the consolidated entity"). All inter-entity balances and transactions have been eliminated. When an entity is acquired (or sold) during the year, its results are included from the date when control commences (or excluded from when control ceases).

The financial reports of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies.

(c) Contributed Equity

Ordinary share capital is recognised at the fair value of consideration received by the Company. Any transaction costs arising from the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(d) Foreign Currencies

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

For reporting purposes, transactions in foreign currencies of entities within the consolidated entity are converted to Australian dollars at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to Australian currency using rates of exchange ruling at the end of the financial year.

Where the consolidated entity has an obligation in a foreign currency and expected future production receipts in that currency are insufficient to meet that obligation, an unrealised gain or loss on foreign exchange is recognised in the Statement of Financial Performance.

TRANSLATION OF FOREIGN CONTROLLED ENTITIES

Companies within the consolidated entity which are dependent on financial support are consolidated as integrated operations whereby monetary items in the financial reports of these foreign controlled entities are translated using the current rate, while non-monetary items are translated at historical rates. Exchange differences resulting from the translation of monetary items are taken to the Statement of Financial Performance.

The financial reports of self sustaining overseas subsidiaries are translated using the current rate method and any exchange differences arising from translation are taken directly to the foreign currency translation reserve which will fluctuate from time to time in accordance with movements in the Australian dollar exchange rate.

(e) Inventories

Inventories of (i) petroleum products and (ii) drilling and maintenance stocks are carried at the lower of cost and net realisable value. The cost of petroleum products includes a proportion of production costs based on normal operating capacity plus a share of depreciation and amortisation of petroleum properties, plant and equipment. Costs of drilling and maintenance stocks are accounted for at purchase cost on a first-in-first-out basis. Net realisable value is determined on the basis of each entity's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and are deducted to establish net realisable value.

(f) Investments

Investments are carried at the lower of cost or recoverable amount.

(g) Plant and Equipment

Plant and equipment are included at the lower of cost or recoverable amount less, where applicable, any accumulated depreciation or amortisation. The depreciable amount of all plant and equipment items are depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Except in relation to infrastructure assets where excess capacity exists and/or which are used for the conveyance of third party hydrocarbons, the rate of depreciation is determined by the depletion of economically recoverable reserves.

In respect of the infrastructure assets where excess capacity exists and/or which are used for the conveyance of third party hydrocarbons, the rate of depreciation is constant and is determined by reference to the period over which it is estimated that assets will be in use.

Major depreciation periods are:

	2003	2002
Plant and equipment		
- gas processing	**20 years**	20 years
- office equipment	**5 years**	5 years

(h) Exploration and Development Expenditure

The consolidated entity's exploration and development assets are carried in the financial reports as "Interests in Petroleum Properties" at cost. Cost includes the cost of acquisition, exploration, determination of recoverable reserves, and all technical overheads directly associated with these functions until commencement of production or re-appraisal of the area. This expenditure may be carried forward provided that:

- such costs are expected to be recouped through successful development of the area or alternatively by its sale; or
- exploration and development expenditure activities in a specific area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

When an area of interest is abandoned, or if the Directors assess that it has reduced or no commercial potential, then the related expenditure will be written off or the carrying value reduced to an appropriate level through the Statement of Financial Performance in the period in which that assessment is made. Such assessment will be made at least annually. As part of this policy, drilling costs for exploration wells that fail to demonstrate potentially commercial hydrocarbons are written off immediately. Exploration and development expenditure accumulated as "Interests in Petroleum Properties" and for which production licences are held is amortised against revenue based on the rate of depletion of economically recoverable reserves. Such reserves will be assessed regularly based on production achieved and further information obtained from the exploration activities. Should the assessment of proven plus probable reserves be reduced there will be a write off against revenue of the exploration and development expenditure accumulated consistent with the reduced amount of proven plus probable reserves.

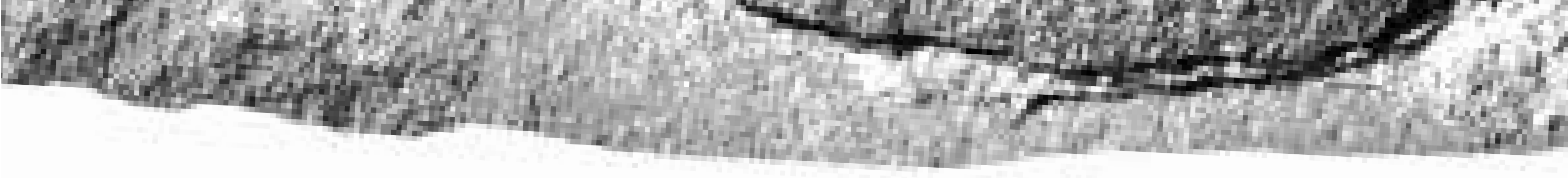
(i) Recoverable Amounts of Non-Current Assets

The carrying value of non-current assets is reviewed by Directors to ensure that they are not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment. The relevant cash flows have been discounted to their present value using the Company's weighted average cost of capital.

(j) Restoration Provision

When restoration costs are required under the obligations of the relevant lease or permit, costs of restoration work are provided for and treated as production costs. Provisions are accumulated in the financial reports over the production life of the relevant areas of interest for the estimated cost (undiscounted and based upon current costs, technology and legal requirements) of restoration and abandonment of such areas after petroleum production operations cease. The adequacy of the provision for restoration and the reserve base on which it is accumulated is reassessed every six months and, should there be an adjustment, it will be retrospectively made to the provision in the period when the requirement for such adjustment is identified.

At the termination of Production Sharing Contracts, possession of the equipment and facilities passes to the state's agent (for example BP Migas in the case of Indonesia). Therefore, no provision is generally made for dismantlement, restoration, abandonment or salvage values with respect to Production Sharing Contracts.



1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Joint Ventures and Production Sharing Contracts

The consolidated entity has interests in various Production Sharing Contracts ("PSCs"), the terms of which provide for the consolidated entity and its joint venture participants to recover all costs out of the proceeds of production. Where proceeds of production are insufficient in any one year to fully recover costs, they are carried forward. Production remaining after cost recovery is divided between the contractors and the state's agent according to pre-agreed formulae.

Interests in PSCs are accounted for in the manner of a joint venture whereby the interest is brought to account as described below. Whilst under the form of a PSC the title of all property, equipment and inventories passes to the state's agent, the substance of each contract is that the participants have use of all assets and market all oil produced. Accordingly the financial reports reflect the joint venture approach.

The consolidated entity's interest in a joint venture is brought to account by including in the respective categories of the Statement of Financial Position and the Statement of Financial Performance the amount of:

(i) the consolidated entity's share of each of the individual assets employed in the joint venture;

(ii) liabilities incurred in relation to the joint venture including the consolidated entity's share of liabilities for which it is jointly and/or severally liable; and

(iii) the consolidated entity's share of expenses incurred in relation to the joint venture.

(l) Deferred Borrowing Costs

Significant costs associated with the establishment of finance facilities having a benefit or relationship to more than one period are written off over the shorter of 5 years and the term of the facility to which such expenditure relates.

(m) Employee Entitlements

Liabilities for wages and salaries, annual leave, sick leave and any other employee entitlements which are expected to be settled within 12 months of reporting date are recognised, and are measured as the amount unpaid at the reporting date at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefits liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to reporting date.
In determining the present value of future cash outflows, the market yield as the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liabilities are used.

The consolidated entity makes superannuation contributions to employee superannuation plans. Any contributions made by entities within the consolidated entity are charged against profits when due.

(n) Provisions

Dividends payable are recognised when a legal obligation to pay the dividend arises, typically following approval of the dividend at a meeting of shareholders.

(o) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods – Control of hydrocarbons has passed to the purchaser. Where funds are received in relation to future sales of hydrocarbons, at the end of the reporting period they are recognized as deferred income to the extent that the hydrocarbons to which they relate remain in control of another party.

Consultancy services – The consolidated entity controls the right to be compensated for services rendered to joint ventures in which the entity is a participant or other third parties.

Interest – Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Dividends – Control of a right to receive consideration for the investment in assets has been attained, usually evidenced by approval of the dividend at a meeting of shareholders.

(p) Receivables

Trade receivables are recognized and carried at original invoice amount less any provision for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognized and carried at the nominal amount due.

(q) Leases

Leases are classified at their inception as either operating leases or finance leases. The company is not party to any finance lease. With regard to operating leases, the minimum lease payments of the leases are recognized as an expense on a straight line basis.

(r) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest when charged by the lender is recognized as an expense on an accrual basis.

(s) Interest Bearing Liabilities

All loans are measured at their principal amount. Interest is recognized as an expense when it accrues.

(t) Capitalisation of borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the period.

(u) Taxation

INCOME TAXES

The consolidated entity adopts the liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences that arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statement of Financial Position as a future income tax benefit or a deferred tax liability. The net future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where the earnings of overseas controlled entities are subject to taxation under the Controlled Foreign Companies Rules, this tax has been provided for in the financial reports.

GOODS AND SERVICES TAX

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of payables on the Statement of Financial Position.

Cash flows are included in the Statement of Cashflows on a gross basis. Commitments and contingencies are disclosed as the net amount of GST recoverable from or payable to the taxation authorities.

(v) Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses from ordinary activities are those revenues and expenses incurred in the course of the company's day to day operation and management of income producing assets.

Non-operating revenues and expenses from ordinary activities are those not directly related to the day to day operation and management of the company's income producing assets and relate to exploration activities, asset trading, ceiling test adjustments and other significant items.

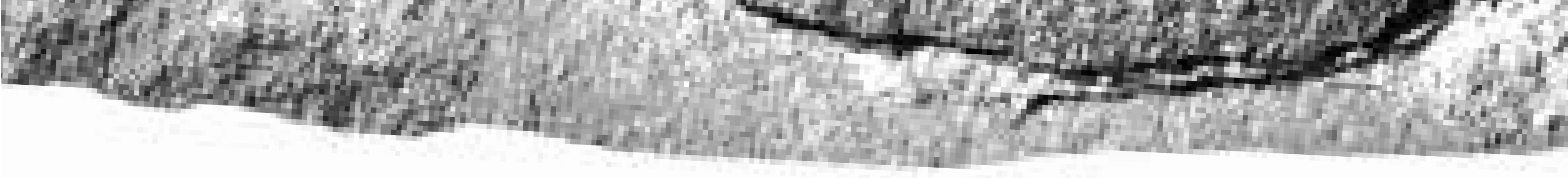
(w) Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognized as expenses;
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary share;

and then divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.



	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities:				
Share of gross production	**184,729**	211,644	**–**	–
Oil entitlements for government authorities	**(28,888)**	(41,412)	**–**	–
Net revenue from petroleum products	**155,841**	170,232	**–**	–
Pipeline tolling	**2,242**	2,513	**–**	–
Interest received from other persons	**243**	690	**8**	2
Interest received from controlled entities	**–**	–	**6,733**	8,059
Other revenue	**4,293**	3,250	**–**	–
Total revenue from operating activities	**162,619**	176,685	**6,741**	8,061
Revenue from non-operating activities:				
Proceeds from sale of petroleum interests	**–**	25,812	**–**	–
Total Revenue from ordinary activities	**162,619**	202,497	**6,741**	8,061
3. EXPENSES AND LOSSES/(GAINS)				
(a) Operating activities				
Cost of goods sold:				
– Operating expenses	**47,290**	61,480	**–**	–
– Change in inventories of petroleum products	**(2,100)**	528	**–**	–
– Depreciation, amortisation and restoration	**48,715**	48,718	**–**	–
	93,905	110,726	**–**	–
Depreciation, amortisation and restoration:				
– Amortisation of petroleum properties	**36,127**	34,260	**–**	–
– Depreciation of plant & equipment	**12,193**	13,038	**–**	–
– Restoration of producing properties	**395**	1,420	**–**	–
	48,715	48,718	**–**	–
Borrowing costs:				
– Interest expense	**10,904**	13,424	**–**	–
– Line fees	**708**	1,213	**–**	–
– Amortisation of borrowing costs	**678**	1,110	**–**	–
	12,290	15,747	**–**	–
Rental expense on operating leases	**800**	893	**–**	–
State royalties on oil and gas production	**2,242**	2,397	**–**	–
Transfer to provisions for:				
– Employee entitlements	**72**	5	**–**	–
– Restoration of producing properties	**395**	1,420	**–**	–
(b) Non-operating activities				
Gain on sale of petroleum interests	**–**	(5,001)	**–**	–
Less tax related to sale	**–**	1,650	**–**	–
Net gain on sale of petroleum interests	**–**	(3,351)	**–**	–

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $	2002 $	2003 $	2002 $

4. AUDITORS' REMUNERATION

Amounts received or due and receivable by Ernst & Young for:				
– Auditing services	**165,251**	181,910	**3,000**	2,750
– Taxation services	**547,650**	592,412	**–**	–
	712,901	774,322	**3,000**	2,750

	2003 $'000	2002 $'000	2003 $'000	2002 $'000

5. INCOME TAX EXPENSE

The prima facie tax expense on the profit from ordinary activities differs from the income tax provided in the financial statements as follows:				
Profit/(loss) from ordinary activities before tax	**21,458**	(24,387)	**3,811**	4,901
The prima facie tax at 30% (2002 – 30%)	**6,437**	(7,316)	**1,143**	1,470
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
– Overseas tax rate differential	**3,649**	(6,200)	**–**	–
– Non deductible amortisation, depreciation, depletion and write down of non-current assets	**2,847**	1,000	**–**	–
– Non-assessable income/(expense)	**125**	93	**–**	–
– Overseas losses quarantined	**3,156**	32,125	**–**	–
– Overseas quarantined losses utilised	**(9,784)**	(5,601)	**–**	–
– Tax losses not recognised	**(164)**	(597)	**–**	–
– Tax losses utilised	**–**	–	**(1,143)**	(1,470)
– Other	**2,900**	2,082	**–**	–
Reduction in future income tax benefit recognised	**–**	3,742	**–**	–
Effect on provision for Deferred Income Tax Liability due to a change in the income tax rate for the Kakap PSC in Indonesia	**–**	(9,750)	**–**	–
Income tax expense relating to ordinary activities	**9,166**	9,578	**–**	–
Represented by:				
– Income tax expense on operating activities	**9,166**	13,937	**–**	–
– Income tax benefit on non-operating activities	**–**	(4,359)	**–**	–
	9,166	9,578	**–**	–
Future income tax benefit arising from tax losses and other deductions of controlled entities not brought to account at balance date as realisation of the benefit is not regarded as virtually certain:				
– Revenue	**14,521**	14,597	**–**	–
– Capital	**30,001**	27,796	**–**	–
	44,522	42,393	**–**	–

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

6. SEGMENT RESULTS

During the financial year the consolidated entity operated predominantly in one industry that consisted of exploration, development and production of crude oil, natural gas and associated liquids.

Summarised results by geographical segments are as follows:

	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000
	Operating		Non-Operating		Total	
Revenue						
Australia	**40,890**	41,720	**–**	844	**40,890**	42,564
South East Asia	**81,320**	99,682	**–**	24,968	**81,320**	124,650
Middle East	**11,613**	17,870	**–**	–	**11,613**	17,870
United States of America	**28,553**	16,723	**–**	–	**28,553**	16,723
Interest revenue	**243**	690	**–**	–	**243**	690
Total	**162,619**	176,685	**–**	25,812	**162,619**	202,497
Profit from ordinary activities before tax						
Australia	**3,066**	4,833	**(5,344)**	(2,338)	**(2,278)**	2,495
South East Asia	**37,197**	38,162	**–**	(5,612)	**37,197**	32,550
Middle East	**2,443**	6,015	**(8,772)**	(41,805)	**(6,329)**	(35,790)
United States of America	**7,858**	955	**(2,943)**	(9,540)	**4,915**	(8,585)
Net borrowing costs	**(12,047)**	(15,057)	**–**	–	**(12,047)**	(15,057)
Total	**38,517**	34,908	**(17,059)**	(59,295)	**21,458**	(24,387)
Net profit after tax attributable to members of Novus Petroleum Limited						
Australia	**3,142**	4,783	**(5,344)**	(6,079)	**(2,202)**	(1,296)
South East Asia	**27,954**	24,275	**–**	2,487	**27,954**	26,762
Middle East	**2,444**	6,016	**(8,772)**	(41,805)	**(6,328)**	(35,789)
United States of America	**7,858**	955	**(2,943)**	(9,540)	**4,915**	(8,585)
Net borrowing costs	**(12,047)**	(15,057)	**–**	–	**(12,047)**	(15,057)
Total	**29,351**	20,972	**(17,059)**	(54,937)	**12,292**	(33,965)

Inter-segment pricing is based on arms length price.

6. SEGMENT RESULTS (continued)

Total assets and liabilities by geographical segment is:

	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000
	Total Assets		Total Liabilities		Net Assets	
Australia	**111,216**	118,415	**12,754**	12,370	**98,462**	106,045
South East Asia	**170,791**	268,217	**58,057**	84,029	**112,734**	184,188
Middle East	**43,987**	45,883	**4,826**	1,872	**39,161**	44,011
United States of America	**163,752**	149,504	**10,723**	5,150	**153,029**	144,354
Net debt	**16,372**	21,515	**139,241**	174,384	**(122,869)**	(152,869)
Total	**506,118**	603,534	**225,601**	277,805	**280,517**	325,729

Other segment information:

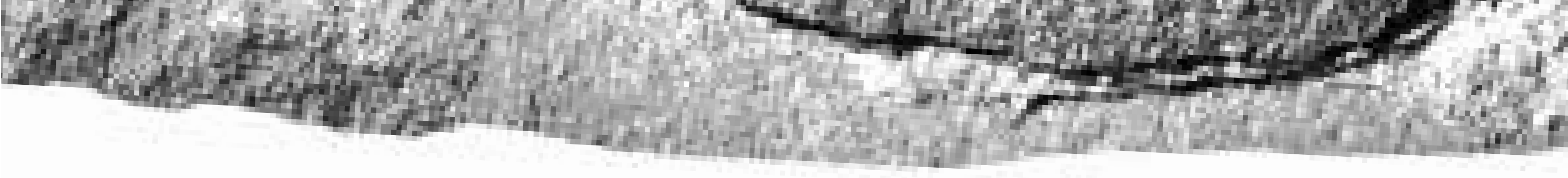
	Depreciation		Amortisation		Other Non-Cash Expenses	
Australia	**5,901**	4,798	**9,682**	8,651	**5,629**	7,173
South East Asia	**6,263**	8,231	**15,918**	14,941	**177**	1,265
Middle East	**29**	9	**2,800**	3,827	**9,112**	41,238
United States of America	**–**	–	**7,727**	6,841	**3,412**	9,581
Net borrowing costs	**–**	–	**–**	–	**678**	1,067
Total	**12,193**	13,038	**36,127**	34,260	**19,008**	60,324

	Acquisition and Addition of Interests in Petroleum Properties		Acquisition and Addition of Property, Plant and Equipment	
Australia	**13,261**	7,895	**3,615**	4,758
South East Asia	**11,126**	10,449	**1,625**	5,134
Middle East	**23,570**	17,616	**880**	183
United States of America	**57,470**	44,642	**–**	–
Total	**105,427**	80,602	**6,120**	10,075

7. DIVIDENDS

No dividends have been declared in respect of the year ended 31 December 2003.

Novus Petroleum Limited would have $3,200,000 in franking credits available upon entry, on 1 January 2004, into the tax consolidation regime.



	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000

8. CASH ASSETS

Cash at bank and on hand	**16,372**	14,515	**–**	–
Short term deposits	**–**	7,000	**–**	–
	16,372	21,515	**–**	–

Cash at bank and on hand is represented by cash held directly by the consolidated entity and surplus cash contributions in joint venture operated bank accounts. This surplus cash is normally used in the following month to pay creditors.

During the year the short term deposit matured and was used to repay borrowings.

The weighted average interest rate for cash at bank was 0.70% (2002 – 1.17%).

For the purposes of the Statement of Cash Flows, cash includes, where applicable, cash at bank and on hand, bank overdrafts, cash at call and term deposits. The cash balances above can be reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

Balance as above	**16,372**	21,515	**–**	–
Bank overdraft (refer note 16)	**(574)**	(3,066)	**–**	–
	15,798	18,449	**–**	–

9. RECEIVABLES

Current

Crude Oil & Gas debtors	**15,163**	24,085	**–**	–
Crude Oil Underlift	**–**	330		
Sundry Debtors	**11,415**	6,351	**–**	–
Receivable on sale of joint venture interests	**–**	23,479	**–**	–
Controlled Entities	**–**	–	**4,303**	5,496
	26,578	54,245	**4,303**	5,496

Non-Current

Loans – Controlled Entities	**–**	–	**192,461**	187,219

Crude Oil and Gas debtors are represented by and measured as amounts due for oil and gas sales. These sales are generally on 30 day terms.

Sundry debtors are represented by and measured as amounts due from third parties arising from transactions in the ordinary course of the consolidated entity's operations other than oil and gas sales. Interest has not been charged on these debts.

	CONSOLIDATED 2003 $'000	CONSOLIDATED 2002 $'000	NOVUS PETROLEUM LIMITED 2003 $'000	NOVUS PETROLEUM LIMITED 2002 $'000

10. INVESTMENTS

Non-Current

Shares in controlled entities	**–**	–	**126,855**	126,855

Novus Petroleum Limited has investments in shares as follows:

Name of Entity	Percentage Equity Held 2003 %	Percentage Equity Held 2002 %	Country of Incorporation	Cost of Parent Entity's Investment 2003 $	Cost of Parent Entity's Investment 2002 $
Novus Finance Pty Ltd	**100**	100	Australia	**2**	2
Novus Management Services Pty Ltd	**100**	100	Australia	**2**	2
Novus Australia Holdings Pty Ltd	**100**	100	Australia	**126,854,671**	126,854,671

Details of the controlled entities that comprise the consolidated entity are included in Note 35.

	CONSOLIDATED 2003 $'000	CONSOLIDATED 2002 $'000	NOVUS PETROLEUM LIMITED 2003 $'000	NOVUS PETROLEUM LIMITED 2002 $'000

11. INVENTORIES

Current

Drilling materials and supplies – at cost	**6,323**	7,154	**–**	–
Provision for obsolescence	**(1,471)**	(1,361)	**–**	–
	4,852	5,793	**–**	–
Petroleum products	**2,673**	574	**–**	–
	7,525	6,367	**–**	–

Drilling materials are purchased for use in exploration and development activities associated with the search for and extraction of crude oil, natural gas and associated liquids. Typical items of drilling materials include well heads, tubing, drilling fluids and completion equipment. During periods of high exploration and development activity the level of drilling materials on hand will increase.

Petroleum products are represented by crude oil stock, condensate and other petroleum liquids.

12. OTHER ASSETS

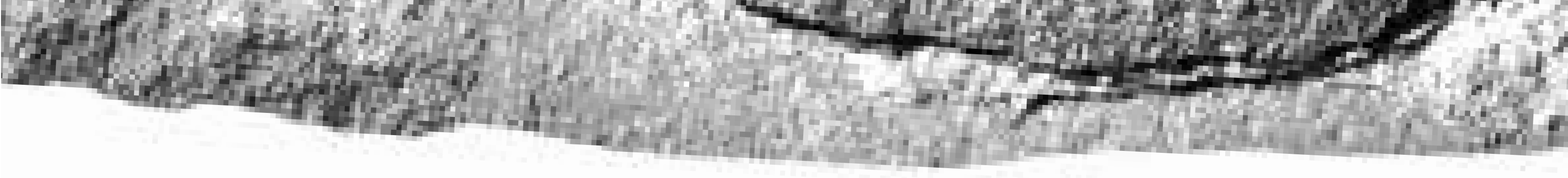
Current

Prepayments	**1,649**	1,449	**–**	–

Non-Current

Borrowing Costs	**1,105**	3,982	**–**	–
Accumulated amortisation	**(368)**	(3,225)	**–**	–
	737	757	**–**	–

Prepayments are represented by and measured as amounts paid to third parties in advance and arising from transactions in the ordinary course of the consolidated entity's operations.



13. INTEREST IN PETROLEUM PROPERTIES

	CONSOLIDATED 2003 $'000	CONSOLIDATED 2002 $'000	NOVUS PETROLEUM LIMITED 2003 $'000	NOVUS PETROLEUM LIMITED 2002 $'000
(a) Areas of interest in production phase:				
– At cost	**294,596**	320,652	**–**	–
– At recoverable amount – 31 December 2003	**96,906**	94,197	**–**	–
	391,502	414,849	**–**	–
– Accumulated amortisation	**(109,923)**	(99,025)	**–**	–
	281,579	315,824	**–**	–
(b) Areas of interest in exploration phase:				
– At cost	**64,064**	76,290	**–**	–
– At recoverable amount – 31 December 2003	**5,733**	–	**–**	–
	69,797	76,290	**–**	–
	351,376	392,114	**–**	–

Reconciliation of the carrying amounts for areas of interest in production and exploration phases

(a) Areas of interest in production phase:

	CONSOLIDATED 2003 $'000	NOVUS PETROLEUM LIMITED 2003 $'000
– Carrying amount at 1 January	**315,824**	**–**
– Acquisitions	**33,157**	**–**
– Additions	**29,084**	**–**
– Transfer from exploration phase	**6,190**	**–**
– Disposals	**–**	**–**
– Amortisation	**(34,900)**	**–**
– Expenditure written off	**(840)**	**–**
– Foreign exchange movements	**(66,936)**	**–**
– Carrying amount at 31 December	**281,579**	**–**

	CONSOLIDATED 2003 $'000	CONSOLIDATED 2002 $'000	NOVUS PETROLEUM LIMITED 2003 $'000	NOVUS PETROLEUM LIMITED 2002 $'000

13. INTEREST IN PETROLEUM PROPERTIES (continued)

(b) Areas of interest in exploration phase:

– Carrying amount at 1 January	**76,290**		**–**	
– Acquisitions	**5,081**		**–**	
– Additions	**36,582**		**–**	
– Transfer to production phase	**(6,190)**		**–**	
– Expenditure written off	**(16,219)**		**–**	
– Foreign exchange movements	**(25,747)**		**–**	
– Carrying amount at 31 December	**69,797**		**–**	

Note 1 to these accounts, *Summary of Significant Accounting Policies*, provides information on the consolidated entity's policy for Interests in Petroleum Properties including the basis of valuation, method of amortisation of properties in the production phase, and method of assessment of the carrying value of exploration and development expenditure.

14. PLANT AND EQUIPMENT

Plant and Equipment

– At cost	**165,407**	192,276	**–**	–
– Accumulated depreciation	**(63,526)**	(65,189)	**–**	–
	101,881	127,087	**–**	–
Reconciliation of the carrying amounts of plant and equipment				
– Carrying amount at 1 January	**127,087**		**–**	
– Additions	**6,120**		**–**	
– Depreciation	**(12,193)**		**–**	
– Foreign exchange movements	**(19,133)**		**–**	
– Carrying amount at 31 December	**101,881**		**–**	

Note 1 to these accounts, *Summary of Significant Accounting Policies*, provides information on the consolidated entity's policy for Plant and Equipment including the basis of valuation and the method of depreciation.

15. PAYABLES

Current

Unsecured Liabilities:				
Trade Creditors	**24,411**	20,901	**57**	19
Crude Oil overlift	**2,995**	–		
Deferred Income	**–**	1,243	**–**	–
	27,406	22,144	**57**	19
Australian dollar equivalents of amounts payable in foreign currencies:				
United States Dollars	**21,546**	15,656	**–**	–

Trade creditors are represented by and measured as amounts owing to third parties for, among other things, services rendered in the ordinary course of the Consolidated entity's operations. Creditors denominated in United States Dollars are subject to natural hedges as discussed in Note 32.

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000

16. INTEREST BEARING LIABILITIES

Current

Unsecured Liabilities				
Bank overdraft	**574**	3,066	**–**	–
	574	3,066	**–**	–

Non-Current

Unsecured Liabilities				
Subordinated US Notes	**106,667**	141,293	**–**	–
Syndicated Debt Facility	**32,000**	30,025	**–**	–
	138,667	171,318	**–**	–

Details of the Overdraft Facility Available

Entities within the consolidated entity have unrestricted access to bank overdraft facilities to a maximum of US$5,000,000 at 31 December 2003 (2002 – US$5,000,000). Normal overdraft floating interest rates apply and a facility fee is paid on a quarterly basis at commercial rates. As at 31 December 2003 this facility was drawn to US$ nil (2002 – $1,736,000). The facility was used throughout the year and the 31 December 2003 interest rate was 2.17% (2002 – 2.44%). The balance of the bank overdraft liability at 31 December 2003 of $574,000 (2002 – $143,000) relates to joint venture overdrafts.

Details of the Syndicated Debt Facility Available

At 31 December 2003 the consolidated entity has access to debt facilities of US$86,000,000 of which US$24,000,000 (2002 – US$17,000,000) was drawn.

The facility, which was put in place in August 2003, has a term of three years and the floating interest rate at 31 December 2003 was 2.47% (2002 – 2.94%). A commitment fee is paid on a quarterly basis in arrears at normal commercial rates on the undrawn credit available. The facility provides a revolving line of credit that can be drawn down as needs arise and repaid when surplus cash is available.

Details of the Subordinated US Notes

The US Notes are represented by and measured as the undiscounted value of amounts owing to third parties pursuant to a note issue into the private US bond market dated 23 December 1997 which raised US$80 million. The decrease in the liability in Australian dollar terms is due to a strengthening in the value of the Australian dollar compared with the United States dollar. The Notes bear an interest rate of 8.64% fixed over their ten year life and are fully repayable by 23 December 2007. The Notes are subordinated to the Consolidated entity's syndicated debt facilities and are unsecured. The terms of these borrowings include commercial representations, warranties and undertakings, and a review clause in the event of the Group being taken over. If this were to occur, the institutions who have purchased the Notes have the right to request early repayment.

Using market rates at 31 December 2003 to discount future cash flows, the fair value of the US subordinated note liability is US$7.7 million higher than the book value as a result of the movement in market interest rates since the Notes were issued.

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000

17. TAX LIABILITIES

Current

Income Tax	**2,220**	12,291	**–**	–

Non-Current

Deferred Income Tax	**43,837**	62,306	**–**	–

The basis of measurement of these liabilities is disclosed in Note 1, *Summary of Significant Accounting Policies*. The above amounts are undiscounted and interest is not charged.

18. PROVISIONS

Current

Employee Entitlements	**519**	365	**–**	–
Other	**19**	314	**–**	–
	538	679	**–**	–

The above amounts are represented by and measured as the amounts expected to be paid in the financial year subsequent to the one covered by this report. The above amounts are undiscounted and interest is not charged.

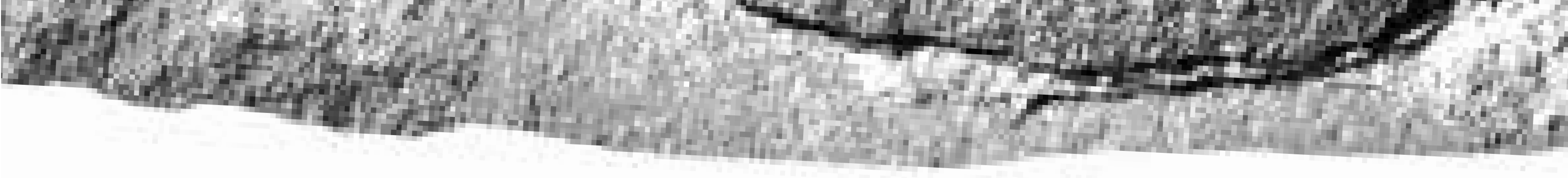
Non-Current

Future Restoration Costs	**11,859**	5,501	**–**	–
Employee Entitlements	**500**	500	**–**	–
	12,359	6,001	**–**	–

The basis of measurement of these liabilities is disclosed in Note 1, *Summary of Significant Accounting Policies*. Future restoration costs relate to interests in the South Australian Cooper Basin & Patchawarra East production/exploration licences, as well as the Stratton, East Cameron, Main Pass and Sorrento fields in the USA.

Reconciliation of carrying amount of restoration provision:

Opening balance	**5,501**	5,783
Acquisitions	**6,800**	–
Restoration costs accrued during the period	**395**	44
Foreign Exchange Movements	**(837)**	(326)
Closing Balance	**11,859**	5,501



	SHARES		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000

19. CONTRIBUTED EQUITY

(a) Issued and paid up Share Capital

Opening balance	**183,586**	183,403	**287,136**	286,829
Exercise of 400,000 options (b)	**400**	183	**200**	307
Closing balance	**183,986**	183,586	**287,336**	287,136

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

All issued options are unlisted and convert, upon exercise, to one fully paid ordinary share.

(b) On 25 March 2003, 400,000 options with a strike price of $0.50 were exercised.

(c) During the period 122,500 EOP 4 options with an exercise price of $1.93 expired.

(d) During the period 667 EOP 5 options with an exercise price of $1.37 lapsed.

(e) During the period 75,000 ESOP options with an exercise price of $1.46 lapsed.

(f) Since 31 December 2003 and to the date of this report, no options have expired or been exercised.

(g) Options outstanding as at 31 December 2003 are:

Type	Exercisable from	Expiry Date of Options	No. of Options	Exercise Price	Performance Hurdles
Directors					
EOP 6	16 June 2000	16 June 2004	500,000	$1.44	$1.65 *
ESOP	9 June 2002	8 June 2005	750,000	$1.46	Relative to TSR**
ESOP	5 January 2004***	8 June 2005	750,000	$1.46	Relative to TSR**
Employees					
EOP 5	30 March 1999	30 March 2004	147,332	$1.37	$1.57 *
ESOP	9 June 2002	8 June 2005	522,500	$1.46	Relative to TSR**
ESOP	5 January 2004 ***	8 June 2005	522,500	$1.46	Relative to TSR**
ESOP	18 September 2002	17 September 2005	100,000	$1.68	Relative to TSR**
ESOP	5 January 2004 ***	14 April 2007	265,000	$1.95	Relative to TSR**
ESOP	5 January 2004***	19 May 2007	75,000	$2.16	Relative to TSR**
ESOP	9 June 2002	30 April 2004	37,500	$1.46	Relative to TSR**
ESOP	5 January 2004 ***	30 April 2004	37,500	$1.46	Relative to TSR**
ESOP	5 January 2004 ***	7 October 2007	75,000	$1.33	Relative to TSR**

19. CONTRIBUTED EQUITY continued

Type	Exercisable from	Expiry Date of Options	No. of Options	Exercise Price	Performance Hurdles
Supplier					
Java 2	9 June 2002	8 June 2005	62,500	$1.46	Relative to TSR**
Java 2	5 January 2004 ***	8 June 2005	62,500	$1.46	Relative to TSR**

* Relates to the Novus share price on the Australian Stock Exchange that must be reached for five consecutive trading days following the grant of the options as a pre-condition to the holder being able to exercise the option.

** TSR relates to Novus' Total Shareholder Return performance (share price movements plus dividends declared) compared with a peer group of companies.

***These options, previously exercisable from various dates throughout 2004 became immediately exercisable on 5 January 2004 pursuant to a resolution of Directors resulting from the takeover offer by Medco Energi (Australia) Pty Limited.

Directors and Employees options have been issued under the Executive Share Option Scheme ("the Scheme"). The Scheme is an incentive scheme that rewards employees if the Company's share price achieves significant growth. At the time of each issue, the Directors determine the employees who are entitled to participate in the Scheme, the period during which the options may be exercised, the performance hurdle and any other relevant conditions of the option.

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000

20. RESERVES

Foreign exchange translation reserve

	2003	2002	2003	2002
Opening balance	**2,944**	(6,086)	**–**	–
Unrealised (loss) on translation of overseas controlled entities	**(94,253)**	(17,905)	**–**	–
Realised exchange loss on repayment of borrowings on net investments in subsidiaries transferred to retained profits	**–**	8,995	**–**	–
Unrealised exchange gain on borrowings	**36,549**	17,940	**–**	–
Closing balance	**(54,760)**	2,944	**–**	–

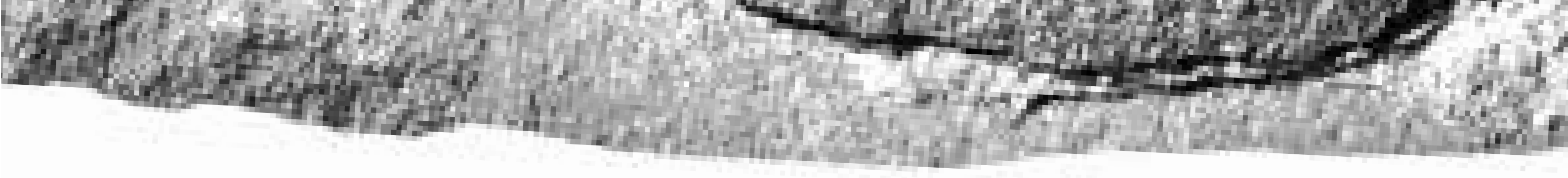
The foreign exchange translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations.

21. RETAINED PROFITS

	2003	2002	2003	2002
Opening balance	**35,649**	78,609	**32,415**	27,514
Exchange loss on repayment of borrowings on net investments in subsidiaries	**–**	(8,995)	**–**	–
Net profit attributable to members of Novus Petroleum Limited	**12,292**	(33,965)	**3,811**	4,901
Closing balance	**47,941**	35,649	**36,226**	32,415

22. OUTSIDE EQUITY INTEREST

	2003	2002	2003	2002
Opening balance (all relates to Nido Petroleum Ltd)	**–**	1,068	**–**	–
Disposal of entity with outside equity interest	**–**	(1,068)	**–**	–
Closing balance	**–**	–	**–**	–



23. NOTES TO STATEMENT OF CASH FLOWS

Reconciliation of profit from ordinary activities after tax to net cash provided by operations

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Profit/(loss) from ordinary activities after tax	**12,292**	(33,965)	**3,811**	4,901
Amortisation of interest in petroleum properties	**36,127**	34,260	**–**	–
Depreciation of property, plant and equipment	**12,193**	13,038	**–**	–
Provision for restoration	**395**	1,420	**–**	–
Amortisation of borrowing costs	**678**	1,110	**–**	–
Provision for employee entitlements	**72**	5	**–**	–
Profit on sale of petroleum interests	**–**	(3,351)	**–**	–
Write down/(back) of non-current assets	**–**	(2,412)	**–**	–
Exploration write-offs	**17,059**	66,708	**–**	–
Foreign currency exchange losses/(gains)	**798**	(456)	**46**	27
Write down deferred income tax liability	**–**	(9,750)	**–**	–
Write down future income tax benefit	**–**	3,742	**–**	–
Changes in assets and liabilities				
Decrease/(increase) in receivables	**3,153**	(2,823)	**1,193**	(4,402)
Decrease/(increase) in prepayments	**(639)**	2,098	**–**	–
Decrease/(increase) in inventories	**(3,111)**	621	**–**	–
Decrease/(increase) in borrowing costs	**(622)**	(485)	**–**	–
Increase/(decrease) in payables	**3,821**	1,808	**37**	–
Increase/(decrease) in over lift position	**3,398**	(9,976)	**–**	–
Increase/(decrease) in current tax provision	**(8,765)**	10,866	**–**	–
Increase/(decrease) in deferred tax provisions	**(4,184)**	(2,356)	**–**	–
Increase/(decrease) in other provisions	**7**	336	**–**	–
Net cash provided by operating activities	**72,672**	70,438	**5,087**	526

24. EARNINGS PER SHARE

	2003 ¢	2002 ¢
Basic earnings/(loss) per share (cents per share)	**6.7**	(18.5)
Diluted earnings/(loss) per share (cents per share)	**6.7**	(18.5)
Operating earnings after tax per share (cents per share)	**16.0**	11.4
Diluted operating earnings after tax per share (cents per share)	**16.0**	11.4

	2003 $'000	2002 $'000
(a) Earnings reconciliation		
Net profit/(loss) after tax	**12,292**	(33,965)
Non-operating items after tax from ordinary activities	**17,059**	54,937
Earnings used in calculating operating earnings per share	**29,351**	20,972

There are no adjustments to earnings used to calculate diluted earnings per share.

	2003	2002
(b) Weighted average number of shares reconciliation		
Weighted average number of ordinary shares used in calculating basic earnings per share, diluted earnings per share and operating earnings per share	**183,899,000**	183,524,000
Weighted average number of potential ordinary shares	**865,000**	721,000
Adjusted weighted average number of ordinary shares used in calculating diluted operating earnings after tax per share	**184,764,000**	184,245,000

The basis of calculating earnings per share is disclosed in Note 1, *Summary of Significant Accounting Policies.*

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $	2002 $	2003 $	2002 $

25. NET ASSETS PER SHARE

	2003 $	2002 $	2003 $	2002 $
Net assets per share	**1.52**	1.77	**1.76**	1.74
Net assets used in calculating net assets per share	**280,517,000**	325,729,000	**323,562,000**	319,551,000
Number of shares used in calculating net assets per share	**183,986,000**	183,586,000	**183,986,000**	183,586,000

The net assets of Novus Petroleum Limited consist primarily of receivables from and investments in Australian domiciled controlled entities which do not hold interests in joint ventures. The net assets of the economic entity consist of the net assets of all controlled entities, the most significant components of which are interests in joint ventures. These interests are held mainly by controlled entities domiciled outside Australia, whose Statements of Financial Position are revalued at year end to exchange rates prevailing at year end.

At 31 December 2003, upon revaluation of the Statements of Financial Position of these overseas domiciled entities that hold interests in joint ventures, the consolidated balance of their Foreign Currency Translation Reserves shows a negative balance, compared to a positive balance at 31 December 2002. This movement reflects the appreciation of the Australian dollar relative to the United States dollar during the year, and it is this movement which results in the consolidated net assets per share being lower than that of the chief entity.

The directors do not believe that the consolidated net assets per share will be permanently lower than the net assets per share of the Chief Entity or that there is any indication of impairment in value of net assets. This is supported by the independent expert's report by Grant Samuel & Associates prepared as part of the Company's takeover response, which valued the shares at between $1.96 and $2.75.

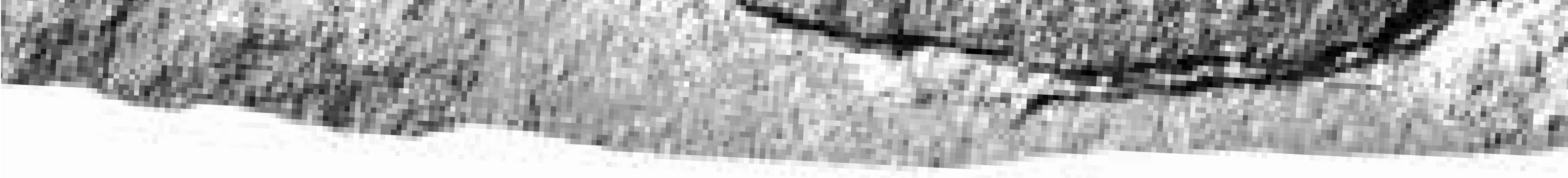
Refer also note 34 for discussion regarding the off-market takeover offer from Medco Energi (Australia) Pty Limited and the counter offer from Dr R.C. Williams, Chief Executive Officer of the Company together with Hong Kong based investment banking group Crosby Capital Partners.

26. INTERESTS IN EXPLORATION AND PRODUCTION JOINT VENTURES

(a) At 31 December the consolidated entity held the following interests in petroleum Joint Venture operations in Australia, Asia, the Middle East and the United States of America:

Joint Venture	Country	Ownership Interest 2003 %	2002 %
South Australian Cooper Basin Unit	Australia	**4.75**	4.75
Patchawarra East Block	Australia	**2.9688**	2.9688
ATP613P	Australia	**50.0**	50.0
Brantas PSC	Indonesia	**50.0**	50.0
Kakap PSC	Indonesia	**25.0**	25.0
Block 8 (includes the Bukha field)	Oman	**40.0**	40.0
Block 17	Oman	**40.0**	40.0
Block 15	Oman	**100.0**	100.0
Block 47	Oman	**100.0**	100.0
Block 31	Oman	**100.0**	100.0
Ras-Al-Khaimah Northern Onshore	United Arab Emirates	**100.0**	100.0
Badar Concession	Pakistan	**7.89**	7.89
Bolan Concession	Pakistan	**47.5**	47.5
Dadhar Concession	Pakistan	**21.67**	21.67
SC42 (Coron North Block)	Philippines	**34.88**	34.88
Block 8	Qatar	**–**	100.0
Magnet Withers leases (deep rights only)	USA	**–**	50.0
Stratton leases	USA	**30.0**	30.0
Padre Island leases (except La Playa & West Bird)	USA	**70.0**	40.0
La Playa lease	USA	**31.25**	30.0
West Bird lease	USA	**41.17**	40.0
Sorrento Dome – NUL 14 lease	USA	**63.167**	9.838
Sorrento Dome – NUL 11 lease	USA	**100.0**	23.8
Sorrento Dome – NUL 13 lease	USA	**100.0**	100.0
EC 317/318 (East Cameron) leases	USA	**50.00 – 100.0**	–
MP 64/65 (Main Pass) leases	USA	**79.375**	–

Capital expenditure commitments and contingent liabilities in respect of Joint Ventures are disclosed in note 27.



26. INTERESTS IN EXPLORATION AND PRODUCTION JOINT VENTURES (continued)

(b) Novus Petroleum Limited's controlled entities' share of assets and liabilities of Joint Venture operations is included in the Statement of Financial Position under the following classifications:

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Current Assets				
Cash Assets	**5,585**	3,434	**–**	–
Receivables	**3,436**	5,273	**–**	–
Inventories	**4,852**	6,067	**–**	–
Other	**1,521**	1,292	**–**	–
	15,394	16,066	**–**	–
Non-Current Assets				
Interest in Petroleum Properties	**351,376**	392,114	**–**	–
Property, Plant and Equipment	**100,521**	124,822	**–**	–
	451,897	516,936	**–**	–
Total Assets	**467,291**	533,002	**–**	–
Current Liabilities				
Payables	**21,506**	17,498	**–**	–
Interest Bearing Liabilities	**574**	142	**–**	–
Total Liabilities	**22,080**	17,640	**–**	–
Net Investments in Joint Ventures	**445,211**	515,362	**–**	–

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000

27. EXPENDITURE COMMITMENTS

(a) Operating Lease Commitments*

– not later than one year	**756**	547	**–**	–
– later than one year but not later than five years	**751**	517	**–**	–
– later than five years	**–**	–	**–**	–

(b) Capital Expenditure Commitments

Minimum exploration permit expenditure **				
– not later than one year	**2,095**	5,775	**–**	–
– later than one year but not later than five years	**1,333**	1,884	**–**	–
– later than five years	**1,333**	1,766	**–**	–
Development expenditure ***				
– not later than one year	**7,877**	6,947	**–**	–
– later than one year but not later than five years	**–**	–	**–**	–
– later than five years	**–**	–	**–**	–

* These commitments represent payments due for leased premises and equipment under non-cancellable rental leases. The terms of these leases range from 1 year to 5 years. These lease costs are expensed as rental expenses.

** In order to maintain the permits in which the consolidated entity and other joint venturers are involved, all parties are committed to meet the conditions under which the permits were granted. The permits are under continual review with regard given to the prospectivity of each permit. The obligations may be varied from time to time (in some cases subject to host government approval and joint venture requirements) and may also be relieved if permits are relinquished. At the end of the financial year, the consolidated entity had met all capital expenditure requirements then due to maintain existing permits.

*** Development expenditure commitments are based on operator-provided estimates and are subject to periodic revision as the projects proceed.

28. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION

Employee entitlements

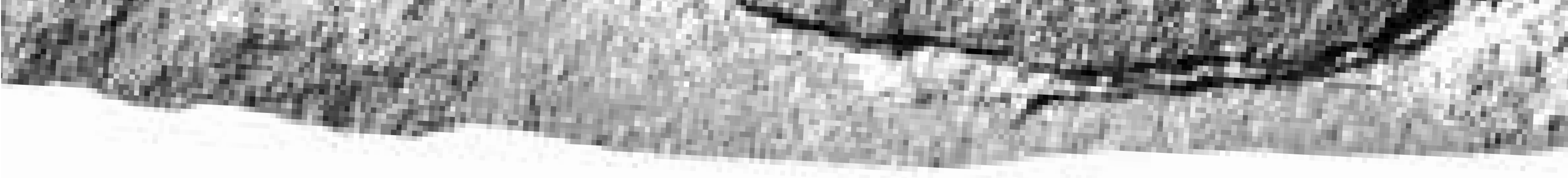
The aggregate employee entitlement liability comprises:				
Provision for annual leave (current)	**519**	365	**–**	–
Provision for long service leave (non-current)	**500**	500	**–**	–
	1,019	865	**–**	–
Number of full-time equivalent employees at 31 December:				
Australia	**20**	26	**–**	–
Outside Australia	**32**	28	**–**	–
	52	54	**–**	–

Executive Share Option Scheme

An executive share option scheme is in operation the details of which are discussed in the Directors' Report under the heading Share Options and at Note 19.

Superannuation

For employees in Australia the Group has a legal obligation to provide minimum superannuation support under the Superannuation Guarantee Legislation. The current contribution is 9% of employee earnings. The contribution is made to an accumulation fund and an actuarial review is not required.



29. REMUNERATION OF DIRECTORS

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $	2002 $	2003 $	2002 $
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:	**1,230,859**	903,427	**1,211,145**	880,570
The number of Novus Petroleum Limited directors whose incomes from the consolidated entity or any related entities was within the following bands:				
$ 20,000 – $ 29,999	**1**	–	**1**	–
$ 30,000 – $ 39,999	**1**	–	**1**	–
$ 60,000 – $ 69,999	**1**	2	**2**	3
$ 70,000 – $ 79,999	**1**	–	**–**	–
$ 80,000 – $ 89,999	**–**	1	**–**	–
$ 90,000 – $ 99,999	**1**	1	**1**	1
$590,000 – $599,999	**–**	1	**–**	1
$920,000 – $929,999	**1**	–	**1**	–

The remuneration of directors excludes options that have been issued under the Executive Share Option Scheme. No options were issued to any directors during the financial year ended 31 December 2003.

The names of parent entity directors who have held office during the financial year were:

D.H. Blair
J.T. Hornabrook
J.S. Mann
S. Takahashi
N. Tsuruta
R.C. Williams

In the opinion of directors, remuneration paid to directors is reasonable.

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $	2002 $	2003 $	2002 $

30. REMUNERATION OF EXECUTIVES

Remuneration received or due and receivable by Australian based executive officers of the consolidated entity whose remuneration is $100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise:	**2,172,146**	1,868,556	**927,645**	597,820
The number of Australian based executive officers of the consolidated entity and the Company whose remuneration is $100,000 or more, was within the following bands:				
$190,000 – $199,999	**–**	1	**–**	–
$200,000 – $209,999	**–**	1	**–**	–
$210,000 – $219,999	**–**	1	**–**	–
$250,000 – $259,999	**1**	–	**–**	–
$270,000 – $279,999	**1**	1	**–**	–
$340,000 – $349,999	**1**	–	**–**	–
$370,000 – $379,999	**1**	–	**–**	–
$380,000 – $389,999	**–**	1	**–**	–
$590,000 – $599,999	**–**	1	**–**	1
$920,000 – $929,999	**1**	–	**1**	–

The remuneration of executive officers excludes options that have been issued under the Executive Share Option Scheme.

In the opinion of directors, remuneration paid to executive officers is reasonable.

	CONSOLIDATED		NOVUS PETROLEUM LIMITED	
	2003 $	2002 $	2003 $	2002 $

31. RELATED PARTY DISCLOSURES

(a) Loans to Related Parties

Non-Current				
Controlled	**–**	–	**192,461,654**	187,219,487

Novus Petroleum Limited and its wholly owned controlled entities engaged in a variety of related party transactions in the ordinary course of business (with the exception that some inter-company loans are interest free). These transactions are conducted on normal terms and conditions, the effects of which are eliminated on consolidation.

(b) Directors' shareholdings of fully paid ordinary shares in Novus Petroleum Limited at 31 December 2003 are as follows:

D.H. Blair	Shares	**128,802**
J.T. Hornabrook	Shares	**118,375**
J.S. Mann	Shares	**13,500**
S. Takahashi	Shares	**–**
N.Tsuruta	Shares	**–**
R.C. Williams	Shares	**1,459,896**
	Options	**2,000,000**

32. FINANCIAL INSTRUMENTS

Net fair values

The net fair value for each financial asset and liability, other than the US subordinated notes, was equal to its carrying value as recorded in the Statement of Financial Position at 31 December 2003. Details of the net fair value of the US subordinated notes are set out in Note 16.

Risk management

Financial exposures arise in the normal course of the consolidated entity's business, including portfolio risk, exploration risk, commodity price risk, foreign exchange risk, liquidity risk, interest rate risk and credit risk with customers. Measures used to manage these risks are noted below.

PORTFOLIO RISK

Maintenance of a geographically diverse asset portfolio spreads the risk exposures associated with the oil and gas business. The consolidated entity continues the spread of its interests so as to derive a balanced portfolio of assets that potentially will provide increased value to shareholders and reduce the concentration of assets in any one country, producing field or income stream.

LIQUIDITY RISK

The Company has a policy of purchasing assets and maintaining an asset portfolio that delivers cash flows sufficient to meet its operational obligations. The consolidated entity's primary liquidity sources are cash at bank and on deposit, cash generated from operations and medium to long term debt facilities.

EXPLORATION RISK

In managing the business risk of exploration Novus aims to drill a statistically sufficient number of exploration wells, including lower risk prospects near existing fields and higher risk, higher return greenfield prospects which, if successful, could materially affect Novus. At the same time expenditure is budgeted at levels that can be comfortably funded by the consolidated entity from its various sources of finance, taking into account exploration programme commitments, the oil price environment and other requirements for funds.

FOREIGN EXCHANGE RISK

Novus predominantly operates with US dollars as its functional currency with the majority of income and expenditure denominated in US dollars. Based on this and the natural hedge in US dollars of the majority of assets and liabilities, foreign exchange hedging instruments are not used for operating cash flows. There is no impact on the Consolidated entity's US dollar cash flow or purchasing power resulting from fluctuations in the value of the Australian dollar. The only impact on Novus is reporting of results, which is in Australian dollars, as this will be subject to fluctuations in the exchange rate.

COMMODITY PRICE RISK

Prices for the consolidated entity's products are mostly determined on international markets and are predominantly denominated in US dollars.

Novus has, to some extent, a natural hedge against oil price fluctuations due to its exposure to regimes which utilise Production Sharing Contracts ("PSCs").

In PSC regimes, joint venture partners are reimbursed out of production for capital expenditure (via depreciation) and for non-capital expenditure (operating costs) as it is incurred. This is referred to as cost petroleum and the quantity received is a function of costs and product price. Therefore, when the price of the product is high a smaller volume is received and when the price is low there is an increase in entitlement to cost petroleum (oil or gas), thus cushioning the impact of price fluctuations.

With respect to gas, most of the consolidated entity's current production is sold under long-term contracts with pricing related to a measure of inflation. In addition, most of the consolidated entity's current gas production is also from PSC regimes. These factors and the predominance of gas in the consolidated entity's current overall asset mix significantly reduce exposure to commodity pricing risk.

Historically, a significant component of the Company's revenue has been derived from PSC regimes and as a consequence of their buffering effect, the consolidated entity has not taken out forward contracts on its petroleum sales. However as the consolidated entity's production levels in the USA have grown, this policy has been reviewed, and during 2003 the company entered into forward sale contracts relating to gas production from certain of its US properties. Strict guidelines, policies and controls have been established in relation to these hedging activities, notably the use of well established, low risk and low cost hedging instruments.

These forward sale contracts are gas price options forming zero cost collars at reporting date designed as a hedge of anticipated future US gas sales to be written in the first quarter of 2004. These hedges have been treated as specific, in accordance with UIG 33, as the expected quantity of gas to be produced and sold is presently known. Under the options, Novus has agreed to sell 270,000 mmbtu of gas at an average price of no less than U$ 4.89/mmbtu and no greater than U$ 6.89/mmbtu, and a further 240,000 mmbtu at an average price of U$ 4.12/mmbtu. As at balance date, the fair value of these hedges was insignificant. Due to the current takeover activity and resulting uncertainty regarding the future control of the Novus Group, no further hedges have been entered into since the end of 2003.

32. FINANCIAL INSTRUMENTS (continued)

CREDIT RISK

The consolidated entity's operations create credit risk which in general is mitigated by oil purchase agreements with established international oil marketing agents. In the case of gas, sales are generally governed by long term supply contracts. Gas sales in some instances are with a limited number of customers which may result in a concentration of credit risk. The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial performance.

INTEREST RATE RISK

The consolidated entity's exposure to interest rate risk arises from its medium to long term borrowings (US notes) and short to medium term corporate debt facilities. This risk is managed by locking in part of the debt facilities at a fixed interest rate over the long term period and allowing the remaining corporate debt facilities to fluctuate with market interest rate movements.

33. CONTINGENT LIABILITIES

In accordance with normal petroleum industry practice, the consolidated entity has entered into joint ventures and farm-in agreements with other parties for the purpose of exploring and developing its petroleum permit interests. If a party to a joint venture defaults and does not contribute its share of joint venture obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the permit held by the defaulting party may be redistributed to the remaining joint venturers. There are no parties in any of the joint ventures that are in default at 31 December 2003.

As a result of the takeover offer by Medco Energi (Australia) Pty Limited on 22 December 2003, refer note 34 for further details, the Company estimates that it will incur costs of around $4 million as part of the takeover defence (assuming no change of control). Should a change of control occur, it is estimated that the company will incur additional costs of between $20 million and $25 million, this amount being primarily constituted by the "Make Whole" payments in respect of the Subordinated US notes.

34. SUBSEQUENT EVENTS

On 22 December 2003, Indonesian oil and gas company PT Medco Energi Internasional Tbk announced an unsolicited off-market takeover offer by a wholly-owned subsidiary (Medco Energi (Australia) Pty Limited) for all the issued share capital of Novus Petroleum Limited at $1.74 cash per share. As part of the Company's response to the takeover, it has, or will, incur costs after balance date in defence of the takeover. In the event that there is no change of control of the company, these costs are estimated to amount to $4 million. This amount has not been brought to account in the financial statements for the year ended 31 December 2003.

On 19 January 2004 Dr R.C. Williams, Chief Executive Officer of the Company together with Hong Kong based investment banking group Crosby Capital Partners (the "Crosby Group") announced their intention to make an offer for the Company at $1.77 cash per share. At the date of this report the formal documentation, referred to as the Bidder's Statement, has not been received by the Company.

On 1 January 2004, there was a gas leak, followed by a fire at the Moomba processing facility in the Cooper Basin. This incident resulted in the shut-down of the gas processing plant until the problem and its cause could be identified. The leak has no impact on the results of the 2003 financial year.

Otherwise, there are no matters or circumstances that have arisen since the end of the financial year which significantly affect, or may significantly affect, the operations, results, state of affairs of the Company or the consolidated entity that have not otherwise been disclosed elsewhere in this report.

35. CONTROLLED ENTITIES

Name of Entity	Entity Holding % 2003	Entity Holding % 2002	Country of Incorporation	Country of Operation
Parent Entity				
Novus Petroleum Ltd			Australia	Australia
Controlled Entities				
Novus Finance Pty Ltd	**100**	100	Australia	Australia
Novus Management Services Pty Ltd	**100**	100	Australia	Australia
Novus Australia Holdings Pty Ltd	**100**	100	Australia	Australia
Controlled Entities held directly and indirectly by Novus Australia Holdings Pty Ltd				
Novus Exploration Holdings Pty Limited	**100**	100	Australia	Australia
Novus Australia Energy Company Pty Ltd	**100**	100	Australia	Australia
Novus Australia Resources NL	**100**	100	Australia	Australia
Novus Pakistan Pty Ltd	**100**	100	Australia	Pakistan
NVS Group Holdings (Malaysia) Sdn Bhd	**100**	100	Malaysia	Indonesia
Novus (Thailand) Company Ltd	**–**	100	Thailand	Thailand
Novus Overseas Holdings Ltd	**100**	100	Guernsey *	Australia
Novus Qatar Ltd	**100**	100	Guernsey *	UAE
Novus West Asia Ltd	**100**	100	Guernsey *	UAE
Novus Al Khaleej Limited	**100**	100	Guernsey *	Oman, Qatar
Novus Oman Ltd	**100**	100	Bermuda *	Oman
Novus Indonesia Brantas Company	**100**	100	Cayman Islands *	Indonesia
Novus Lematang Company	**100**	100	Cayman Islands *	Indonesia
Novus UK (Indonesia Holdings) Ltd	**100**	100	England & Wales	Indonesia
Novus UK (Kakap) Ltd	**100**	100	England & Wales	Indonesia
Novus UK (Kakap 2) Ltd	**100**	100	England & Wales	Indonesia
Novus UK (Malacca Strait) Ltd	**100**	100	England & Wales	Indonesia
Novus Petroleum Canada (Indonesia Holdings) Ltd	**100**	100	Canada *	Indonesia
Novus Petroleum Canada (Kakap) Ltd	**100**	100	Canada *	Indonesia
Novus Petroleum Canada (Malacca Strait) Ltd	**100**	100	Canada *	Indonesia
Novus US Holdings Inc	**100**	100	USA *	USA
Novus US Finance LLC	**100**	100	USA *	USA
Novus Nevada Petroleum LLC	**100**	100	USA *	USA
Novus Oil & Gas Texas LLC	**100**	100	USA *	USA
Novus Oil & Gas LP	**100**	100	USA *	USA
Novus Louisiana LLC	**100**	100	USA *	USA

* Controlled entity which is not required by law to be audited.

All of these companies have been subject to a limited scope audit by the auditors of the parent entity, in conjunction with the preparation of the consolidated accounts of the parent entity.

directors' declaration

In accordance with a resolution of the directors of Novus Petroleum Limited, I state that –

In the opinion of the directors:

(a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2003 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

D.H. Blair

Chairman

18 February 2004

independent audit report

ERNST & YOUNG

The Ernst & Young Building

Independent audit report to members of Novus Petroleum Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Novus Petroleum Limited (the company) and the consolidated entity, for the year ended 31 December 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence
We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion
In our opinion, the financial report of Novus Petroleum Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Novus Petroleum Limited and the consolidated entity at 31 December 2003 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Michael Elliott
Partner
Sydney
18 February 2004

corporate governance statement

Novus' Board and management remain committed to maintaining the highest standards of corporate governance.

Following the release on 31 March 2003 of the Australian Stock Exchange Limited's Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" ("ASX Recommendations"), the Board, in conjunction with management, undertook a review of its current corporate governance practices. Whilst Novus was largely compliant, various policies and practices were updated or introduced to maximise compliance with the ASX Recommendations, to the extent that such compliance is in the best interest of shareholders.

Although not required to report against the ASX Recommendations until the publication of its Annual Report in relation to 2004, Novus has decided to report in advance the extent of its conformance with the ASX Recommendations. For maximum clarity and transparency each of the ten principles set out in the ASX Recommendations has been commented on in this statement.

Novus has posted its corporate governance practices, policies and charters on its website, in accordance with the ASX Recommendations.

Principle 1.
Lay solid foundations for management and oversight by the Board

The Board's role and responsibilities are formalised in a Board Charter that clearly defines the matters that have been reserved for the Board and those that have been delegated to management. The Board's key responsibilities are set out in the corporate governance section of the Company's website.

The Board has delegated the day-to-day management of the Company's business to the Chief Executive Officer. There are clear lines of communication between the Chairman and the Chief Executive Officer and the division of authority is documented in the Board Charter. In addition the Board has established a system of controls and policies which set out the decision making powers which may be exercised by the Chief Executive Officer, senior management and staff in general.

The Board has delegated specific authority to three committees, (Audit Committee, Remuneration Committee and Nomination Committee), to assist it in carrying out its responsibilities by reviewing various issues and subsequently making recommendations to the Board. Each committee is governed by a Charter which clearly sets out its composition and responsibilities. The Board also delegates specific tasks and responsibilities to ad-hoc committees and working groups from time to time. The year 2003, for example, saw the formation of a Corporate Governance Working Group which worked closely with management to review and, where appropriate, implement changes to the Company's corporate governance framework.

Newly appointed Directors receive a formal letter of appointment setting out the key terms and conditions relevant to that appointment and undergo an induction process. Employment contracts are in place for all employees, including the Chief Executive Officer and other senior executives, describing the duties, rights, responsibilities and entitlements on termination.

Principle 2.
Structure the Board to add value

Throughout 2003 there were five directors, including one executive director, the Chief Executive Officer. Mr Seiki Takahashi was replaced by Mr Noboru Tsuruta as the director nominated by the Mitsui group in August 2003. The other three non-executive directors are considered independent in accordance with the definition of independence established by the Board and documented in the Board Charter. Details of the members of the Board, including their experience, expertise, qualifications, term of office and Board committee memberships are set out on pages 6 and 7 of this Annual Report.

The Chairman of the Board, as is required by the Board Charter, is an independent non-executive director appointed by the Board. The Chairman is responsible for the leadership of the Board, ensuring that Board activities are organised and efficiently conducted and for setting the agenda for Board meetings. The Chief Executive Officer is responsible for the day-to-day running of the Company and for implementing Company strategies and policies. The roles of the Chairman and the Chief Executive Officer are undertaken by separate people. Under the Company's constitution, the maximum term for a Director (excluding the Chief Executive Officer) before they must be put up for re-election by the members is three years.

A Nomination Committee comprising, Mr D.H. Blair, Mr J.S. Mann and Dr R. C. Williams, the majority of whom are independent, was established by the Board on 18 September 2003 as a result of Novus' review of the ASX Recommendations but has not yet formally met. The Nomination Committee will operate under the Charter which has been adopted by the Board. The Nomination Committee has the following key responsibilities:

- assessing the skills and competencies required on the Board;
- establishing review processes for the performance of individual directors and the Board as a whole and recommending any appropriate changes as a result of the review process;
- establishing processes for the identification of suitable candidates for appointment to the Board; and
- recommending the appointment and removal of directors.

Where appropriate the Nomination Committee may engage external consultants.

Principle 3.
Promote ethical and responsible decision making

In 2003 Novus developed a formal Corporate Code of Conduct that is in accordance with the ASX Recommendations and applies to all Directors, employees and any contractor or consultant, to the extent relevant. This Code is reflective of the basic principle that the Company and its employees must at all times exercise high standards of integrity, honesty, fairness and performance. It also sets out the Company's policies in relation to matters such as confidentiality, conflicts of interest, occupational health and safety, environmental issues and equality in employment.

All Directors, employees, contractors and consultants to the Company are required to give an undertaking to adhere to the Company's policy governing trading in the Company's securities. The policy restricts buying and selling of the Company's securities to a six week period which commences two days after an Annual General Meeting or an annual, half yearly or quarterly report has been released to the market or otherwise broadly circulated. Transactions may also be permitted outside these time frames provided that the criteria outlined in the Dealing in Securities policy has been met, the Company Secretary notified and the Chairman's approval granted if necessary. Share trading is prohibited at any time that the individual is in possession of price sensitive information that is not available to the market and which could reasonably be expected to influence the market. Short-term trading in the Company's securities is prohibited at all times

Principle 4.
Safeguard integrity in financial reporting

The Chief Executive Officer and the Chief Financial Officer provide a statement in writing to the Board that in their opinion the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operating results, are prepared in accordance with relevant accounting standards, and that there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable. This statement also provides that the integrity of these reports is founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies of the Board. The Chief Executive Officer and the Chief Financial Officer provide written assurance to the Board that the risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

The Audit Committee is responsible for assisting the Board in managing its financial reporting and risk management responsibilities. The functions and responsibilities of the Committee are set out in a Board approved Charter. The Audit Committee Charter addresses the functions, processes and key responsibilities of the Committee.

Throughout the reporting period and as of the date of this report, the Audit Committee had a majority of independent non-executive directors. The Committee was chaired by Mr J.S. Mann, an independent director. The other members were Mr D.H. Blair, also an independent director, and Dr R.C. Williams, the CEO. Details of the members' qualifications and experience, are set out in the Directors' profiles which can be found at page 6 of this Annual Report.

The Audit Committee Charter provides that a majority of the Committee must be independent non-executive directors and that the Committee Chairman must be an independent director who is not also chairman of the Board. The Chief Financial Officer attends and acts as the secretary for the Committee in an ex officio capacity and other senior executives attend as appropriate. The Charter provides that the Committee must meet at least twice each year. Historically, however, meetings of the Audit Committee have been held more frequently. The Charter also provides that a representative from the external auditor must be invited to attend each meeting and that at the conclusion of each Audit Committee meeting, the non-executive Committee members will meet with the auditor to enable the non-executive members and the auditor to discuss any points of concern. Details of the committee meetings held during the year and individual Directors' attendance at committee meetings are set out on page 7 of this Annual Report.

Recommendation 4.3 requires an audit committee to comprise only non-executive directors, but provides for a transitional period until 1 July 2005. The Board has considered carefully whether it is appropriate for Dr R.C. Williams, the Company's Chief Executive Officer, to remain a member of the Committee during the transitional period. The Board considers that the participation of the Chief Executive Officer is important to the necessary understanding of the complex and international business matters that the Company routinely has to consider. Also with a small Board of five directors, only three of whom reside in Sydney, the Board believes as a practical matter that it is preferable for the three Sydney based directors to remain on the Audit Committee at this point in time. The current composition of the Audit Committee is in accordance with the transitional arrangements approved by the ASX.

One of the chief functions of the Audit Committee is to review and monitor the performance and independence of the external auditor. The audit engagement partner will be rotated at least every seven years.

Principle 5.
Make timely and balanced disclosure

The Company's Disclosure Policy which has been approved by the Board is designed to ensure compliance with the ASX Listing Rules continuous disclosure requirements and to ensure accountability at a senior management level for that compliance. The policy ensures that any information that a person could reasonably expect to have a material effect on the share price is announced to the ASX in a timely manner. The Chief Executive Officer, Chief Financial Officer and Company Secretary have each been designated to act as a "Disclosure Officer" and are responsible for determining whether or not information should be disclosed to the market and providing direct authorisation before any such disclosure is made. Announcements are posted on the Company's website immediately once confirmation of receipt is received from the ASX.

Principle 6.
Respect the rights of shareholders

Novus' Shareholder Communications Policy has been formulated to ensure that all shareholders have equal and timely access to material information necessary to make informed investment decisions on the operations and results of the Company. Key mechanisms employed include:

– regular shareholder communications such as the quarterly, half-yearly and annual report;

– the Novus website (www.novuspetroleum.com), which has been designed to form a major communication link with Novus' shareholders; and

– investor presentations, corporate briefing interviews, notices of meetings and explanatory material, all of which are posted on the Novus website.

The Board encourages full participation of shareholders at the Annual General Meeting. Shareholders who are unable to attend can submit questions to the Company prior to the meeting by any method, including electronically via the "contact us" web link on the Novus website, and will also have access to the Chairman's address, voting results and the presentations made during the meeting via the website, directly after the Annual General Meeting. In addition it is Novus' practice to ensure that its external auditor attends Annual General Meetings and is available to answer any shareholder questions regarding the conduct of the audit and the auditor's report.

Principle 7.
Recognise and manage risk

The Board is responsible for overseeing the Company's risk management and internal control framework which is supported by the Risk Management Policy and largely contained within the Control and Policies manuals. The Board, assisted by the Audit Committee, monitors the status of business risks by ensuring they are identified, assessed and appropriately managed. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. The Control Manual defines authority levels, where appropriate, and provides detailed procedures in risk areas such as operations, financial matters, the market, health, safety and environment, IT security, legal, internal compliance and other risk management areas.

An annual review of the Control and Policies manuals is undertaken by the Chief Financial Officer and the Company Secretary, and on an ongoing basis by members of the finance department, to ensure that internal controls remain up to date and appropriate. Novus' external auditors carry out an annual review of the financial aspects of the Control Manual. In addition to the management questionnaire completed as part of Novus' half yearly and annual financial reporting process, the Chief Executive Officer and Chief Financial Officer provide the statement referred to in principle 4.

Principle 8.
Encourage enhanced performance

During 2003 the Board considered the process for performance evaluation of the Board, its committees, individual directors and senior executives. The newly formed Nomination Committee now has responsibility for evaluating the Board's performance. During 2003, Novus sought a proposal from an external service provider to undertake a Board performance assessment, but determined to defer such external assessment at this point in time.

The Board is responsible for evaluating the performance of the Chief Executive Officer, who in turn formally evaluates the performance of all other senior executives twice each year. These evaluations are based primarily on the performance of those executives against agreed management contracts.

Subject to any legal restrictions, all Directors have access to the Company's records and any member of staff. In addition to Board papers, agendas and other related information, the Board is provided with monthly management information and any other information relevant in order for the Board to effectively discharge its duties. Each Director has the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required but this may not be unreasonably withheld. Procedures for obtaining such advice have been adopted and set out in the Board Charter.

Principle 9
Remunerate fairly and responsibly

The Company's remuneration policy has been formulated to attract and retain talented and motivated employees so as to enhance the performance of the Company. Each employee participates in an incentive scheme which delivers a cash bonus if individual and corporate performance targets are met. In past years options, which are exercisable only after a vesting period and provided performance hurdles have been met, have been issued to senior executives to provide long term incentives. None were issued during 2003.

The remuneration of the five highest paid (non-director) continuing executives of the Novus Group during 2003 and for all Directors is included on pages 40 and 41 of this Annual Report. The non-executive Directors are remunerated only by way of fees and they do not receive options, bonus payments or any retirement benefits other than statutory superannuation.

The Remuneration Committee operates under a formal Charter and supports and advises the Board in fulfilling its responsibilities to shareholders which include:

- ensuring that remuneration policies are appropriate;
- determining the basis for incentive schemes and employee share and option plans for the Company; and
- annually reviewing the compensation arrangements for senior executives, the Chief Executive Officer and non-executive directors.

Three non-executive Directors (Mr D.H. Blair (Chairman), Mr J.T. Hornabrook and Mr J.S. Mann) are members of the Remuneration Committee which must meet at least once during the year. Historically, however, the committee has met more frequently than this. The Chief Executive Officer attends meetings of the Remuneration Committee by invitation, as and when appropriate and the Company Secretary attends meetings as ex-officio secretary. Attendance at Remuneration Committee meetings during 2003 is set out on page 7 of this Annual Report.

Principle 10
Recognise the legitimate interests of stakeholders

As outlined in relation to Principle 3 of this Statement, Novus implemented a Code of Conduct in 2003 which sets out the behaviour required of Directors, employees and contractors and consultants, where applicable, in order to guide compliance with legal and other obligations of legitimate stakeholders.

shareholder information

1. Issued capital

As at 31 December 2003 (the balance date of the 2003 Annual Accounts as enclosed here), the Company had 183,986,529 fully paid ordinary shares on issue.

As at 31 March 2004 (the date of the updated review of operations and activities enclosed here), the Company had 184,279,861 fully paid ordinary shares on issue.

2. Voting rights

In summary, voting rights of members are governed by the constitution. On a show of hands, every member present in person or by proxy shall have one vote for every ordinary fully paid share held.

3. Distribution of shareholdings at 2 April 2004

Holdings			Fully paid Shareholders
1	–	1,000	852
1,001	–	5,000	3,124
5,001	–	10,000	662
10,001	–	100,000	478
Over		100,000	52
Total			5,168

4. The twenty largest shareholders at 2 April 2004

Shareholder	Number Held	%
National Nominees Limited	23,107,863	12.54
Westpac Custodian Nominees Limited	22,110,422	12.00
Citicorp Nominees Pty Limited	20,495,191	11.12
RBC Global Services Australia Nominees Pty Limited	17,302,923	9.39
JP Morgan Nominees Australia Limited	13,858,357	7.52
Mitsui Oil Exploration Co Ltd	11,950,000	6.49
Mittwell Energy Resources Pty Ltd	11,950,000	6.49
UBS Nominees Pty Ltd (Prime Broking a/c)	5,637,289	3.06
Citicorp Nominees Pty Limited (CFS w/sale gbl res fund a/c)	5,628,330	3.05
ANZ Nominees Limited	5,294,138	2.87
Brispot Nominees Pty Ltd (House Head Nominee No 1 a/c)	2,386,473	1.30
AMP Life Limited	2,188,532	1.19
RBC Global Services Australia Nominees Pty Limited (Pipooled a/c)	1,572,386	0.85
Dr Robert Charles Williams	1,459,896	0.79
Cogent Nominees Pty Limited (SMP Accounts)	1,053,064	0.57
Bainpro Nominees Pty Limited	983,159	0.53
Mrs Tereza Juliana Bowers	952,000	0.52
RBC Global Services Australia Nominees Pty Limited (PIIC a/c)	860,853	0.47
Macquarie Newton SFM Ltd (Special Events Fund)	578,976	0.31
Irrewarra Investments Pty Ltd (Ex-50 a/c)	550,000	0.30

5. Substantial shareholders at 2 April 2004

The following shareholders have advised that they are a substantial shareholder:

Shareholder	Number Held	%
Mitsui / MOECO	23,900,000	13.03
Maple-Brown Abbott Limited	14,106,015	8.84
Perpetual Trustees Australia Limited	11,954,523	6.51
National Australia Bank Limited Group	11,088,208	6.03

corporate directory

DIRECTORATE
Mr David Blair – Non Executive Chairman
Mr Jim Hornabrook – Non Executive Director
Mr Steve Mann – Non Executive Director
Mr Noboru Tsuruta – Non Executive Director
Dr Bob Williams – Managing Director
Ms Elaine Connor – Company Secretary

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SHAREHOLDER ENQUIRIES
Novus welcomes enquiries from its shareholders at any time. Please feel free to call the Company Secretary.

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Visit our website at:

www.novuspetroleum.com

for more information about Novus.