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NOVUS UK (KAKAP) LIMITED  
REGISTERED NUMBER 707927  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2016  
(THIS REPORT IS PREPARED IN UNITED STATES DOLLARS)

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COMPANIES HOUSE

**NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

**BOARD OF DIRECTORS**

Rudy Suparman  
Hendra Soetjipto Tan  
James Patrick Johnston Fairrie  
Spencer Harry Saffer

**SECRETARY AND REGISTERED OFFICE**

TMF Corporate Administration Services Limited  
5th Floor, 6 St Andrew Street,  
London EC4A 3AE  
United Kingdom

**STATUTORY AUDITOR**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

**REGISTERED IN ENGLAND NO: 707927**

**NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

**STRATEGIC REPORT**

The directors present the strategic report, their report and financial statements for the year ended 31 December 2016.

**Principal Activities**

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").

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

**Business Review**

The Company operates predominantly in one business, namely the exploration, development, production, transportation and marketing of hydrocarbons. Revenue is derived from the sale of gas and liquid hydrocarbons.

The Company operates in one geographical segment being Indonesia.

Oil and condensate gross production by the Kakap PSC, in the West Natuna Sea, Indonesia averaged 2,768 boepd in 2016 (3,476 boepd in 2015). Gas gross production averaged 2,697 boepd in 2016 (3,207 boepd in 2015).

Revenue in 2016 decreased due to decrease in oil and gas production in 2016 compared to production per year 2015 and decrease in oil and gas price in 2016 compared to 2015. The average oil price in 2016 was US\$42.81/bbl (2015: US\$51.01/bbl) and the average gas price in 2016 was US\$7.48/mscf (2015: US\$9.77/mscf).

The results for the years ended 31 December 2016 and 2015 are summarised below:

|   | <b>2016</b><br><b>US\$'000</b> | <b>2015</b><br><b>US\$'000</b> |
|---|--------------------------------|--------------------------------|
| <b>Revenue</b>                              | 9,989                          | 16,733                         |
| Profit/(loss) before tax                    | 1,380                          | (10,562)                       |
| Income tax (expense)/benefit                | (1,327)                        | 3,031                          |
| <b>Profit/(loss) after tax for the year</b> | 53                             | (7,531)                        |

The Company's profit for the year after taxation was US\$53,000 in 2016 (loss in 2015: US\$7,531,000). The profit in 2016 primarily arose due to decrease of cost of sales in 2016 compared to 2015. Due to further significant drop of oil price, in 2015, the Company has assessed the impairment of its oil and gas assets value amounting to US\$12,076,000 which was charged to cost of sales. While in 2016, the average forward oil price has increased, therefore no further impairment losses recognized in 2016.

**NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

**STRATEGIC REPORT (CONTINUED)**

**Key Performance Indicators**

The Company's ultimate parent entity Star Energy Oil & Gas Pte. Ltd., is the parent entity in the consolidated Star Energy Group. The Company holds a 13.50% non-operator interest in the Kakap PSC. The Star Energy Group has strategic targets for its base business including production targets and safety performance levels. The Company contributed to the attainment of these overall Star Energy Group strategic targets. As the Company is not the Operator, management meets regularly with the Operator through operating and technical forums to monitor the progress of the Kakap PSC against its strategic targets.

**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 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 a partner with a number of other companies which have access to rigs and equipment.

*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.

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 Operator of Kakap Block ability to obtain financing through the projects in Kakap Block.

NOVUS UK (KAKAP) LIMITED

REGISTERED NUMBER 707927

STRATEGIC REPORT (CONTINUED)

**Principal Risks and Uncertainties (continued)**

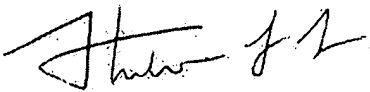
*Credit risk*

Credit risk arises from cash on hand and in banks, time 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 oil and gas sales are solely to BP Singapore Pte. Ltd. and SembCorp Gas Pte. Ltd., respectively.

By order of the Board



Rudy Suparman  
Director



Hendra Soetijpto Tan  
Director

29 September 2017

**NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

**DIRECTORS' REPORT**

The Directors present their directors' report for the year ended 31 December 2016.

**Directors**

The directors who served during the year and up to the date of the financial statements, unless otherwise noted, are:

Rudy Suparman  
Hendra Soetjipto Tan  
James Patrick Johnston Fairrie  
Spencer Harry Saffer

**Future Developments**

The directors aim to maintain the management policies which have resulted in the Company's stability in recent years. They believe that the Company is in a good position to take advantage of any opportunities which may arise in the future.

It is the intention of the directors that the business of the Company will continue for the foreseeable future.

**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.

**Directors' statement as to disclosure of information to auditor**

The directors who were members of the board at the time of approving the directors' report as listed above confirm that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

**Dividends**

The Company has not declared any dividends in 2016 and 2015.

**Events since the Reporting Date**

On 3 April 2017, the Company received tax assessment letters for the underpayment of 2015 Corporate and Dividend Tax totally amounting to US\$376,000. The Company have made the payment on 25 April 2017 and sent the objection letter to the Tax Office on 14 June 2017.

On 24 July 2017, Star Energy Group Holdings Pte. Ltd. ("SEGHPL") as the Shareholder of SEOGPL entered into a Share Purchase Agreement with Star Energy Investment Ltd. ("SEIL") and SE Holdings Ltd. ("SEHL"), for which SEGHPL agreed to sell its ownership interests in SEOGPL and its subsidiaries by 59.54% and 40.46% to SEIL and SEHL, respectively.

**Auditor**

Pursuant to board of director's resolution dated 30 September 2016, Ernst & Young LLP has been reappointed as the auditor of the Company for the ensuing year.

NOVUS UK (KAKAP) LIMITED

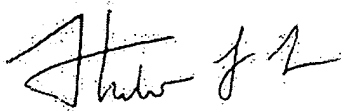
REGISTERED NUMBER 707927

DIRECTORS' REPORT (CONTINUED)

By order of the Board

A handwritten signature in black ink, appearing to be 'Rudy Suparman', with a stylized, somewhat abstract form.

Rudy Suparman  
Director

A handwritten signature in black ink, appearing to be 'Hendra Soetijpto Tan', with a stylized, somewhat abstract form.

Hendra Soetijpto Tan  
Director

29 September 2017

**NOVUS UK (KAKAP) LIMITED**

**REGISTERED NUMBER 707927**

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

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company law, the directors are required to prepare financial statements for each financial year which present fairly the financial position, the financial performance and cash flows of the Company for that period.

In preparing those financial statements the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance; and
- state that the Company has complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.

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 its 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.



## **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 2016 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 on page 8, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

In our opinion, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

29 September 2017

**NOVUS UK (KAKAP) LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

|  | Note | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--|------|------------------|------------------|
| Revenue  | 2    | 9,989            | 16,733           |
| Cost of sales  | 3    | (8,730)          | (27,193)         |
| Gross profit/(loss)  |      | 1,259            | (10,460)         |
| Other income/(expense)   |      | 81               | (60)             |
| <b>Operating profit/(loss)</b>   |      | <b>1,340</b>     | <b>(10,520)</b>  |
| Financial income/(expense)   | 4    | 40               | (42)             |
| <b>Profit/(Loss) before tax</b>  |      | <b>1,380</b>     | <b>(10,562)</b>  |
| Income tax (expense)/benefit   | 5    | (1,327)          | 3,031            |
| <b>Net profit/(loss) for the year</b>  |      | <b>53</b>        | <b>(7,531)</b>   |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: |      |                  |                  |
| Re-measurement gains on defined benefit plans  |      | 141              | 384              |
| Income tax effect  | 13   | (52)             | (142)            |
| <b>Other comprehensive income, net of tax</b>  |      | <b>89</b>        | <b>242</b>       |
| <b>Total comprehensive income/(loss) for the year</b>                                      |      | <b>142</b>       | <b>(7,289)</b>   |

All of the Company's activities during the year are in respect of continuing operations. Total comprehensive income for the year is attributable to the sole equity holder of the Company.

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

**NOVUS UK (KAKAP) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

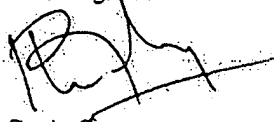
|                                    | Share Capital | Retained Earnings | Non-Distributable Reserves (OCI) | Total Equity  |
|------------------------------------|---------------|-------------------|----------------------------------|---------------|
|                                    | US\$'000      | US\$'000          | US\$'000                         | US\$'000      |
| <b>Balance at 1 January 2015</b>   | <b>2</b>      | <b>49,126</b>     | <b>(236)</b>                     | <b>48,892</b> |
| Net loss for the year              | —             | (7,531)           | —                                | (7,531)       |
| Other comprehensive income         | —             | —                 | 242                              | 242           |
| <b>Balance at 31 December 2015</b> | <b>2</b>      | <b>41,595</b>     | <b>6</b>                         | <b>41,603</b> |
| Net profit for the year            | —             | 53                | —                                | 53            |
| Other comprehensive income         | —             | —                 | 89                               | 89            |
| <b>Balance at 31 December 2016</b> | <b>2</b>      | <b>41,648</b>     | <b>95</b>                        | <b>41,745</b> |

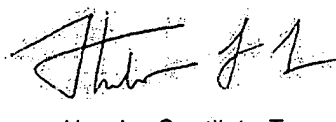
The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

**NOVUS UK (KAKAP) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2016 AND 2015**

|                                      | Note | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--------------------------------------|------|------------------|------------------|
| <b>Non-current assets</b>            |      |                  |                  |
| Oil and gas assets                   | 8    | 13,782           | 10,895           |
| Other assets                         |      | -                | 1                |
| <b>Total non-current assets</b>      |      | <b>13,782</b>    | <b>10,896</b>    |
| <b>Current assets</b>                |      |                  |                  |
| Inventories                          | 9    | 1,146            | 1,118            |
| Restricted cash in bank              |      | 31               | 922              |
| Trade and other receivables          | 10   | 6,400            | 6,214            |
| Amounts owing from related entities  | 16   | 34,501           | 34,521           |
| <b>Total current assets</b>          |      | <b>42,078</b>    | <b>42,775</b>    |
| <b>Total assets</b>                  |      | <b>55,860</b>    | <b>53,671</b>    |
| <b>Equity</b>                        |      |                  |                  |
| Share capital                        | 15   | 2                | 2                |
| Non-distributable reserves           |      | 95               | 6                |
| Retained earnings                    |      | 41,648           | 41,595           |
| <b>Total equity</b>                  |      | <b>41,745</b>    | <b>41,603</b>    |
| <b>Non-current liabilities</b>       |      |                  |                  |
| Provisions                           | 12   | 1,503            | 1,915            |
| Deferred tax liabilities             | 13   | 2,114            | 1,254            |
| <b>Total non-current liabilities</b> |      | <b>3,617</b>     | <b>3,169</b>     |
| <b>Current liabilities</b>           |      |                  |                  |
| Trade and other payables             | 11   | 6,085            | 4,433            |
| Amounts owing to related entities    | 16   | 3,784            | 3,579            |
| Taxes payable                        |      | 629              | 887              |
| <b>Total current liabilities</b>     |      | <b>10,498</b>    | <b>8,899</b>     |
| <b>Total liabilities</b>             |      | <b>14,115</b>    | <b>12,068</b>    |
| <b>Total equity and liabilities</b>  |      | <b>55,860</b>    | <b>53,671</b>    |

These financial statements were approved by the Board of Directors on 29 September 2017 and were signed on its behalf by:

  
Rudy Suparman  
 Director

  
Hendra Soetjipto Tan  
 Director

The statement of financial position is to be read in conjunction with the notes to the financial statements.

**NOVUS UK (KAKAP) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

|  | Note | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--|------|------------------|------------------|
| <b>Cash flows from operating activities</b>  |      |                  |                  |
| Net profit/(loss) for the year   |      | 53               | (7,531)          |
| Non-cash adjustments to reconcile profit/(loss) for the year to net cash provided by operating activities: |      |                  |                  |
| Depreciation and depletion   | 3, 8 | 856              | 3,075            |
| Pension cost   | 3    | 470              | 250              |
| Income tax expense/(benefit)   | 5    | 1,327            | (3,031)          |
| Impairment loss  | 3, 8 | -                | 12,076           |
| Dry hole cost  | 3, 8 | -                | 2,336            |
| <b>Cash flows from operating activities before working capital adjustments</b>                             |      | <b>2,706</b>     | <b>7,175</b>     |
| Net (increase)/decrease in receivables   |      | (714)            | 5,663            |
| Net (increase)/decrease in inventories   |      | (28)             | 957              |
| Net increase/(decrease) in payables  |      | 1,857            | (839)            |
| Net decrease in provisions   |      | (792)            | (275)            |
| Net increase/(decrease) in taxes payables  |      | 63               | (8,181)          |
| Cash provided by operations  |      | 3,092            | 4,500            |
| Income taxes paid  |      | (695)            | -                |
| Income taxes refund  |      | 455              | -                |
| <b>Net cash flows from operating activities</b>  |      | <b>2,852</b>     | <b>4,500</b>     |
| <b>Cash flows from investing activities</b>  |      |                  |                  |
| Purchases:   |      |                  |                  |
| Oil and gas assets   | 8    | (3,743)          | (3,591)          |
| <b>Net cash used in investing activities</b>   |      | <b>(3,743)</b>   | <b>(3,591)</b>   |
| <b>Cash flows from financing activities</b>  |      |                  |                  |
| Transfer from/(to) restricted cash in bank   |      | 891              | (909)            |
| <b>Net cash from/(used in) financing activities</b>  |      | <b>891</b>       | <b>(909)</b>     |
| <b>Net decrease in cash and cash equivalents</b>   |      | <b>-</b>         | <b>-</b>         |
| <b>Cash and cash equivalents at the beginning of the year</b>  |      | <b>-</b>         | <b>-</b>         |
| <b>Cash and cash equivalents at the end of the year</b>  |      | <b>-</b>         | <b>-</b>         |

The statement of cash flows is to be read in conjunction with the notes to the financial statements.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies**

Novus UK (Kakap) Limited ("the Company") is a Company incorporated and domiciled in England and limited by shares.

The Company is engaged in a joint venture involved in exploration and production of crude oil and natural gas in South Natuna Sea area, Indonesia, under a Production Sharing Contract ("PSC") with Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi ("SKK Migas"), the oil and gas regulatory agency of Indonesia. The Company's working interest in the joint venture is 13.5%.

The original PSC was signed on 22 March 1975. An amendment to the original PSC was signed on 15 January 1999 and became effective immediately. On the same date, an extension to the original PSC (the "Extended PSC") was signed and became effective on 22 March 2005. The Extended PSC will expire on 22 March 2028. The Operator of the joint venture is Star Energy (Kakap) Limited, a related party.

The financial report was authorised for issue by the Directors on September 2017.

**(a) Statement of compliance**

The Company's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs").

**(b) Basis of preparation**

The financial statements are prepared under the historical cost convention.

The financial statements are presented in thousands of United States dollars (U.S. dollars, USD or US\$) unless otherwise stated.

The Company's activities are conducted in Indonesia under a PSC. The Company accounts for PSC's on a net entitlements basis whereby hydrocarbon production, revenues and reserves are determined by reference to the terms of the PSC. Expenditure on exploration and development activities are capitalised and depleted as described in notes 1(e), 1(f) and 1(h). Production and other operating costs are expensed as incurred.

***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.

***New and amended standards and interpretations***

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2016. The adoption of these standards did not have any effect on the financial performance or position of the Company.

NOVUS UK (KAKAP) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

*New and amended standards and interpretations (continued)*

*Amendments to IFRS 11, Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

*Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify that principles in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

*Annual improvements 2012-2014 cycle*

These improvements are effective for annual financial periods beginning on or after January 1, 2016. The adoption of these improvements did not have any significant effect on the financial performance or position of the Company. These improvements include:

- *IFRS 7, Financial Instruments: Disclosures*

The amendments are applied retrospectively and clarifies that:

- An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required.
- The offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

*IAS 19, Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.



**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(b) Basis of preparation (continued)**

***New and amended standards and interpretations (continued)***

*Amendments to IAS 1, Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI.

**(c) Joint arrangements**

The Company's exploration and production activities are often conducted through joint arrangements governed by joint operating agreements, production sharing contracts or similar contractual relationships.

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement. To the extent the joint arrangement provides the Company with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Company with rights to the net assets of the arrangement, the arrangement is a joint venture.

- **Joint operations**

The Company recognises in relation to its interest in a joint operation,

- (i) Its assets, including its share of any assets held jointly;
- (ii) Its liabilities, including its share of any liabilities incurred jointly;
- (iii) Its revenue from the sale of its share of the output arising from the joint operation;
- (iv) Its share of the revenue from the sale of the output by the joint operation; and
- (v) Its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to interest in a joint operation in accordance with the accounting policies applicable to the particular assets, liabilities, revenues and expenses.

- **Joint ventures**

The Company recognises its interest in a joint venture as an investment and accounts for the investment using the equity method.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(d) Currency translation**

**(i) Functional and presentation currency**

Items included in the Company's financial statements are measured using the currency of the *primary economic environment in which the Company operates* ("functional currency"). The financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency. 1 U.S. dollar to 1 GBP exchange rate as of reporting date comprised 0.81393 (31 December 2015: 0.67454).

**(ii) Transactions and balances**

Transactions in a currency other than the functional currency ("foreign currency") are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange in effect at the reporting date. All differences are taken to other income/(expenses) in the statement of profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values were determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

**(e) Exploration and evaluation expenditure**

Exploration and evaluation expenditures in respect of each area of interest are accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration and evaluation expenditures to be expensed in the period it is incurred, except for the costs of successful wells, and the costs of acquiring interests in new exploration assets, which are capitalized as oil and gas property, and intangible exploration and evaluation assets, respectively. The costs of wells are initially capitalized pending the results of the well.

The carrying amounts of the Company's exploration and evaluation assets are reviewed in conjunction with the impairment review at each of the reporting dates. The impairment review process referred to in Note 1(i) is to determine whether any of the following indicators of impairment exists:

- (i) Tenure over the license area has expired during the period/year or will expire in the near future, and is not expected to be renewed;
- (ii) Substantive expenditures on further exploration for and evaluation of mineral resources in the specific area is not budgeted or planned;
- (iii) Exploration for and evaluation of resources in the specific area has not led to the discovery of commercially viable quantities of resources, and the entity has decided to discontinue activities in the specific area; or
- (iv) Sufficient data exists to indicate that although a development is likely to proceed the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

**NOVUS UK (KAKAP) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(e) Exploration and evaluation expenditure (continued)**

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made and any resultant impairment loss is recognised in cost of sales in the statement of profit or loss. When a discovered oil or gas field enters the development phase the accumulated exploration and evaluation expenditure are transferred to oil and gas assets - assets in development (Note 1(f)).

**(f) Oil and gas assets**

Oil and gas assets are usually single oil or gas fields being developed for future production or which are in the production phase. Where several individual oil or gas fields are to be produced through common facilities the individual oil or gas fields and the associated production facilities are managed and reported as a single oil and gas asset.

***Assets under construction***

When the technical and commercial feasibility of an undeveloped oil or gas field is being developed for future production, the costs of oil and gas assets in the development phase are separately accounted for as oil and gas assets and include past exploration and evaluation costs, development drilling and other sub-surface expenditures, surface plant and equipment and any associated buildings. When commercial operation commences, the accumulated costs are transferred to oil and gas assets - producing assets.

***Producing assets***

The costs of oil and gas assets in production are separately accounted for as oil and gas assets and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings. These costs are subject to depreciation and depletion in accordance with Note 1(h).

***Title of assets***

Under the terms of the Kakap PSC, the Operator and the participants, including the Company, have no ownership interest in the oil and gas assets or in the oil and gas reserves, but rather have the right to operate the assets and receive production and/or revenues from the sale of oil and gas in accordance with the Kakap PSC. Proved reserves have therefore been determined on a net entitlement basis, which takes into account projections of the host government's share of future production calculated with certain price and expenditure assumptions. As the participants paid for and have the right to recover the costs for oil and gas assets through cost recovery, via Operator of the Kakap PSC, these balances have been recorded as assets in the Company's financial statements based on its working interest in the Kakap PSC.

**NOVUS UK (KAKAP) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(g) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any cost directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within plant and equipment.

Subsequent expenditures related to an asset that has already been recognized are added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in cost of sales in the statement of profit or loss in the year the asset is derecognized.

Depreciation of plant and equipment is calculated in accordance with Note 1(h).

**(h) Depreciation and depletion**

Depreciation of subsurface assets and some plant and equipment is calculated using a unit-of-production method based on barrels of oil produced over the total estimated proven reserves to be produced during the Kakap PSC term on net entitlement basis. No provision for depreciation is made on assets in development until such time as the relevant assets are completed and production commences. When the assets concerned are brought into use, the costs are transferred to the plant and equipment classification and depreciated in accordance with the stated policy.

Depreciation of plant and equipment is calculated using the straight-line method to allocate depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

|                             |              |
|-----------------------------|--------------|
| Plant and equipment         |              |
| ▪ Furniture and equipment   | 5 - 10 years |
| ▪ Asset under finance lease | 5 - 10 years |

The residual values, estimated useful lives and depreciation method of the assets are reviewed at each reporting date, and adjusted prospectively, if appropriate. The effects of any revision are recognized in cost of sales in the statement of profit or loss when the changes arise.

**(i) Impairment**

Oil and gas assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of an asset's fair value less costs to sell and its value in use) is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the Cash Generating Unit ("CGU") to which the asset belongs.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(i) Impairment (continued)**

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. In assessing value in use, an asset's estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For oil and gas assets, the estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and any development costs necessary to produce the reserves. Estimates of future commodity prices are based on contracted prices where applicable or based on forward market prices where available.

The difference between the carrying amount and recoverable amount is recognized as an impairment loss in cost of sales in the statement of profit or loss if carrying amount is lower than recoverable amount.

An impairment loss for an asset is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years.

A reversal of impairment loss for an asset is recognized in cost of sales in the statement of profit or loss.

**(j) Inventories**

Under the terms of the Kakap PSC, inventory becomes the property of the host government upon landing in country. As the Company have paid for and have the right to use these assets and/or recover the costs, these balances have been reflected as assets in the Company's financial statements based on its working interest in the Kakap PSC.

Inventories are carried at the lower of cost and net realizable value.

Costs 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 inventory 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 inventories at each reporting date.

**NOVUS UK (KAKAP) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(k) Trade and other receivables**

Trade and other receivables are initially recognised at fair value, which in practice is the equivalent of cost, less any impairment losses. Trade receivables are non-interest bearing and settlement terms are generally within 30 days.

Long-term receivables are discounted and are stated at amortised cost, less impairment losses.

Trade and other receivables are assessed for indicators of impairment at each reporting date. Where a receivable is impaired the amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the receivable is reduced through the use of an allowance account. Changes in the allowance account are recognised in cost of sales in the statement of profit or loss.

**(l) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and short-term deposits that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and have an original maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

**(m) Restricted cash in bank**

Cash in bank balances which are restricted for use as stipulated under the terms of the loan agreement are presented as "restricted cash in bank" (Note 17d).

**(n) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**NOVUS UK (KAKAP) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(n) Provisions (continued)**

***Decommissioning, site restoration and abandonment costs***

Provisions for future environmental restoration are recognized 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 decommissioning, removing facilities, abandoning wells and restoring the affected areas, and a reliable estimate of the amount of obligation can be made.

The amount of the provision for future decommissioning, site restoration and abandonment costs relating to exploration, development and production facilities is capitalized and depleted as a component of the cost of those activities. The unwinding of the effect of discounting on the provision is recognized as finance expense in cost of sales in the statement of profit or loss.

Future decommissioning, site restoration and abandonment costs are reviewed annually and any changes in the estimate are reflected in the present value of the provision at the reporting date with a corresponding change in the cost of the associated asset.

***Employee compensation***

**(i) Wages, salaries and annual leave**

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within twelve months from the reporting date represent present obligations resulting from employees' service provided to reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related add on-costs.

**(ii) Long-term employee benefits**

Employee entitlements to service and compensation payments are recognized when they accrue to the employees. A provision is made for the estimated liability as a result of past services rendered by employees up to the reporting date and is calculated based on the Company's policy or a minimum amount of employee entitlements in accordance with Indonesia Labor Law No. 13 Year 2003, whichever is higher.

The defined benefits obligation is annually calculated by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

For defined benefit plans, all actuarial gains and losses are recognized in other comprehensive income ("OCI") as part of remeasurement and unvested past service costs are recognized immediately in profit or loss when incurred. For long-term service benefits, the Company recognizes the net total of the amounts in profit or loss.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(n) Provisions (continued)**

***Employee compensation (continued)***

**(ii) Long-term employee benefits (continued)**

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognizes restructuring related costs.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (derived using a discount rate based on high quality corporate bonds) at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are recognized in retained earnings within equity and are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).



**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(n) Provisions (continued)**

***Employee compensation (continued)***

**(ii) Long-term employee benefits (continued)**

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

The Operator also provides a defined contribution plan for all of its eligible permanent employees, which is managed by Dana Pensiun Lembaga Keuangan Tugu Mandiri.

The pension plan was established based on the approval from the Ministry of Finance in its Decision Letter No.KEP.1100/KM.17/1998, No.KEP.231/KM.17/1994 and No.KEP.184/KM.17/1995. Contributions payable are charged to current year operations and the Company recognizes its share of such items.

**(iii) Other long-term employee benefits ("OLTEB")**

The Operator provides long services award for employees who attain certain number of services years with the Operator. A provision is made for the estimated liability as a result of past services rendered by the employees up to the reporting date and is calculated based on the Operator's policy and the Company recognizes its share of such items. Actuarial gains and losses for OLTEB are recognized in full in the period in which they occur in profit or loss.

**(o) Deferred income**

A liability is recorded for obligations under sales contracts to deliver natural gas in future periods for which payment has already been received.

**(p) Trade and other payables**

Trade and other payables are initially recognized at fair value, and subsequently carried at amortized cost using the effective interest method.

**(q) Share capital**

***Ordinary share capital***

Ordinary share capital is classified as equity.

***Dividends***

Dividends are recognised as a liability at the time the Directors resolve to pay or declare the dividend.

**NOVUS UK (KAKAP) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(r) Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is presented net of rebates and discounts.

The Company recognizes revenue when the amount of revenue and related costs can be reliably measured; it is probable that future economic benefits will flow to the entity and when the specific criteria for each of the Company's activities are met as follows:

- Crude oil and natural gas sales revenue is recognized on the basis of the Company's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship or truck loading, or on the product entering the pipeline.
- Revenue earned under the Kakap PSC is recognized on a net entitlements basis according to the terms of the Kakap PSC. Differences between the Company's actual lifting of crude oil and gas result in a receivable when entitlements exceed lifting of crude oil and gas (under lifting position) and in a payable when lifting of crude oil and gas exceeds entitlements (over lifting position). Under lifting and over lifting volumes are valued based on the annual weighted average sales price for crude (i.e. Indonesian Crude Price - "ICP") and gas (i.e. contract prices).

**(s) Other income**

Other income is recognised in other income/(expense) in the statement of profit or loss at the fair value of the consideration received or receivable, when the significant risks and rewards of ownership have been transferred to the buyer or when the service has been performed.

The gain or loss arising on disposal of a non-current asset is included as other income at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Interest income is recognised in other income/(expense) in the statement of profit or loss as it accrues, using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**(t) Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(t) Leases (continued)**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in other income/(expense) in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line method over the lease term.

Contingent rents, if any, are recognized as an expense in other income/(expense) in the statement of profit or loss in the financial year in which they are incurred.

**(u) Income tax expenses**

Current income tax is recognized at the amount expected to be paid to or recovered from the tax authorities, computed using the tax rates and tax laws that have been enacted or substantively enacted at respective reporting dates.

Deferred income tax is recognized using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Company's statement of financial position, except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor tax profit or loss at the time of the transaction.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

Deferred income tax is measured:

- (i) at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the respective reporting dates; and
- (ii) based on the tax consequence that will follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(u) Income tax expenses (continued)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

**(v) Significant accounting judgements, estimates and assumptions**

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed.

In particular, the Company has identified the following areas where significant judgments, estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

**(i) Impairment and depreciation of oil and gas property**

The amounts recorded for depletion, depreciation and amortization as well as the recovery of the carrying values of oil and gas properties depend on estimates of oil and gas reserves and the economic lives of future cash flows from related assets. The primary factors affecting these estimates are technical engineering assessments of producible quantities of oil and gas reserves in place and economic constraints such as the availability of commercial markets for the Company's production as well as assumptions related to anticipated commodity prices and the costs of development and production of the reserves.

**(ii) Income taxes**

The Company is subject to income taxes in Indonesian and UK jurisdictions. Significant judgment is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the year in which such determination is made.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(v) Significant accounting judgements, estimates and assumptions (continued)**

**(iii) Provision for decommissioning, site restoration and abandonment costs**

Decommissioning, site restoration and abandonment costs will be incurred at the end of the operating life of the Company's facilities and properties. The ultimate decommissioning, site restoration and abandonment costs are uncertain and cost estimates can vary in response to many factors including change in relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to change in reserves or change in laws and regulations and their interpretations. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

The provision for future decommissioning, site restoration and abandonment costs is the best estimate of the present value of the future expenditure required to settle the obligation at the reporting date based on current legal requirements with the discount rate used based on the borrowing rate at the time of recognition of the provision.

**(iv) Employee benefits**

The cost of providing long-term employee benefits is determined using actuarial valuations. An actuarial valuation involves making various assumptions, which includes the determination of the discount rate, future salary increases, mortality rates, employee turn-over rate, disability rate, and the expected rate of return on plan assets. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, estimated liabilities for long-term employee benefits are highly sensitive to changes in these assumptions. All assumptions are reviewed at financial year-end.

In determining the appropriate discount rate, management considers the market yields (at year end) on Indonesian Rupiah government bonds with maturities corresponding to the expected duration of the obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on the PSC's long-term business plan which is also influenced by expected future inflation rates for the country.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experiences or significant changes in the assumptions may materially affect its estimated liabilities for employee benefits and net employee benefits expense.

**(iv) Contingencies**

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1. Significant accounting policies (continued)**

**(w) Standards issued but not yet effective**

|                   |   | Effective for annual periods<br>beginning on or after |
|-------------------|---|---|
| IFRS 9            | <i>Financial Instruments</i>  | 1 January 2018  |
| IFRS 15           | <i>Revenue from Contracts with Customers</i>                              | 1 January 2018  |
| IFRS 16           | <i>Leases</i>   | 1 January 2019  |
| IAS 7 Amendments  | <i>Disclosure Initiative</i>  | 1 January 2017  |
| IAS 12 Amendments | <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>           | 1 January 2017  |
| IFRS 2 Amendments | <i>Classification and Measurement of Share-based Payment Transactions</i> | 1 January 2018  |

The Company is still evaluating the impact of the adoption of IFRS 15 *Revenue from Contracts with Customers* on the financial statements in the period of initial application.

The Company expect that the adoption of the other standards and interpretations above will have no material impact of the financial statements in the period of initial application.

**2. Revenue**

|                      | 2016<br>US\$'000 | 2015<br>US\$'000 |
|----------------------|------------------|------------------|
| Product sales:       |                  |                  |
| Crude oil            | 5,187            | 7,828            |
| Gas and ethane       | 4,802            | 8,905            |
| <b>Total revenue</b> | <b>9,989</b>     | <b>16,733</b>    |

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**3. Cost of sales**

|  | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--|------------------|------------------|
| <b>Included are the following items:</b> |                  |                  |
| Operating expenses                       | 5,856            | 7,913            |
| General and administrative expenses      | 1,421            | 1,210            |
| Pension cost                             | 470              | 393              |
| Exploration expenses                     | 127              | 190              |
| Impairment loss                          | -                | 12,076           |
| Dry hole cost                            | -                | 2,336            |
| Depreciation and depletion:              |                  |                  |
| Amortization of intangible assets        | 1                | 8                |
| Depreciation and depletion of assets     | 855              | 3,067            |
| <b>Total cost of sales</b>               | <b>8,730</b>     | <b>27,193</b>    |

Operating lease payments for Floating Storage and Offloading (FSO) unit rental services charged to profit or loss account amounted to US\$1,206,000 and US\$1,328,000 for the years ended 31 December 2016 and 2015, respectively, and are recorded as part of operating expenses.

**4. Financial income/(expense)**

|  | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--|------------------|------------------|
| Unwind of the effect of discounting on provisions<br>(Note 12) | <b>40</b>        | <b>(42)</b>      |

**5. Taxation**

**Tax on profit/(loss) for the year**

The tax charge/(credit) is made up as follows:

|   | 2016<br>US\$'000 | 2015<br>US\$'000 |
|---|------------------|------------------|
| Current tax:                                      |                  |                  |
| UK Corporation tax on profit/(loss) for the year  | 1                | 1,577            |
| Double tax relief                                 | -                | (1,461)          |
| Foreign tax under provision                       | 470              | 873              |
| Foreign taxation                                  | 48               | 441              |
| <b>Total current tax charge</b>                   | <b>519</b>       | <b>1,430</b>     |
| Deferred tax:                                     |                  |                  |
| Origination and reversal of temporary differences | 808              | (4,461)          |
| <b>Total deferred tax benefit (Note 13)</b>       | <b>808</b>       | <b>(4,461)</b>   |
| <b>Total tax charge/(credit)</b>                  | <b>1,327</b>     | <b>(3,031)</b>   |

**Factors affecting the tax charge/(credit) 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:

**NOVUS UK (KAKAP) LIMITED**  
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**5. Taxation**

|  | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--|------------------|------------------|
| <b>Profit/(loss) before tax</b>  | <b>1,380</b>     | <b>(10,562)</b>  |
| Profit/(loss) multiplied by the standard rate of corporation tax in the UK of 20% for the period up to 31 December 2016 and 21% for the period up to 31 March 2015 and 20% for the period to 31 December 2015. | 276              | (2,139)          |
| Effect of:   |                  |                  |
| Imputed interest income  | 1                | 116              |
| Foreign tax under provision  | 470              | 873              |
| Impact of lower/(higher) foreign taxes   | 580              | (1,881)          |
| <b>Total tax charge/(credit) for the year</b>  | <b>1,327</b>     | <b>(3,031)</b>   |

**6. Employees and directors emoluments**

Other than Directors, the Company has no employees in 2016 and 2015.

The Company entered in an agreement with Aspect Financial Limited ("Aspect") (formerly ATC Corporate Services (UK) Limited) under a contract for the provision of director services for two (2) directors. The fees paid to Aspect during 2016 amounted to US\$6,000 (2015: US\$6,000).

Two (2) of the directors of the Company received remuneration from Star Energy (Kakap) Ltd., the operator of Kakap PSC. The portions of remuneration which represents a fair allocation to the Company, based on the working interest in Kakap PSC, amounts to US\$232,000 in 2016 (2015: US\$329,000). As at the date of the financial statements, the two directors agreed to provide director services to the Company without receiving any remuneration from the Company.

**7. Auditor's remuneration**

|                                     | 2016<br>US\$'000 | 2015<br>US\$'000 |
|-------------------------------------|------------------|------------------|
| Audit of these financial statements | 18               | 26               |
| <b>Total fees</b>                   | <b>18</b>        | <b>26</b>        |



**NOVUS UK (KAKAP) LIMITED**  
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**8. Oil and gas assets**

|  | <b>2016</b>                               |   |                           | <b>2015</b>                               |   |                           |
|--|---|---|---------------------------|---|---|---------------------------|
|  | <b>Subsurface<br/>assets<br/>US\$'000</b> | <b>Plant and<br/>equipment<br/>US\$'000</b> | <b>Total<br/>US\$'000</b> | <b>Subsurface<br/>assets<br/>US\$'000</b> | <b>Plant and<br/>equipment<br/>US\$'000</b> | <b>Total<br/>US\$'000</b> |
| Cost at 31 December  | 134,485                                   | 1,042                                       | 135,527                   | 130,796                                   | 988   | 131,784                   |
| Less accumulated depreciation,<br>depletion and impairment | (103,459)                                 | (931)                                       | (104,390)                 | (102,625)                                 | (909)                                       | (103,534)                 |
| Less impairment loss                                       | (17,355)                                  | -   | (17,355)                  | (17,355)                                  | -   | (17,355)                  |
| <b>Balance at 31 December</b>                              | <b>13,671</b>                             | <b>111</b>                                  | <b>13,782</b>             | <b>10,816</b>                             | <b>79</b>                                   | <b>10,895</b>             |
| <b>Reconciliation of movements</b>                         |   |   |                           |   |   |                           |
| <b>Producing assets</b>                                    |   |   |                           |   |   |                           |
| Balance at 1 January                                       | 10,816                                    | 79  | 10,895                    | 24,714                                    | 69  | 24,783                    |
| Additions  | 3,688                                     | 55  | 3,743                     | 3,566                                     | 25  | 3,591                     |
| Dry hole cost (Note 3)                                     | -   | -   | -                         | (2,336)                                   | -   | (2,336)                   |
| Impairment loss  | -   | -   | -                         | (12,076)                                  | -   | (12,076)                  |
| Depreciation and depletion<br>expense (Note 3)             | (833)                                     | (23)  | (856)                     | (3,052)                                   | (15)  | (3,067)                   |
| <b>Balance at 31 December</b>                              | <b>13,671</b>                             | <b>111</b>                                  | <b>13,782</b>             | <b>10,816</b>                             | <b>79</b>                                   | <b>10,895</b>             |

**Impairment test on oil and gas properties**

Impairment test on oil and gas properties is performed when circumstances indicate the CGU's carrying value may be impaired. In this matter, the management of the Company determined its participating interests in the Kakap PSC as a CGU. Considering the condition of the spot price of oil and gas at the assessment date, the management of the Company performed impairment testing on the affected CGU, under which the products are sold at spot price.

In assessing whether impairment is required, the carrying value of the CGU is compared with its respective recoverable amount. The recoverable amount has been determined based on a value-in-use calculation using cash flow projections based on production and development forecast approved by the management covering estimated period of contract and future investment to increase output up to 2026.

The recoverable amount and the carrying amount of oil and gas properties as at 31 December 2015, but before any impairment, amounted to US\$10,895,000 and US\$22,971,000, respectively. The excess of the carrying value over its recoverable amount of US\$12,076,000 is recognized as impairment loss in the 2015 operating expenses.

Based on the review of the oil and gas properties, the management believes that no further impairment in value of oil and gas properties is necessary as of 31 December 2016.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**8. Oil and gas assets (continued)**

**Key assumptions used**

The calculation of value in use is most sensitive to the following assumptions:

- a. Lifting
- b. Prices
- c. Discount rates
- d. Operating and capital expenses

**Lifting:** The projected annual lifting is based on management business plan considering the current conditions and future expectations.

**Prices:** Forecasted oil and gas prices are based on management's estimates and available market data. The oil price assumptions used by management are based on Brent price adjusted with historical price premium from the buyer. While for the gas price, the management uses the contracted price as per gas sales agreement.

The assumptions for Brent price used by management for impairment test as of 31 December 2016 are: US\$55.49 - US\$65.49 per bbls until 2026 (2015: US\$41.66 – US\$65.53 per bbls).

An increase of ten percent (10%) in oil price forecast will increase the recoverable amount of oil and gas properties by US\$3,048,000 as at 31 December 2016.

**Discount rates:** Discount rates are derived from the post-tax Weighted Average Cost of Capital (WACC). The WACC takes into account both debt and equity, weighted 40% and 60%, respectively. The cost of equity is equal to the return on risk-free securities plus the equity risk premium adjusted for the Company systematic risk. The cost of debt is based on the average historical interest rate loan of the Company until 31 December 2016.

The discount rate used is 9.13% (2015: 8.91%) (post-tax): An increase of one percent (1%) in discount rate will decrease the recoverable amount of oil and gas properties by US\$577,000.

**Operating and capital expenses:** These assumptions are based on the Company's operating and capital expenses plan. The management has full control over the costs, and believes that assumptions will be achievable.

Changes to the assumptions used by the management to determine the recoverable amount, in particular the discount rate, can have significant impact on the result of the impairment assessment. Management is of the opinion that there was no reasonably possible change in any of the key assumptions stated above that would cause the carrying amount of the CGU to materially exceed its recoverable amount.

Based on the review of the oil and gas properties, management believes that no further impairment in value of oil and gas properties is necessary as at 31 December 2016.

**9. Inventories**

|                                 | 2016<br>US\$'000 | 2015<br>US\$'000 |
|---------------------------------|------------------|------------------|
| Drilling and maintenance stocks | 1,146            | 1,118            |
| <b>Total inventories</b>        | <b>1,146</b>     | <b>1,118</b>     |

During 2016, US\$320 (2015: US\$2,041) was recognised as expense for inventories carried at net realisable value. This is recognised in operating expenses.

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**10. Trade and other receivables**

|  | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--|------------------|------------------|
| <b>Current</b>                           |                  |                  |
| Trade receivables                        | 3,029            | 1,820            |
| VAT receivables                          | 593              | 1,710            |
| Deposit                                  | 356              | 68               |
| Prepayments                              | 127              | 163              |
| Prepaid tax                              | -                | 732              |
| Others                                   | 2,295            | 1,721            |
| <b>Total trade and other receivables</b> | <b>6,400</b>     | <b>6,214</b>     |

Trade receivables are neither past due nor impaired and relate to independent customers for whom there is no recent history of default.

Prepaid tax represents overpaid 2015 corporate income tax and branch profit tax in Indonesia.

The Company believes that the carrying amounts are a reasonable approximation to the fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral security.

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

|                   | 2016<br>US\$'000 | 2015<br>US\$'000 |
|-------------------|------------------|------------------|
| US dollars        | 5,536            | 4,370            |
| Indonesian rupiah | 864              | 1,844            |
|                   | <b>6,400</b>     | <b>6,214</b>     |

**11. Trade and other payables**

|   | 2016<br>US\$'000 | 2015<br>US\$'000 |
|---|------------------|------------------|
| <b>Current</b>                          |                  |                  |
| Deferred revenue                        | 361              | 113              |
| Trade payables                          | 1,169            | 386              |
| Non-trade payables and accrued expenses | 4,555            | 3,934            |
| <b>Total trade and other payables</b>   | <b>6,085</b>     | <b>4,433</b>     |

The Company believes that the carrying amounts are a reasonable approximation to the fair value.

NOVUS UK (KAKAP) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

12. Provisions

Reconciliation of movements in provisions during the year:

|                                     | Employee<br>Benefits<br>US\$'000 | Restoration<br>US\$'000 | Total<br>US\$'000 |
|-------------------------------------|----------------------------------|-------------------------|-------------------|
| Balance at 1 January                | 1,503                            | 820                     | 2,323             |
| Unwinding of discount               | -                                | 42                      | 42                |
| Expected return on plan assets      | (770)                            | -                       | (770)             |
| Provision additions during the year | 564                              | -                       | 564               |
| Escrow account                      | -                                | (244)                   | (244)             |
| Balance at 31 December 2015         | 1,297                            | 618                     | 1,915             |
| Unwinding of discount               | -                                | (40)                    | (40)              |
| Expected return on plan assets      | (863)                            | -                       | (863)             |
| Provision additions during the year | 720                              | -                       | 720               |
| Escrow account                      | -                                | (229)                   | (229)             |
| Balance at 31 December 2016         | 1,154                            | 349                     | 1,503             |

Non-current

Employee benefits  
Restoration  
**Total provisions**

| 2016<br>US\$'000 | 2015<br>US\$'000 |
|------------------|------------------|
| 1,154            | 1,297            |
| 349              | 618              |
| <b>1,503</b>     | <b>1,915</b>     |

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**12. Provisions (continued)**

**Employee benefits**

**Net employee defined benefit liability:**

|                         | 2016<br>US\$'000 | 2015<br>US\$'000 |
|-------------------------|------------------|------------------|
| Pre-retirement benefit  | 47               | 47               |
| Other long-term benefit | 22               | 20               |
| Post-employment benefit | 1,085            | 1,230            |
|                         | <u>1,154</u>     | <u>1,297</u>     |

The Operator has a defined benefit pension plan covering substantially all employees. Plan benefits are primarily based on years of service and employees' compensation near retirement or voluntary resignation.

The Operator has a defined benefit pension plan in post-employment benefit (funded). The program is designed as a form of appreciation or post-employment fund benefit program, which has been approved by Ministry of Finance of the Republic of Indonesia and registered under the name Program Asuransi Jiwa Kumpulan Jangka Waktu Sementara. In 2013, the Operator appointed PT Asuransi Allianz Life Indonesia to underwrite and administer a management program of post-employment fund benefit for the employees of the Operator through the program.

On 28 January 2015, the Operator signed an agreement with PT Asuransi Allianz Life Indonesia to manage the pension program for severance compensation.

The Operator also provides pre-retirement benefit (unfunded) and other long-term benefit (unfunded) to employees.

The employees' benefits liability was calculated by an independent actuary, PT Padma Radya Aktuaria, for the years ended 31 December 2016 and 2015, in its reports dated 28 February 2016 and 5 February 2016, respectively, using the "Projected Unit Credit" method with the following assumptions:

**NOVUS UK (KAKAP) LIMITED**  
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**12. Provisions (continued)**

***Employee benefits (continued)***

|                                    | <u><b>2016</b></u>   | <u><b>2015</b></u>   |
|------------------------------------|--|--|
| Salary increment rate              | 10% p.a.   | 10% p.a.   |
| Discount rate                      | 8.25% p.a.   | 9.00% p.a.   |
| Mortality rate                     | 100% TMI** 3   | 100% TMI** 3   |
| Disability rate                    | 5% TMI 3   | 5% TMI 3   |
| Resignation rate                   | 2.5% p.a. until age 35 then<br>decrease linearly into 0%<br>at age 56* | 2.5% p.a. until age 35 then<br>decrease linearly into 0%<br>at age 56* |
| Retirement age                     | 58   | 58   |
| Proportion of normal<br>retirement | 100%   | 100%   |

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

\*\* Table Mortalita Indonesia

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the funded status and amounts recognized in the statement of financial position for the respective benefits:

**Pre-retirement benefits**

Net benefit expense (recognized in profit or loss):

|                            | <u>2016</u><br>US\$'000 | <u>2015</u><br>US\$'000 |
|----------------------------|-------------------------|-------------------------|
| Current service cost       | 5                       | 5                       |
| Interest cost              | 4                       | 4                       |
| <b>Net benefit expense</b> | <b>9</b>                | <b>9</b>                |

Changes in the present value of the defined benefit obligation are as follows:

|  | <u>2016</u><br>US\$'000 | <u>2015</u><br>US\$'000 |
|--|-------------------------|-------------------------|
| Defined benefit obligation at 1 January                            | 47                      | 50                      |
| Current service cost   | 5                       | 5                       |
| Interest cost  | 4                       | 4                       |
| Effect of employee transferred out                                 | (2)                     | -                       |
| Actuarial changes arising from experience adjustment               | (10)                    | (5)                     |
| Actuarial changes arising from changes in financial<br>assumptions | 2                       | (3)                     |
| Foreign exchange   | 1                       | (4)                     |
| <b>Defined benefit obligation at 31 December</b>                   | <b>47</b>               | <b>47</b>               |

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**12. Provisions (continued)**

*Employee benefits (continued)*

**Other long-term benefits**

Net benefit expense (recognized in profit or loss):

|   | 2016<br>US\$'000 | 2015<br>US\$'000 |
|---|------------------|------------------|
| Current service cost  | 3                | 3                |
| Interest cost   | 2                | 2                |
| Actuarial changes arising from experience adjustment            | (1)              | (2)              |
| Actuarial changes arising from changes in financial assumptions | 1                | (1)              |
| <b>Net benefit expense</b>                                      | <b>5</b>         | <b>2</b>         |

Changes in the present value of the defined benefit obligation are as follows:

|   | 2016<br>US\$'000 | 2015<br>US\$'000 |
|---|------------------|------------------|
| Defined benefit obligation at 1 January                         | 20               | 23               |
| Current service cost  | 3                | 3                |
| Interest cost   | 2                | 2                |
| Effect of employee transferred out                              | (2)              | -                |
| Actuarial changes arising from experience adjustment            | (1)              | (2)              |
| Actuarial changes arising from changes in financial assumptions | 1                | (1)              |
| Benefit paid  | (1)              | -                |
| Foreign exchange  | -                | (5)              |
| <b>Defined benefit obligation at 31 December</b>                | <b>22</b>        | <b>20</b>        |

**Post-employment benefits**

Net benefit expense (recognized in profit or loss):

|                            | 2016<br>US\$'000 | 2015<br>US\$'000 |
|----------------------------|------------------|------------------|
| Current service cost       | 247              | 287              |
| Interest cost              | 101              | 103              |
| <b>Net benefit expense</b> | <b>348</b>       | <b>390</b>       |

NOVUS UK (KAKAP) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

12. Provisions (continued)

*Employee benefits (continued)*

**Post-employment benefits (continued)**

2016 changes in the defined benefit obligation and fair value of plan assets:

|  | Defined<br>benefit<br>obligation | Fair value of<br>plan assets | Benefit<br>liability |
|--|----------------------------------|------------------------------|----------------------|
| Defined benefit obligation at 1 January  | 2,000                            | (770)                        | 1,230                |
| Current service cost   | 247                              | -                            | 247                  |
| Interest cost  | 172                              | (71)                         | 101                  |
| Foreign currency exchange rate (gain)/loss                                     | 50                               | (20)                         | 30                   |
| Benefits paid  | (230)                            | 230                          | -                    |
| Effect of employee transferred out   | (138)                            | -                            | (138)                |
| Return on plan assets (excluding amounts included<br>in net interest expenses) | -                                | 20                           | 20                   |
| Actuarial changes arising from experience<br>adjustment                        | 97                               | -                            | 97                   |
| Actuarial changes arising from changes in financial<br>assumptions             | (250)                            | -                            | (250)                |
| Contributions by employer  | -                                | (252)                        | (252)                |
| <b>Defined benefit obligation at 31 December</b>                               | <b>1,948</b>                     | <b>(863)</b>                 | <b>1,085</b>         |

2015 changes in the defined benefit obligation and fair value of plan assets:

|  | Defined<br>benefit<br>obligation | Fair value of<br>plan assets | Benefit<br>liability |
|--|----------------------------------|------------------------------|----------------------|
| Defined benefit obligation at 1 January  | 2,320                            | (890)                        | 1,430                |
| Current service cost   | 287                              | -                            | 287                  |
| Interest cost  | 167                              | (64)                         | 103                  |
| Foreign currency exchange rate (gain)/loss                                     | (230)                            | 87                           | (143)                |
| Benefits paid  | (158)                            | 156                          | (2)                  |
| Return on plan assets (excluding amounts included<br>in net interest expenses) | -                                | 9                            | 9                    |
| Actuarial changes arising from experience<br>adjustment                        | (230)                            | -                            | (230)                |
| Actuarial changes arising from changes in financial<br>assumptions             | (156)                            | -                            | (156)                |
| Contributions by employer  | -                                | (68)                         | (68)                 |
| <b>Defined benefit obligation at 31 December</b>                               | <b>2,000</b>                     | <b>(770)</b>                 | <b>1,230</b>         |



**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**12. Provisions (continued)**

***Employee benefits (continued)***

The sensitivity analysis below has been determined based on the reasonably possible changes of each significant assumption on the defined benefit pension plan as at the end of the reporting period, assuming if all other assumptions were held constant. A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 is as shown below:

**Pre-retirement benefits**

|                         |     | <b>Impact on the<br/>net defined benefit<br/>obligation<br/>(US\$'000)</b> |
|-------------------------|-----|--|
|                         |     | <hr/>  |
| Discount rates          | +1% | (2)  |
|                         | -1% | 3  |
| Future salary increases | +1% | 3  |
|                         | -1% | (2)  |
|                         |     | <hr/> <hr/>  |

**Other long-term benefits**

|                         |     | <b>Impact on the<br/>net defined benefit<br/>obligation<br/>(US\$'000)</b> |
|-------------------------|-----|--|
|                         |     | <hr/>  |
| Discount rates          | +1% | (1)  |
|                         | -1% | 1  |
| Future salary increases | +1% | 1  |
|                         | -1% | (1)  |
|                         |     | <hr/> <hr/>  |

**Post-employment benefits**

|                         |     | <b>Impact on the<br/>net defined benefit<br/>obligation<br/>(US\$'000)</b> |
|-------------------------|-----|--|
|                         |     | <hr/>  |
| Discount rates          | +1% | (128)  |
|                         | -1% | 141  |
| Future salary increases | +1% | 136  |
|                         | -1% | (126)  |
|                         |     | <hr/> <hr/>  |

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**12. Provisions (continued)**

***Employee benefits (continued)***

The following payments are expected contributions to be made in the next five years and the aggregate for five years thereafter out of the defined benefit plan obligation as follows:

**Pre-retirement benefit**

|  | <b>Amount<br/>(US\$'000)</b> |
|--|------------------------------|
| Within the next 12 months (next annual reporting period) | -                            |
| Between 2 and 5 years                                    | 30                           |
| Beyond 5 years   | 74                           |
| Above 10 years   | 23                           |
| <b>Total expected payments</b>                           | <b>127</b>                   |

The average duration of the defined benefit pension plan at the end of the reporting period is 8.89 years.

**Other long-term benefit**

|  | <b>Amount<br/>(US\$'000)</b> |
|--|------------------------------|
| Within the next 12 months (next annual reporting period) | 1                            |
| Between 2 and 5 years                                    | 17                           |
| Beyond 5 years   | 34                           |
| Above 10 years   | 7                            |
| <b>Total expected payments</b>                           | <b>59</b>                    |

The average duration of the defined benefit pension plan at the end of the reporting period is 8.89 years.

**Post-employment benefit**

|  | <b>Amount<br/>(US\$'000)</b> |
|--|------------------------------|
| Within the next 12 months (next annual reporting period) | 80                           |
| Between 2 and 5 years                                    | 1,015                        |
| Beyond 5 years   | 1,410                        |
| Beyond 5 years   | 5,157                        |
| <b>Total expected payments</b>                           | <b>7,662</b>                 |

The average duration of the defined benefit pension plan at the end of the reporting period is 8.89 years.

**NOVUS UK (KAKAP) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**12. Provisions (continued)**

***Employee benefits (continued)***

The defined contribution plan is contributed by both employees and the Company for a fixed contribution of 6% from the Company and a contribution of 2%-14% from the employees. During the years of 2016 and 2015, the Company has contributed the funds amounted to US\$53,000 and US\$52,000, respectively, and charged to current year operations and presented as "employee compensation and benefits" under operating expenses.

The plan assets are quoted in active market (money market investments) and the Company portion amounted to US\$863,000 (2015: US\$770,000).

***Restoration***

Provision for decommissioning, site restoration and abandonment costs represents present value of restoration costs of oil and gas property and equipment arising from the acquisition or use of assets, which are expected to be incurred up to 2020. These provisions have been computed based on internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability.

Accretion charge to finance income (expenses) for the year ended 31 December 2016 amounted to US\$40,000 (2015: debit of US\$42,000).

The discount rate of 4.88% was used in the calculation of the provisions as at 31 December 2016 (2015: 4.77%).

In accordance with Standard Operating Procedure No. 040/PTK/XI/2010 dated 24 November 2010 concerning Abandonment and Site Restoration ("ARO"), the Operator is required to have an escrow account with SKK Migas to fund the ARO relating to oil and gas operations in Indonesia.

As at 31 December 2016 and 2015, the above escrow account was placed in PT Bank Mandiri (Persero) Tbk.

NOVUS UK (KAKAP) LIMITED

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**13. Deferred tax liabilities**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred taxes relate to the same tax authority.

The movement of the deferred tax assets and liabilities during the reporting period is as follows:

| <b>2016</b>   | <b>1 January 2016</b> | <b>Credited/(Charged)<br/>to<br/>profit or loss</b> | <b>Charged to<br/>OCI</b> | <b>31 December<br/>2016</b> |
|---|-----------------------|---|---------------------------|-----------------------------|
|   | <b>US\$'000</b>       | <b>US\$'000</b>                                     | <b>US\$'000</b>           | <b>US\$'000</b>             |
| Deferred income tax assets:   |                       |   |                           |                             |
| - Provision for decommissioning, site restoration and abandonment costs | 227                   | (99)  | -                         | 128                         |
| - Estimated liabilities for long-term employee benefits                 | 480                   | 49  | (52)                      | 477                         |
| - Other   | 194                   | 92  | -                         | 286                         |
|   | <b>901</b>            | <b>42</b>   | <b>(52)</b>               | <b>891</b>                  |
| Deferred income tax liabilities:  |                       |   |                           |                             |
| - Oil and gas properties and other property and equipment, net          | (2,155)               | (850)   | -                         | (3,005)                     |
|   | <b>(2,155)</b>        | <b>(850)</b>  | <b>-</b>                  | <b>(3,005)</b>              |
| Deferred tax liabilities. net   | <b>(1,254)</b>        | <b>(808)</b>  | <b>(52)</b>               | <b>(2,114)</b>              |

| <b>2015</b>   | <b>1 January 2015</b> | <b>Credited/(Charged)<br/>to<br/>profit or loss</b> | <b>Charged to<br/>OCI</b> | <b>31 December<br/>2015</b> |
|---|-----------------------|---|---------------------------|-----------------------------|
|   | <b>US\$'000</b>       | <b>US\$'000</b>                                     | <b>US\$'000</b>           | <b>US\$'000</b>             |
| Deferred income tax assets:   |                       |   |                           |                             |
| - Provision for decommissioning, site restoration and abandonment costs | 288                   | (61)  | -                         | 227                         |
| - Estimated liabilities for long-term employee benefits                 | 514                   | 108   | (142)                     | 480                         |
| - Other   | 329                   | (135)   | -                         | 194                         |
|   | <b>1,131</b>          | <b>(88)</b>   | <b>(142)</b>              | <b>901</b>                  |
| Deferred income tax liabilities:  |                       |   |                           |                             |
| - Oil and gas properties and other property and equipment, net          | (6,701)               | 4,546   | -                         | (2,155)                     |
| - Other   | (3)                   | 3   | -                         | -                           |
|   | <b>(6,704)</b>        | <b>4,549</b>  | <b>-</b>                  | <b>(2,155)</b>              |
| Deferred tax liabilities. net   | <b>(5,573)</b>        | <b>4,461</b>  | <b>(142)</b>              | <b>(1,254)</b>              |

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**14. Obligations under operating lease agreement**

|   | 2016<br>US\$'000 | 2015<br>US\$'000 |
|---|------------------|------------------|
| The amount of lease commitments in respect of the Company's unincorporated joint venture are:   |                  |                  |
| Lease commitments   | 4,068            | 4,965            |
|   | <b>4,068</b>     | <b>4,965</b>     |
| Total future minimum rentals payable under non-cancellable leases relating to floating storage and offloading ("FSO") contracts for each of the following periods are as follows: |                  |                  |
| Not later than one year   | 1,249            | 1,249            |
| After one year but not more than five years   | 2,819            | 3,716            |
|   | <b>4,068</b>     | <b>4,965</b>     |

**15. Share capital**

|  | 2016<br>US\$'000 | 2015<br>US\$'000 |
|--|------------------|------------------|
| <b>Authorised and issued capital</b>   |                  |                  |
| <b>Share capital</b>   |                  |                  |
| Authorized, allotted, called up and fully paid 1,000 ordinary shares of £1 translated at 31 December 1982 rate of exchange rate of US\$1.6175/£1 | 2                | 2                |

**Capital risk management**

The Company's objective when managing capital is to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an efficient capital structure.

In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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**16. Related parties**

|   |                                       | 2016<br>US\$'000 | 2015<br>US\$'000 |
|---|---------------------------------------|------------------|------------------|
| <b>(a) Related party balances:</b>      |                                       |                  |                  |
| <i>Payable</i>                          | Relationship with the related parties |                  |                  |
| - Novus UK (Indonesian Holding) Limited | Immediate parent undertaking          | 3,572            | 3,243            |
| - Other                                 |                                       | 212              | 336              |
|   |                                       | <b>3,784</b>     | <b>3,579</b>     |
| <i>Receivable</i>                       |                                       |                  |                  |
| - Kakap Holdings Pte. Ltd.              | Indirect parent undertaking           | 34,244           | 34,225           |
| - Novus UK (Indonesian Holding) Limited | Immediate parent undertaking          | -                | -                |
| - Other                                 |                                       | 257              | 296              |
|   |                                       | <b>34,501</b>    | <b>34,521</b>    |

Loans receivable from/payable to other related entities are interest-free, have no fixed terms and are repayable on demand.

Receivables from related parties are current receivables that are unsecured, non-interest bearing and are to be settled in form of cash or non-cash within the next twelve months from the reporting date.

Receivables from related parties are neither past due nor impaired and relate to counterparties for whom there is no recent history of default.

The Company has not engaged in any other related party transactions in the current year.

**(b) Key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the Directors of the Company.

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**16. Related parties (continued)**

**(b) Key management personnel (continued)**

The following were Directors of the Company and therefore key management personnel of the Company for the periods shown:

| <b>Name</b>                    | <b>Position</b> |
|--------------------------------|-----------------|
| Rudy Suparman                  | Director        |
| Hendra Soetjipto Tan           | Director        |
| James Patrick Johnston Fairrie | Director        |
| Spencer Harry Saffer           | Director        |

The Company employs no permanent staff.

**17. Commitments and contingencies**

**a. Significant disputes**

The following disputes are current contingent liabilities and assets and may result in future cash flows on a net basis to the Company.

- (i) The Operator is facing a legal dispute with Tripatra-Sarku Consortium ("Vendor") regarding the flexible flow line incident of KRA South Gas Development Subsea Tie-In project that occurred in 2007. The value of the claim against the Operator amounted to US\$1,500,000. On the other hand, the Operator counterclaimed against the Vendor for the excess cost of US\$1,000,000 to complete the project.
- (ii) The Operator also has a legal dispute with Seabulk Offshore Vessel Holding Inc. ("SOVH"), owner of the vessel MU Seabulk Plover. On 14 August 2008, the Operator received a letter from SOVH 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 Singaporean dollar \$13,218,000, which is equivalent to US\$9,148,000 as at 31 December 2016 (2015: US\$9,344,000).
- (iii) The Operator is facing a legal dispute with PT SPIE Oil & Gas Services Indonesia ("SPIE") in relation to the breach of Contract No. 4200001271 for the Provision of Drilling Personnel Services dated 30 April 2014, by SPIE. Under the Contract, SPIE was obligated to provide all of the required administrative authorizations, including work permits, for its drilling personnel to enable such personnel to work within Operator's work location in the Indonesian territory. However, during the whole Contract period, SPIE has failed to fulfil its obligation to provide the work permits. The dispute has been filed at the Indonesian National Board of Arbitration (BANI) on 20 November 2015 by the Operator. The value of claim against SPIE amounted to US\$1,231,000 plus interest of 6% per annum from the total value of claim, calculated from the filing date of the arbitration claim until the total claim has been fully paid. On 26 May 2017, BANI has resolved the dispute by deciding to reject the Operator claim and instructed the Operator to pay compensation to SPIE of US\$669,000. Based on the Operator opinion there was incorrect calculation in the BANI decision, therefore on 27 July 2017, the Operator sent the confirmation and non-executable decision letter to the Central Jakarta District Court to reassess the BANI decision.

As of the completion date of these financial statements, there is no further progress on the above cases and any final settlement on such cases is uncertain. Management believes that the disputes will be resolved with no material impact on the Company's financial statements, accordingly no provision has been recognized at the reporting date.

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**17. Commitments and contingencies (continued)**

**b. Gas supply agreement**

On 15 January 1999, Pertamina entered into a Gas Supply Agreement ("GSA") with SembCorp Gas Pte. Ltd. as the buyer.

Under the GSA, Pertamina as the seller agreed to tender for the delivery and sale of gas at the delivery point in Singapore until the end of the GSA contract period in 2028 or until the cumulative gas delivery has reached contract quantity of 2,625 Trillion Btu (TBtu), whichever is earlier. Pursuant to the GSA, the buyer agreed to take or pay for, or pay if not taken, gas on and subject to the terms and conditions of the GSA.

On the same date, Pertamina, Kakap PSC and other gas suppliers entered into a Gas Supply Agreement ("GSuA") in which under such GSuA, each supplier agreed to make gas available to Pertamina based on each market share of the gas suppliers, to enable Pertamina to fulfill its commitment under the GSA. Kakap PSC's market share for year 2017 is 10% (2016: 13%).

**c. Branch Profit Tax ("BPT")**

Provision for BPT is the additional tax imposed in lieu of dividends withholding tax on the excess of taxable income over ordinary corporate income tax.

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 which have signed Production Sharing Contract after 31 December 1983. BPT is the additional tax imposed in lieu of dividends withholding tax on the excess of taxable income over ordinary corporate income tax.

Based on the audit result of the Indonesia Development Finance Controller (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") for the audit period 1994 to 2004, the Company was required to pay 20% BPT equivalent to US\$3,577,000.

The management is of the opinion that the Company (company established in the United Kingdom) is subject to BPT at the rate of 10% based on the 1993 tax treaty between the Government of the Republic of Indonesia and United Kingdom.

In November 2011, the Company received tax assessment letters from the Tax Office related to the underpayment of the BPT for fiscal year 2008 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$3,129,000. Subsequently on 7 February 2012, the Company made payment to the Tax Office.

In February 2012, the Company filed objection letters to the Tax Office regarding the basis for the issuance of tax assessment letters since the Company believes that the rate applied by the Company is supported by the Indonesian - UK Treaty, which reduced the tax rate to 10%.



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**17. Commitments and contingencies (continued)**

**c. Branch Profit Tax ("BPT") (continued)**

In addition, the Company received confirmations from UK HM Revenue and Custom (UK HMRC) that they are entitled to apply the 10% treaty rate since the Company is a UK tax resident. In February 2013, the Tax Office declined the objection letter and in May 2013, the Company submitted an appeal letter to the Tax Court. On 26 March 2014, the Company gave the closing statement in the Tax Court. On 29 September 2016, Tax Court rejected the Company appealed letters for 2008 fiscal year. The Tax Court argued that there is not sufficient documentation to support the appeals and therefore the Company are not eligible to apply UK-Indonesia Tax Treaty. The Company submitted the reconsideration request to the Supreme Court on 11 January 2017. As at the completion date of the financial statements, no decision letter has been received from the Supreme Court.

The management continues to believe that the Company should be exempted from BPT prior to 2004, whilst the 10% BPT should be applied starting from year 2005 (the year when the extension of Kakap PSC became effective). Accordingly, there is no additional accrual made in the Company from periods 1996 to 2004 for the 20% rate of BPT (approximately US\$3,287,000) and from years 2005 to 2007. Accordingly, there is no further accrual was made for the additional 10% rate on BPT for years 2016.

In August 2014, the Company received tax assessment letters from the Tax Office related to the underpayment of BPT (including penalties) for fiscal year 2009 amounting to US\$1,206,000. The Company made the payment on 14 August 2014 and sent an objection letter to the Tax Office on 3 October 2014. On 29 September 2015, Tax Office sent the letters to reject the Company objection letters. On 23 December 2015, the Company submitted appeal letters to the Tax Court. As at the completion date of the financial statements, no decision has been made by the Tax Court.

On 2 September 2015, the Company received tax assessment letters from the Tax Office related to the underpayment of the BPT for fiscal year 2010, 2011, 2012 and 2013 amounting to US\$7,417,000. On 1 October and 2 November 2015, the Company made payment and sent objection letter to the Tax Office on 3 November 2015. On 2 November 2016, the Tax Office sent the letters to reject the Company objection letters. On 24 January 2017, the Company submitted appeal letters to the Tax Court. As at the completion date of the financial statements, no decision has been made by the Tax Court.

On 30 April 2016, the Company received the tax assessment letters for underpaid 2014 BPT amounting to US\$639,000. The Company has made the payments on 12 July 2016 and sent objection letters to the Tax Office on 21 July 2016. On 16 June and 17 July 2017, the Tax Office sent the letters to reject the Company objection letters. On 12 September 2017, the Company submitted appeal letters to the Tax Court. As at the completion date of the financial statements, no decision has been made by the Tax Court.

On 3 April 2017, the Company received the tax assessment letters for underpaid 2015 BPT amounting to US\$210,000. The Company has made the payment on 25 April 2017 and sent the objection letters to the Tax Office on 14 June 2017. As at the completion date of the financial statements, the Company has not yet received any response related to the objection letters from the Tax Office.

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**17. Commitments and contingencies (continued)**

**d. Senior term loan facility agreement**

On 7 December 2012, the ultimate shareholders of the Company, Star Energy Investment Ltd. ("SEIL") entered into a US\$121,000,000 Acquisition Bridge Facilities Agreement ("Bridge Loan Facility") with DBS Bank Ltd. ("DBS") ("Lender") for the purposes of financing the acquisition of 100% shares in Star Energy Holdings Limited, which own 40% shares in Star Energy Group Holdings Pte. Ltd.

On 1 February 2013, part of the Bridge Loan Facility amounting to US\$58,000,000 ("Bridge Loan Facility A") has been pushed down and novated to Star Energy (Kakap) Limited ("SEKL") and Star Energy (Kakap) Holdings Limited ("SEKHL").

On 1 February 2013, SEKL and SEKHL (or together referred to as "the Borrowers") entered into a US\$60,000,000 Senior-Term Loan Facility Agreement ("New Loan") with DBS Bank Ltd. ("DBS") ("Lender"). The initial utilization was made on 8 February 2013 amounting to US\$60,000,000.

The purpose of the loan is to repay Bridge Loan Facility A and any fees, stamp and expenses in connection with the Facility or Finance documents. The New Loan will be repaid on quarterly basis with the initial repayment date in May 2013 and the latest repayment date in February 2018. Interest is charged at 4.5% plus LIBOR.

The New Loan is guaranteed by the following related parties:

- Novus UK (Indonesian Holdings) Limited (Original Guarantor)
- Novus Petroleum Canada (Indonesian Holdings) Limited (Original Guarantor)
- Star Energy Kakap Holdings Limited (Original Guarantor)
- Star Energy (Kakap) Ltd. (Original Guarantor)
- Natuna UK (Kakap 2) Limited (Original Guarantor)
- Novus UK (Kakap) Limited (Original Guarantor)
- Novus Petroleum Canada (Kakap) Ltd. (Original Guarantor)
- Novus Nominees Pty. Ltd. (Original Guarantor)
- Kakap Holdings Pte. Ltd. (Original Guarantor)

The New Loan also requires the Borrowers to maintain certain financial ratios such as:

- a. Debt service coverage ratio shall not be less than 1.25 times
- b. Debt to EBIDA ratio shall not be more than:
  - (i) 2.00 : 1 for the period ended 30 September 2013
  - (ii) 2.00 : 1 for the period ended 31 December 2013
  - (iii) 1.65 : 1 for the period ended 31 March 2014
  - (iv) 1.65 : 1 for the period ended 30 June 2014
  - (v) 1.25 : 1 for the period ended 30 September 2014 or later
- c. Tangible net worth shall not be less than US\$35,000,000
- d. Present Worth to Net Outstanding Debt ("ALCR") ratio should not be less than 1.45 : 1 for the period ended 31 March 2014 or later.

Such financial ratios shall be calculated based on the proforma combined financial statements of SEKL, SEKHL, Natuna UK (Kakap 2) Limited, Novus Nominees Pty. Ltd, Novus UK (Kakap) Limited, and Novus Petroleum Canada (Kakap) Ltd.

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**17. Commitments and contingencies (continued)**

**d. Senior term loan facility agreement (continued)**

As at 31 December 2016, the Borrowers breached the Debt to EBIDA ratio as required under the loan agreements. The Borrowers obtained waiver from the Lender based on a letter dated 16 February 2017.

The New Loan is secured principally by shares of SEKL, SEKHL, Natuna UK (Kakap 2) Limited, Novus UK (Kakap) Limited, and Novus Petroleum Canada (Kakap) Ltd, and the share mortgage of Novus Nominees Pty. Ltd and its respective interests in the Kakap PSC.

The New Loan Agreement contains several covenants which restrict the Borrowers and Guarantors, among others, from the following:

- (i) Changing the Kakap PSC Operatorship,
- (ii) Materially changing the nature or scope of its business for the Borrowers and Guarantors and the interests in the PSC without obtaining the prior written approval of the Lenders,
- (iii) Entering into any kind of amalgamation, demerger, merger or corporate reconstruction,
- (iv) Incurring additional indebtedness, unless arising under or permitted under any Finance Document or a Permitted Intercompany Loan Agreement,
- (v) Entering into any kind of hedging or other swap or derivative transactions of a similar nature for speculative purposes, except for interest rate hedging within 3 months of the date after the Initial Utilization Date,
- (vi) Declaring or paying any dividend or make any other income distribution to its shareholders or repay any shareholders' or investors' loans, unless permitted under the New Loan Agreement,
- (vii) Issuing new shares, purchase or redeem any of its issued shares or reduce its share capital or make a distribution of assets or other capital distribution to its shareholders,
- (viii) Making amendment to its memorandum or Articles of Association or equivalent constitutional documents without the prior written consent of the Lenders, unless permitted under the New Loan Agreement,
- (ix) Entering into any arrangement whereby subordinated Borrowers and Obligors to the rights of a third party other than as permitted or required under the New Loan Agreement,
- (x) Entering into any related parties transactions, except on arm's-length terms,
- (xi) Entering into any contracts or agreements, unless permitted under the New Loan Agreement,
- (xii) No disposal of assets,
- (xiii) No creation of security or quasi-security over assets, except as expressly permitted under the Finance Documents,
- (xiv) Compliance with all laws and regulations (including applicable environmental laws), and
- (xv) Other standard covenants and undertakings customary for a financing of this type.

**NOVUS UK (KAKAP) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

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**17. Commitments and contingencies (continued)**

**d. Senior term loan facility agreement (continued)**

As required under the provision of the New Loan agreement, on 8 May 2013, the Borrowers entered into Interest Rate Cap arrangement with the Lender for 100% of the outstanding New Loan at a strike rate of 0.75%. The Borrowers have not designated these arrangements as effective hedging instruments. Under the terms of the arrangement, the Borrowers will receive a payment if the USD LIBOR BBA is above the strike rate and therefore is entitled to receive payments equivalent to (USD LIBOR BBA minus Strike Rate) multiplied with the notional amount. This payment will be made in May, August, November and February of each calendar year and will end in February 2018. In the amended New Loan, the last repayment date of the New Loan will be in February 2020.

The Borrowers amended the term and condition of the New Loan on 28 June 2016. In the amended loan agreement, the last repayment date was extended to February 2020. The Lenders did not require the Borrowers to enter into a new interest rate option under the amended loan agreement.

In 2016, the Borrowers made a total principal repayment of US\$8,160,000 including voluntary repayment of US\$5,000,000 on 15 December 2016 (2015: US\$12,050,000).

**e. 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.

**18. Financial risk management**

The Company's activities expose it to market risk (which consists of currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company's overall risk management strategy seeks to minimize adverse effects from unpredictability of financial markets on the Company's financial performance.

Risk management is carried out by the corporate finance department under supervision by the Company's Board of Directors. Corporate finance identifies, evaluates and hedges financial risks.

**(a) Foreign currency risk**

The Company is not materially exposed to foreign currency risk as it principally trades in US dollars through the sale of liquid petroleum products denominated in US dollars, incurs expenditure in US dollars and has US dollars borrowings from a related entity.

**(b) Interest rate risk**

As the Company has no interest-bearing assets or liabilities, the Company is not exposed to changes in market interest rates.

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**18. Financial risk management (continued)**

**(c) Commodity price risk exposure**

The Company is exposed to commodity price fluctuations through the sale of petroleum product. The Company may enter into commodity crude oil price swap and option contracts to manage the Company's commodity price risk.

At 31 December 2016 and 2015, the Company had no open oil price swap contracts and is therefore not exposed to movements in commodity prices on financial instruments. The Company continues to monitor oil price volatility and to assess the need for commodity price hedging.

**(d) Credit risk**

Credit risk represents the potential financial loss if counterparties fail to perform as contracted. The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Credit risk arises from cash on hand and in banks, deposits with banks and financial institutions, as well as credit exposures from trade and related party 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 (Note 10).

**(e) Liquidity risk**

Liquidity risk is the risk that suitable sources of funding for the Company's business activities may not be available. The Company believes it has access to sufficient funding to meet currently foreseeable borrowing requirements primarily through access to support from group companies.

Effective management of the liquidity risk has the objective of ensuring the availability of adequate funding to meet short term requirements and due obligations as well as the objective of ensuring a sufficient level of flexibility in order to fund the development plans of the Company's businesses.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments (Note 11):

| <b>As at 31 December</b>           | <b>Less than one year</b> | <b>More than one year</b> |
|------------------------------------|---------------------------|---------------------------|
|                                    | US\$'000                  | US\$'000                  |
| <b>2016</b>                        |                           |                           |
| Trade and other payables (Note 11) | 6,085                     | -                         |
| <b>2015</b>                        |                           |                           |
| Trade and other payables (Note 11) | 4,433                     | -                         |

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**18. Financial risk management (continued)**

**(f) Fair values**

The financial assets and liabilities of the Company are recognised on the statement of financial position at their fair value in accordance with the accounting policies in Note 1.

The significant methods and assumptions used in estimating the fair values of financial instruments are:

*Trade and other receivables*

The carrying value less impairment provision of trade receivables is a reasonable approximation of their fair values due to the short-term nature of trade receivables.

*Trade and other payables*

The carrying value of trade payables is a reasonable approximation of their fair values due to the short-term maturities of such instruments.

**19. Parent entities**

Star Energy Oil and Gas Pte. Ltd. ("SEOGPL"), a holding company in Singapore, which the directors regard as the Company's ultimate parent undertaking with respect to the financial year ended 31 December 2016, is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and to which the Company is a member. On 24 July 2017, Star Energy Group Holdings Pte. Ltd. ("SEGHPL") as the Shareholder of SEOGPL entered into a Share Purchase Agreement with Star Energy Investment Ltd. ("SEIL") and SE Holdings Ltd. ("SEHL"), for which SEGHPL agreed to sell its ownership interests in SEOGPL and its subsidiaries by 59.54% and 40.46% to SEIL and SEHL, respectively.

Star Energy Kakap Holdings Limited, a company incorporated in Bermuda, is the parent undertaking of the smallest group of undertakings for which group financial statements are drawn up and for which the Company is a member.

**20. Events after the Reporting Period**

- (a) On 3 April 2017, the Company received tax assessment letters for the underpayment of 2015 Corporate and Dividend Tax totally amounting to US\$376,000. The Company have made the payment on 25 April 2017 and sent the objection letter to the Tax Office on 14 June 2017.
- (b) On 24 July 2017, Star Energy Group Holdings Pte. Ltd. ("SEGHPL") as the Shareholder of SEOGPL entered into a Share Purchase Agreement with Star Energy Investment Ltd. ("SEIL") and SE Holdings Ltd. ("SEHL"), for which SEGHPL agreed to sell its ownership interests in SEOGPL and its subsidiaries by 59.54% and 40.46% to SEIL and SEHL, respectively.