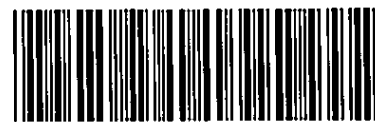


**NOVUS UK (KAKAP) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2010**

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# NOVUS UK (KAKAP) LIMITED

REGISTERED NUMBER 707927

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010

### Principal Activity and Review of Business

The principal activities of the Company remain unchanged and continue to comprise the exploration for and production of hydrocarbons in areas of Indonesia granted by the Kakap Production Sharing Contract ("Kakap PSC")

### Likely Future Developments

There are no immediate developments that are likely to have a material impact on the operations of the Company although the Company is continually reviewing opportunities for growth and development

### Going Concern

After reviewing the Company's budget and plans, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements

### Production/Exploration

Oil and condensate production by the Kakap PSC, in the West Natuna Sea, Indonesia averaged 2,993 boepd in 2010 (3,535 boepd in 2009) Gas production averaged 7,627 boepd in 2010 (6,047 boepd in 2009) No exploration well was drilled in 2010 and 2009

### Results

The results for the year ended 31 December 2010 and 2009 are summarized below

	2010 <u>US\$000</u>	2009 <u>US\$000</u>
Turnover	28,179	20,853
Profit on ordinary activities before taxation	16,324	14,180
Tax on profit on ordinary activities	(6,340)	(4,115)
Profit for the year	9,984	10,065

Although oil production in 2010 decreased, the turnover still increased primarily due to the increase in oil and gas prices Average oil price in 2010 was US\$79 94/bbls (2009 US\$58 96/bbls) and the average gas price in 2010 was US\$14 66/mscf (2009 US\$11 10/mscf)

The Company's profit for the year after taxation was US\$9,984,000 (2009 US\$10,065,000) There were no dividends declared and distributed during the year (2009 \$nil)

## **NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

### **DIRECTORS' REPORT (Continued)**

#### **Results (continued)**

As a consequence of the deterioration found in the hull envelope of the previous KN Floating Production Storage and Offloading ("KN FPSO") vessel which was followed by the cancellation of the certification from the American Bureau of Shipping on 28 July 2009, the Operator had temporarily stopped crude oil lifting activities until 23 March 2010, which was the date of the first oil lifting after the incident

Various efforts have been initiated and carried out by the Operator in order to remedy the situation, including implementation of a medium-term solution by replacing the KN FPSO with a new Floating Storage and Offloading ("FSO") namely East Fortune FSO. The contract to lease the new FSO was signed in October 2009 with PT Pulau Kencana Raya ("PKR") as an agent on behalf of Songa Production Pte Ltd. The contract with PKR had a total contract value of \$14,115,000 and expired in September 2010 which was nine months from first oil on the new FSO and operations date of Single Point Mooring Buoy ("SPM buoy") on 9 January 2010. On 5 October 2010, the Operator extended the lease contract of the new FSO up to 31 December 2010 with the contract value amounting to US\$2,972,336. On 1 December 2010, the lease contract was extended up to 31 January 2011 (Note 22).

#### **Fixed Assets**

Changes in tangible fixed assets are shown in Note 11 to the financial statements

#### **Subsequent Event**

##### *Extended Lease Contract of EF FSO*

On 12 January 2011, the lease contract of EF FSO rental service has been extended for a twelve months period starting 1 February 2011. However, since 9 March 2011, the EF FSO has been demobilized from Kakap field and has been replaced with the new vessel MT Barunawati. Originally, the vessel that will replace EF FSO is MT Badraim which was modified.

From July 2011, the vessel MT Badraim was available for use and so the Operator started using it for its oil liftings.

#### **Principal risks and uncertainties**

The principal risks that the Company faces are

##### *Exploration and development risk*

There is no assurance that the Company's exploration activities will be successful and statistically few properties that are explored are ultimately developed into producing hydrocarbon fields. Accordingly, the Company provides a risk analysis and range of outcomes to the Board of Directors for consideration prior to any prospect being drilled.

The Company's operations may also be curtailed, delayed or cancelled not only as a result of the weather conditions but also as a result of shortage or delays in the delivery of drilling rigs and other equipment which, at times, are in short supply. As the Company only owns a non-operated asset, risk is mitigated to some extent by being in a joint venture with a number of other companies, which have access to rigs and equipment.

## **NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

### **DIRECTORS' REPORT (Continued)**

#### **Principal risks and uncertainties (continued)**

##### *Competition*

There is strong competition within the petroleum industry for the identification and acquisition of properties considered to have hydrocarbon potential. The Company competes with other exploration and production companies, some of which have greater financial resources than the Company, for the acquisition of properties, leases and other interests as well as for the recruitment and retention of skilled personnel. The challenge to management is to secure transactions without having to over pay.

##### *Commodity prices, fiscal regimes and currency*

The market price of hydrocarbon products is volatile and cannot be controlled. If the price of hydrocarbon products should drop significantly, or the fiscal regime change for the worse, the economic prospects of the projects in which the Company has an interest could be significantly reduced or rendered uneconomic. Currently the Company has a gas price contract, which will minimise the commodity price risk for gas.

Exposure to foreign currency and commodity price risks arises in the normal course of the Company's business.

##### *Financing*

The development of the Company's properties will depend upon the Company's ability to obtain financing through the joint venture of projects, debt financing through Star Energy Holdings Pte Ltd or its subsidiaries, farm downs or by other means. There is no assurance that the Company will be successful in obtaining the required financing or attracting farminees. If the Company is unable to obtain additional financing as needed through the attraction of suitable farm-in partners, some interests may be relinquished and/or the scope of the operations reduced.

##### *Credit risk*

Credit risk arises from cash on hand and in banks, deposits with banks and financial institutions, as well as credit exposures from trade receivables. The Company is subject to concentration of credit risk as its entire sales are to two counterparties. Oil and Gas sales are solely to BP Singapore Pte Ltd and SembCorp Gas Pte Ltd, respectively.

## **NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

### **DIRECTORS' REPORT (Continued)**

#### **Directors**

The Directors who served during the year and up to the date of the financial statements, unless otherwise noted, were

Rudy Suparman	
Bret Wayne Mattes	
Paul Francis Winship	(resigned on 05 August 2011)
Robin Gregory Baker	(resigned on 30 September 2010)
Hendra Soetjipto Tan (Alternate)	
James Patrick Johnston Fairrie	(appointed on 09 March 2011)
Spencer Saffer	(appointed on 23 September 2011)

#### **Directors' indemnity**

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

#### **Creditor payment policy and practice**

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2010, the Company had an average of 27 days purchases outstanding in trade creditors (31 December 2009: 46 days).

#### **Disclosure of information to the auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and of the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

**NOVUS UK (KAKAP) LIMITED**


**REGISTERED NUMBER 707927**

**DIRECTORS' REPORT (Continued)**


**Re-appointment of auditor**

Ernst & Young LLP was re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under part 16, chapter 2, section 487 of Companies Act 2006

By order of the Board



**Bret Wayne Mattes**  
Director



**Hendra Soetjpto Tan**  
Director

28 September 2011

## **NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOVUS UK (KAKAP) LIMITED**

We have audited the financial statements of Novus UK (Kakap) Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion, the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



**NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOVUS UK  
(KAKAP) LIMITED (continued)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Jacqueline Ann Geary (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

30 September 2011

**NOVUS UK (KAKAP) LIMITED**

**(Registered Number 707927)**

**Profit and Loss Account**

**For the Year Ended 31 December 2010**

	Notes	2010 US\$000	2009 US\$000
Turnover	3	28,179	20,853
Cost of sales	4	(11,624)	(10,719)
<b>Gross profit</b>		<b>16,555</b>	<b>10,134</b>
Other operating (expense)/income	5	(196)	4,110
<b>Operating profit</b>		<b>16,359</b>	<b>14,244</b>
Finance costs	6	(35)	(64)
<b>Profit on ordinary activities before taxation</b>		<b>16,324</b>	<b>14,180</b>
Tax on profit on ordinary activities	10	(6,340)	(4,115)
<b>Profit for the year</b>		<b>9,984</b>	<b>10,065</b>

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

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents

The notes on pages 12 to 23 are an integral part of these financial statements

**NOVUS UK (KAKAP) LIMITED**

**(Registered Number 707927)**

**Statement of Total Recognized Gains and Losses**

**For the year ended 31 December 2010**

There are no recognised gains or losses attributable to the shareholders of the Company other than the profit of US\$9,984,000 for the year ended 31 December 2010 (2009 profit of US\$10,065,000)

**NOVUS UK (KAKAP) LIMITED**


**(Registered Number 707927)**

**Balance Sheet**

**At 31 December 2010**

		<b>2010</b>	<b>2009</b>
	<b>Notes</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Fixed Assets</b>			
Tangible assets	11	21,561	22,566
<b>Current Assets</b>			
Cash		387	1,254
Restricted cash		2,092	-
Debtors	12		
Amounts falling due after one year		37,761	30,037
Amounts falling due within one year		<u>6,468</u>	<u>5,404</u>
		44,229	35,441
Stocks	13	<u>379</u>	<u>497</u>
<b>Total Current Assets</b>		<b>47,087</b>	<b>37,192</b>
<b>Current Liabilities</b>			
Creditors - amounts falling due within one year	14	<u>(5,835)</u>	<u>(6,379)</u>
<b>Net Current Assets</b>		<b>41,252</b>	<b>30,813</b>
<b>Total Assets Less Current Liabilities</b>		<b>62,813</b>	<b>53,379</b>
 Creditors - amounts falling due after more than one year	15	 (898)	 (900)
Provisions for liabilities and charges	16	<u>(2,902)</u>	<u>(3,450)</u>
<b>Net Assets</b>		<b>59,013</b>	<b>49,029</b>
 <b>Capital and Reserves</b>			
Called up share capital	17	2	2
Profit and loss account	19	<u>59,011</u>	<u>49,027</u>
<b>Shareholder's Funds - equity interests</b>	20	<b>59,013</b>	<b>49,029</b>

Approved by the Board of Directors, and signed on its behalf on 28 September 2011 by

  
**Bret Wayne Mattes**  
 Director

  
**Hendra Soetjpto Tan**  
 Director

The notes on pages 12 to 23 are an integral part of these financial statements

## **NOVUS UK (KAKAP) LIMITED**

### **Notes to the Financial Statements**

#### **1) Accounting Policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below

##### **(a) Basis of preparation**

The financial statements of Novus UK (Kakap) Limited were approved for issue by the Board of Directors on 28 September 2011

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

The Company has taken advantage of the exemption given in FRS 1(Revised) "Cash Flow Statements" not to prepare a cash flow statement as a consolidated cash flow statement, which includes the cash flows of the Company, has been published by the Ultimate Parent Undertaking

In addition to the requirements of accounting standards, the accounts have been prepared in accordance with the Statement of Recommended Practice on "Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities" issued by the Oil Industry Accounting Committee and updated 7 June 2001 (SORP), except that the SORP recommends that oil and gas reserve quantities be disclosed. The Directors have elected not to publish this information for the Company

##### **(b) Joint Ventures**

The Company conducts its exploration, development and production activities in association with other companies under joint operating agreements. The accounts reflect the Company's share of the costs and revenues resulting from such joint activities

##### **(c) Oil and Gas expenditure**

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

*Capitalization Policy* - Acquisition costs are capitalized when incurred. Exploration costs, including geological and geophysical costs and costs of carrying and retaining unproved properties, are charged to the profit and loss account as incurred. Exploratory drilling costs are capitalized initially, however, if it is determined that an exploratory well does not contain proved reserves, such capitalized costs are charged to expense, as dry hole costs, at that time. Development costs are capitalized. Costs incurred to operate and maintain wells and equipment and to lift oil and gas to the surface are generally expensed

*Depreciation, Depletion and Amortization* - All capitalized costs are depleted on a unit-of-production method based on proved reserves

*Disposal of Fixed Assets* - Gains and losses on disposals of fixed assets are taken to the profit and loss account in the year in which they arise

*Decommissioning Provision* - Costs incurred by the joint venture for exploration, development and production are generally recoverable from production of reserves under the terms of the Indonesian Production Sharing Contract. At the termination of the contract, possession of the equipment and facilities reverts to the Indonesian government

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligations and include the costs of removing facilities, abandoning wells and restoring the affected areas

## NOVUS UK (KAKAP) LIMITED

### Notes to the Financial Statements (continued)

#### 1) Accounting Policies (continued)

##### (c) Oil and Gas expenditure (continued)

The provision for future restoration costs is the best estimate of the present value of the future expenditure required to settle the restoration obligation at the balance sheet date, based on current legal requirements and is recognised as part of "Petroleum Properties". Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the balance sheet date with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities.

##### (d) Restricted Cash

Cash in bank balances which are restricted for use as stipulated under the terms of the loan agreement are presented as "Restricted Cash".

##### (e) Stocks

Stocks are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost of materials and supplies, which include plant spares, consumables and maintenance and drilling tools used for ongoing operations, are valued at weighted average cost. Crude oil produced and not sold is not recorded as stocks because title does not pass to the Company until the oil is lifted or off-loaded into the crude tankers.

Management assesses the need for any allowance for slow moving and obsolete stocks at the end of reporting dates.

##### (f) Turnover

Sales of crude oil, which are stated net of value added tax, are recorded on the entitlement method. Differences between the actual liftings of crude oil and gas result in a receivable when entitlements exceed liftings of crude oil and gas (under lifting position) and in a payable when liftings of crude oil and gas exceed entitlement (over lifting position). Under/ over lifting volumes are valued based on the annual weighted average sales price for crude oil (i.e. Indonesian Crude Price – "ICP") and gas (i.e. contract prices).

##### (g) Deferred Taxation

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

##### (h) Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences arising on re-translation are taken to the profit and loss account.

# NOVUS UK (KAKAP) LIMITED

## Notes to the Financial Statements (continued)

### 1) Accounting Policies (continued)

#### (i) Leasing and Hire Purchase Commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit or loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

### 2) Related Party Transactions

As at 31 December, the company has the following receivable from and payable to parent and fellow subsidiary undertakings

	Relationship with the Related Parties	2010 US\$000	2009 US\$000
<b>Receivable</b>			
Kakap Holdings Pte Ltd (formerly Medco Kakap Holdings Pte Ltd) (Note 12)	Indirect parent undertaking	33,775	30,037
Star Energy Kakap Holdings Limited	The same ultimate shareholder	3,986	-
		<u>37,761</u>	<u>30,037</u>
<b>Payable</b>			
Novus UK (Indonesian Holdings) Ltd (Note 15)	Immediate parent undertaking	898	900
<b>Total</b>		<u>898</u>	<u>900</u>

The Company uses Kakap Holdings Pte Ltd bank account for cash transactions in Kakap block

Receivables from related parties are unsecured, non-interest bearing and are to be settled in cash within the next twelve months from the reporting date

### 3) Turnover

Under the terms of the Kakap Production Sharing Contract, the Company is required to sell certain amounts of crude to the government of Indonesia at prices provided for in the contract. During the financial year, the Company operated only in Indonesia and in one industry which consisted of exploration, development and production of crude oil, natural gas and associated liquids and its entire turnover is derived from such operations.

### 4) Cost of Sales

	2010 US\$000	2009 US\$000
Operating costs	8,779	6,786
Depreciation, depletion and amortization	2,845	2,417
Other	-	1,516
<b>Total Cost of Sales</b>	<u>11,624</u>	<u>10,719</u>

# NOVUS UK (KAKAP) LIMITED

## Notes to the Financial Statements (continued)

### 5) **Exceptional Item - Other Operating (Expense)/Income**

Other operating expense is US\$196,000 in 2010 which mainly relates to accrual of tax penalty amounting to US\$180,000. Previous year's income of \$4,110,000 principally comprised of US\$3,461,000 in relation to amounts owed to other companies within the MEDCO group which were released, following the acquisition of the Company by Star Energy Holdings Pte Ltd, as these balances were no longer payable under the Sale and Purchase agreement.

### 6) **Finance costs**

Finance costs principally comprise US\$35,000 in 2010 (2009 US\$64,000) in respect of unwinding of the discount on the decommissioning provision.

### 7) **Auditor's Remuneration**

The Company incurred US\$37,244 as fees payable to its auditor in respect to the 2010 audit of the Company financial statements. 2009 auditor's remuneration amounted to US\$12,500.

### 8) **Employee Information**

The Company has no employees, other than Directors, during 2010 and 2009.

### 9) **Directors' Remuneration**

In 2010 and 2009, the Company entered into an agreement with ATC Corporate Services (UK) Limited under a contract for the provision of director services. The fees paid to ATC Corporate Services (UK) Limited for director services during 2010 amounted to US\$ 1,967 (2009 US\$1,800).

Three (3) of the directors are also directors of the immediate parent undertaking, ultimate parent undertaking and its subsidiaries. These directors received a total remuneration during 2010 amounting to US\$642,739 (2009 US\$193,978) from subsidiaries of the ultimate parent undertaking, Star Energy Kakap Limited and Star Energy Geothermal Wayang Windu Limited. As of the date of these financial statements, the three directors agreed to provide director services to the company without receiving any remuneration from the Company. As such, none of the total remuneration received by these directors from the subsidiaries of the ultimate undertaking was allocated to the Company.

### 10) **Tax on Profit on Ordinary Activities**

The tax charge is made up as follows:

	<b>2010</b> <b>US\$000</b>	<b>2009</b> <b>US\$000</b>
Current tax		
UK Corporation tax on profits for the year	5,730	3,422
Double tax relief	(5,518)	(3,278)
Overseas taxation	7,139	4,339
UK tax adjustments in respect of prior years	97	146
<b>Total current tax charge</b>	<b>7,448</b>	<b>4,629</b>
Deferred tax		
Origination and reversal of timing differences	(1,108)	(514)
<b>Total deferred tax charge (note 16)</b>	<b>(1,108)</b>	<b>(514)</b>
<b>Total tax charge</b>	<b>6,340</b>	<b>4,115</b>



**NOVUS UK (KAKAP) LIMITED**  
**Notes to the Financial Statements (continued)**

**10) Tax on Profit on Ordinary Activities (continued)**

**Factors affecting the current tax charge for the year**

The rate at which tax has been assessed for the year is higher than the standard rate of Corporation tax in UK. The differences are explained below

	<b>2010</b> US\$000	<b>2009</b> US\$000
Current tax		
<b>Profit on ordinary activities before tax</b>	<b>16,324</b>	<b>14,180</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28%	4,571	3,970
Effect of		
Depreciation in excess of capital allowances	786	188
Imputed interest income	211	144
Impact of higher foreign taxes	1,620	1,206
Income not taxable	-	(969)
Other timing and permanent differences	163	(56)
Foreign tax under provision	97	146
<b>Total current tax charge for the year</b>	<b>7,448</b>	<b>4,629</b>

**11) Fixed Assets - Tangible Assets**

	<b>Petroleum Properties US\$000</b>	<b>Property and Equipment US\$000</b>	<b>Total US\$000</b>
<b>Cost</b>			
At 1 January 2010	91,448	43,104	134,552
Additions	1,786	54	1,840
<b>At 31 December 2010</b>	<b>93,234</b>	<b>43,158</b>	<b>136,392</b>
<b>Depreciation</b>			
At 1 January 2010	74,332	37,654	111,986
Charge for the year	1,983	862	2,845
<b>At 31 December 2010</b>	<b>76,315</b>	<b>38,516</b>	<b>114,831</b>
<b>Net Book Value</b>			
At 31 December 2010	16,919	4,642	21,561
At 31 December 2009	17,116	5,450	22,566

**NOVUS UK (KAKAP) LIMITED**  
**Notes to the Financial Statements (continued)**

**12) Debtors**

	<u>2010</u> <u>US\$000</u>	<u>2009</u> <u>US\$000</u>
Related parties (note 2)	37,761	30,037
Trade debtors	3,533	3,557
Other debtors	2,935	1,847
<b>Total</b>	<b><u>44,229</u></b>	<b><u>35,441</u></b>

Amounts due from related parties of US\$37,761,000 (2009 US\$30,037,000) are due after more than one year

**13) Stocks**

	<u>2010</u> <u>US\$000</u>	<u>2009</u> <u>US\$000</u>
Warehouse stocks and drilling materials	379	497
<b>Total</b>	<b><u>379</u></b>	<b><u>497</u></b>

**14) Creditors - Amounts Falling Due Within One Year**

	<u>2010</u> <u>US\$000</u>	<u>2009</u> <u>US\$000</u>
Trade creditors	4,249	5,951
Corporation tax creditor	1,586	428
<b>Total</b>	<b><u>5,835</u></b>	<b><u>6,379</u></b>

**15) Creditors - Amounts Falling Due After One Year**

	<u>2010</u> <u>US\$000</u>	<u>2009</u> <u>US\$000</u>
Parent undertaking (note 2)	898	900
<b>Total</b>	<b><u>898</u></b>	<b><u>900</u></b>

**16) Provision for Liabilities and Charges**

	<u>2010</u> <u>US\$000</u>	<u>2009</u> <u>US\$000</u>
Provision for employee benefits	1,058	750
Provision for decommissioning	1,057	805
Deferred tax liabilities	787	1,895
<b>At 31 December</b>	<b><u>2,902</u></b>	<b><u>3,450</u></b>

**NOVUS UK (KAKAP) LIMITED**  
**Notes to the Financial Statements (continued)**

**16) Provision for Liabilities and Charges (continued)**

The movements in provisions during the year are as follows

	<b>Employee Benefit US\$000</b>	<b>Decommissioning US\$000</b>	<b>Deferred Tax US\$000</b>	<b>Total US\$000</b>
At 1 January	750	805	1,895	3,450
(Credit)/ Charge for the year	308	-	(1,108)	(800)
Recognition of decommissioning provision	-	217	-	217
Unwinding of discount on decommissioning	-	35	-	35
<b>At 31 December</b>	<b>1,058</b>	<b>1,057</b>	<b>787</b>	<b>2,902</b>

The deferred tax included in balance sheet comprises

	<b>2010 US\$000</b>	<b>2009 US\$000</b>
Accelerated capital allowances	2,022	2,221
Other	(1,235)	(326)
<b>At 31 December</b>	<b>787</b>	<b>1,895</b>

The employees' benefits liability was calculated by an independent actuary, PT Padma Radya Aktuaria, for the years ended 31 December 2010 and 2009, in its reports dated 12 April 2011 and 26 March 2010, respectively, using the "Projected Unit Credit" method with the following assumptions

	<b><u>2010</u></b>	<b><u>2009</u></b>
Salary increment rate	10% p a	10% p a
Discount rate	8.5% p a	10% p a
Mortality rate	100% TMI 2	100% TMI 2
Disability rate	5% TMI 2	5% TMI 2
Resignation rate	2.5% - 3% p a until age 33 - 35 decrease linearly into 0% at age 56-58*	2.5% - 3% p a until age 33 - 35 decrease linearly into 0% at age 56
Proportion of normal retirement	100%	100%

\* Starting 2010, the Operator, Star Energy (Kakap) Limited, used retiring age of 58 in compliance with BPMIGAS letter No KEP-058/BP00000/ 2010/SO issued in 2010

Deferred tax assets of US\$10,072,000 as of 31 December 2010 and US\$8,547,000 as of 31 December 2009 are not recognized due to the future uncertainty concerning the recognition of benefit

In UK tax computation, the tax charge can be offset by tax suffered in Indonesia. As the tax suffered in Indonesia has historically been greater than the UK tax, an excess has been built up over time and carried forward in the UK tax computation to be used if the UK tax charge was greater than the Indonesian tax charge in future years. The unrecognized deferred tax assets relates to this excess Indonesian tax. It is unrecognized as it is a reasonable assumption that the Indonesian tax charge will continue to be greater than the UK tax charge in future years.

**NOVUS UK (KAKAP) LIMITED**  
**Notes to the Financial Statements (continued)**

**16) Provision for Liabilities and Charges (continued)**

In 2009, the Company started to record a decommissioning provision as the new management believes that the Company has to restore the facilities to a good condition before handing them over to the Indonesian Government at the end of the contract which is in line with Star Energy Holdings Pte Ltd group accounting policy, the new ultimate parent company. The provision has been estimated using existing technology, at current prices and discounted using a real discount rate of 5.5% (2009: 8.8%). These costs are expected to be incurred over the next 10 years. While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

**17) Share Capital**

	2010 US\$000	2009 US\$000
Authorized, allotted, called up and fully paid 1,000 ordinary shares of £1 translated at 31 December 1982 rate of exchange of US\$1.62/£1	<u>2</u>	<u>2</u>

**18) Obligations under Operating Lease Agreement**

In December 2010, the Operator of the Kakap PSC extended the lease contract of EF FSO up to 31 January 2011. Subsequently, the lease contract was extended up to 31 January 2012.

Annual commitments under non-cancellable operating leases are as follows:

	2010 US\$000	2009 US\$000
Operating lease which expires		
Within one year	-	-
In over one year	1,638	1,576
	<u>1,638</u>	<u>1,576</u>

**19) Commitments and Contingencies**

**Contractual commitment**

The Company conducts all of its operation through membership of joint venture consortia. In the event of non-performance of obligations by another member, or members of such consortia, the Company would become subject to additional obligations. The Company does not anticipate non-performance by its joint venture partners.

**Provision for Branch Profit Tax ("BPT")**

Based on the audit result of the Indonesia Development Finance Comptroller (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") for the audit period 1994 to 2004, the Company was required to pay 20% Branch Profit Tax ("BPT") equivalent to US\$3,500,000.

In 1974, the Government of Indonesia ("GOI") signed a tax treaty with the United Kingdom Government ("UK Government") which exempted BPT for UK permanent establishment/resident Companies ("UK Companies"). In 1993, the GOI renewed the UK-Indonesia tax treaty ("New Treaty"). Under the New Treaty, a 10% BPT is applied for UK Companies. BPT is the additional tax imposed in lieu of dividends withholding tax on the excess of taxable income over the ordinary corporate income tax.

## **NOVUS UK (KAKAP) LIMITED**

### **Notes to the Financial Statements (continued)**

#### **19) Commitments and Contingencies (continued)**

##### **Provision for Branch Profit Tax ("BPT")**

Management believes that the Company should be exempted from BPT up to 2004, whilst the 10% BPT rate should be applicable starting from the calendar year 2005 (the year when extension of Kakap PSC become effective). Accordingly, there is no accrual made by the Company from 1999 to 2004 for the 20% rate of BPT (approximately US\$3,500,000) and from calendar year 2005 until 2010 for the additional 10% rate on BPT (approximately US\$7,014,000).

##### **Senior Term Loan Facility Agreement**

On 14 January 2010, Star Energy (Kakap) Limited and Star Energy Kakap Holdings Limited ("SEHL"), related parties, (or together referred to as "the Borrowers") have entered into a US\$90,000,000 Senior Term Loan Facility Agreement ("New Loan") with Credit Suisse AG, Singapore Branch, and DBS Bank Ltd (together referred to as "Lenders" and also as Mandated Lead Arrangers with DBS also acting as Facility Agent and Security Agent). The initial utilization was on 3 March 2010 amounting to US\$82,500,000 and the remaining US\$7,500,000 on 7 May 2010.

The purpose of the loan is to repay the remaining balance in the existing loan facility and on-lend the balance to SEHL for repaying the amounts outstanding under the Bridge Loan pursuant to the Company-SEHL Intercompany Loan Agreement. The loan will be repaid on a quarterly basis with the initial repayment date in September 2010 and the final repayment date on March 2014.

The New Loan is guaranteed by Original Guarantors and Additional Guarantors under the New Loan which are the following related parties:

- Novus UK (Indonesian Holdings) Limited
- Novus Petroleum Canada (Indonesian Holdings) Limited
- Star Energy Kakap Holdings Limited
- Star Energy (Kakap) Ltd
- Natuna UK (Kakap 2) Limited
- Novus UK (Kakap) Limited
- Novus Nominees
- Kakap Holdings Pte Ltd
- Novus Petroleum Canada (Malacca Strait) Limited
- Novus UK (Malacca Strait) Limited

The New Loan contains several covenants which prevent the Company, from making significant changes in the nature and scope of its business.

##### **Gas Shortfall event**

In February 2010, Conoco Phillips as the Operator of West Natuna Transportation System ("WNTS") consortium sent a letter to Sembcorp Gas Pte Ltd regarding the inability to deliver the Nominated Quantity based on the Gas Sales Agreement during 1 February 2010 until 31 May 2010 ("Gas Shortfall Event"). The Gas Shortfall Event triggered shortfall gas liabilities for Kakap Block such that the Gas Sales Proceeds received by the Company will be reduced as a result of liquidated damages payable by the Company, pursuant to the Gas Sales Agreement and Gas Supply Agreement ("Revenue Gas Shortfall"). On 29 July 2010, Conoco Phillips sent another letter to Sembcorp Gas Pte Ltd, notifying that it should anticipate the supply shortage in meeting the maximum rate (after being adjusted for maintenance) for August and September 2010 in a range of 0-45 Bbtud. Total shortfall for the period from February 2010 through December 2010 was 2,144 Bbtu with the total decrease in the gas revenue of US\$5,285,000 for the Kakap Block Contractors in which US\$713,000 represents the Company's portion.

## **NOVUS UK (KAKAP) LIMITED**

### **Notes to the Financial Statements (continued)**

#### **19) Commitments and Contingencies (continued)**

##### **Gas Shortfall event (continued)**

On 1 March 2010, Star Energy Holdings Pte Ltd ("SEHPL") signed a letter of undertaking with DBS as Facilities Agent of US\$90,000,000 Senior-Term Loan Facility ("SEHPL Letter of Undertaking"). Under SEHPL Letter of Undertaking, SEHPL agreed to advance cash to cover such Revenue Gas Shortfall, in the form of Affiliate Subordinate Loan to the Company and certain related parties. It is further agreed that in calculating the amount of Revenue Gas Shortfall amount, the gas price used is the lower of the contract price as defined under the Gas Sales Agreement or US\$13.00 per mmbtu. The SEHPL Letter of Undertaking will expire on the earlier of 31 December 2010 or when Kakap PSC joint venture and the WNTS joint venture are able to provide satisfactory evidence that Gas Shortfall Event has ended for at least 15 consecutive days and circumstances which could give rise to a Revenue Gas Shortfall have ceased to exist. During 2010, SEHPL has advanced the Company an amount of US\$3,000,000.

##### **Hedging Transaction**

On 18 May 2010, Star Energy (Kakap) Limited and Star Energy Kakap Holdings Limited ("SEHL"), the related parties, entered into an Interest Rate Cap hedging transaction with DBS Bank Ltd and Credit Suisse International with a notional amount of 80% to 100% of the outstanding loan at the strike rate of 2.5%. The effective date of this hedging transaction is 4 June 2010 and will be terminated on 4 September 2013.

##### **Gas Supply Agreement**

The Operator, Pertamina and other gas producers entered into a Gas Supply Agreement under which each supplier agreed to make gas available for sale and delivery by Pertamina under a Gas Sales Agreement between Pertamina and Buyer. The future contract quantity for the Company is 84.2 Btu with the following annual amount to be delivered:

Year	Btu
2010	7.8
2011	7.8
2012-2023	68.92

The contract price is based on Index High Sulphur Fuel Oil ("HSFO").

##### **Contract for Provision of FSO Rental Services**

As follow up of the deteriorations found in the hull envelope of the previous KN Floating Production Storage and Offloading ("KN FPSO") vessel, various efforts have been initiated and carried out by the Contractors in order to remedy the situation, including implementing a medium-term solution by replacing the KN FPSO with a new FPSO namely East Fortune FSO ("EF FSO") under the contract signed in October 2009 with PT Pulau Kencana Raya ("PKR") as an agent on behalf of Songa Production Pte Ltd. The contract with PKR is valid for a term of nine months up to September 2010 with a total contract value of US\$14,115,000.

On 5 October 2010, Operator of the Kakap PSC had extended the lease contract of the EF FSO up to 31 December 2010. On 1 December 2010, the lease contract was extended up to 31 January 2011 (Note 22).

**NOVUS UK (KAKAP) LIMITED**  
**Notes to the Financial Statements (continued)**

**19) Commitments and Contingencies (continued)**

**Contract for Provision of FSO Rental Services (continued)**

Based on its letter dated 9 June 2010, No 0622/BPA4000/2010/S1, BPMIGAS has requested the Contractors to re-utilize KN FPSO for the next five to ten years, and the related Authorization For Expenditures (AFE) for the reutilization of the KN FPSO which covers the dry docking project and the operation cost for KN FPSO for the seven years has been approved by BPMIGAS in its letter dated 4 April 2011 amounting to US\$66,937,000

As of the completion date of these financial statements, the dry docking of KN FPSO is still ongoing

**Government Audit Claim**

The accounting policies specified in the PSC are subject to interpretation by BPMIGAS and the Government of the Republic of Indonesia. Annually, the accounting records and reports of the Company are subjected to an audit by BPMIGAS and/or the Government. Claims arising from these audits are either agreed by the management of the Company and recorded in its accounting records, or are disputed. Resolution of disputed claims may require a lengthy negotiation process extending over a number of years.

As of the date of the financial statements, the PSC Operator has various disputed claims outstanding, amounting to US\$17,600,000 for the periods up to 2009. The claims principally consist of an AFE over-run of US\$3,700,000, insurance claim of US\$7,400,000, home-office overhead of US\$1,900,000, and various other matters totalling US\$4,000,000 which are still under discussion between the Operator and the auditors.

If these claims materialize, the Operator entitlement will be reduced by approximately US\$2,200,000 and will lead to exposure for underpayment of tax amounting to US\$900,000. Management believes that the claims are without merit, therefore no accrual has been recognized in relation to the claims in the financial statements.

**Legal Claim**

The Operator is facing a legal dispute with Tripatra - Sarku Consortium ("vendor") regarding a flexible flow line incident involving KRA South Gas Development Subsea Tie-In project. The value of the claim against the Operator amounts to US\$1,500,000. However, the Operator counterclaimed against the vendor for the excess cost to complete the project, amounting to US\$1,000,000.

The Operator is also facing a legal dispute with Seabulk Offshore Vessel Holding Inc ("SOVH"). On 14 August 2008, the Operator received a letter from SOVH, owner of the vessel MU Seabulk Plover, claiming damages sustained by the Frontier Duchess oil rig as a result of a collision that occurred on 25 June 2007. The claim amounted to S\$13,218,265 (an equivalent of US\$10,263,000) as of 31 December 2010 (2009 US\$9,420,000).

As of the date of completion of the financial statements, there has been no progress on the above cases and thus, the final settlement is uncertain. Management believes that the dispute will be resolved with no material impact on the Company's financial statements, accordingly no provision has been recognized at the balance sheet date.

**NOVUS UK (KAKAP) LIMITED**  
**Notes to the Financial Statements (continued)**

**20) Reconciliation of Capital and Reserves**

	<b>Share Capital US\$000</b>	<b>Profit and Loss Account US\$000</b>	<b>Total US\$000</b>
At 1 January 2010	2	49,027	49,029
Profit for the year	-	9,984	9,984
<b>At 31 December 2010</b>	<b>2</b>	<b>59,011</b>	<b>59,013</b>

**21) Reconciliation of Movements in Shareholder's Funds**

	<b>2010 US\$000</b>	<b>2009 US\$000</b>
At 1 January	49,029	38,964
Profit for the year	9,984	10,065
<b>At 31 December</b>	<b>59,013</b>	<b>49,029</b>

**22) Subsequent Event**

On 12 January 2011, the lease contract of EF FSO rental service has been extended for a twelve months period starting 1 February 2011. However, since 9 March 2011, the EF FSO has been demobilized from Kakap field and has been replaced with the new vessel MT Barunawati. Originally, the vessel that will replace EF FSO is MT Badraini which was modified.

From July 2011, the vessel MT Badraini was available for use and so the Operator started using it for its oil liftings.