
NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

(THIS FINANCIAL REPORT IS PREPARED IN UNITED STATES DOLLARS)

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NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT

The Directors present their directors' report and financial statements for the year ended 31 December 2012

Principal Activity

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

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 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 in a joint venture 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. Currently the Company has a gas price contract, which will minimise the commodity price risk.

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

NATUNA UK (KAKAP 2) LIMITED

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DIRECTORS' REPORT (CONTINUED)

Principal Risks and Uncertainties (continued)

Financing

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

Credit risk

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

Business Review and Future Developments

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 3,498 boepd in 2012 (3,407 boepd in 2011). Gas gross production averaged 4,609 boepd in 2012 (5,824 boepd in 2011).

Turnover 2012 decreased primarily due to decrease in gas production partially offset by increase in oil production. The average oil price in 2012 was US\$113.40/bbls (2011 US\$113.80/bbls) and the average gas price in 2012 was US\$20.59/mscf (2011 US\$19.51/mscf).

The results for the years ended 31 December 2012 and 2011 are summarised below:

	2012 US\$'000	2011 US\$'000
Revenue	13,576	15,742
Profit before tax	7,360	9,711
Taxation	(2,956)	(3,923)
Profit after tax for the year	4,404	5,788

On 14 December 2012, the Company declared and distributed a non cash dividend amounting to US\$5,000,000 (2011: \$nil).

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DIRECTORS' REPORT (CONTINUED)

Business Review and Future Developments (continued)

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

Various efforts had been initiated and carried out by the Operator in order to remedy the situation, including implementation of a medium-term solution by replacing the KN FPSO with a new FSO namely East Fortune FSO. The contract to lease the new FSO was signed in October 2009 with PT Pulau Kencana Raya ("PKR") as an agent on behalf of Songa Production Pte Ltd

The contract with PKR had a total contract value of US\$14,115,000 and expired in September 2010 which was nine months from first oil on the new FSO and operations date of Single Point Mooring Buoy ("SPM buoy") on 9 January 2010. On 5 October 2010, the Operator extended the lease contract of the new FSO up to 31 December 2010 with the contract value amounting to US\$2,972,336. On 1 December 2010, the lease contract was extended up to 31 January 2011. On 12 January 2011 the lease contract of EF FSO rental service was further extended for a twelve months period starting 1 February 2011. However, since 9 March 2011, the EF FSO has been demobilized from Kakap field and was temporarily replaced by a new vessel MT Barunawati. Originally, the vessel that was to replace EF FSO was MT Badraini which was under modification until May/July 2011. In July 2011, the Operator used MT Badraini in its first oil lifting for 2011 since the vessel was then ready for use.

Based on its letter dated June 9, 2010, No. 0622/BPA4000/2010/S1, Satuan Kerja Sementara Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi ("SKK Migas") (formerly known as BP Migas) has requested the Contractors to re-utilize KN FPSO for the next five to ten years, and the related Authorization For Expenditures (AFE) for the reutilization of the KN FPSO which covers the dry docking project and the operation cost for KN FPSO for the seven years has been approved by SKK Migas in its letter dated 4 April 2011 amounting to US\$66,937,000.

The dry docking of KN FPSO was completed on July 31, 2012, after completed the dry docking process, Kakap Natuna changed name to become Kakap Natuna Floating Storage and Offloading ("KNFSO") vessel and on 22 August 2012, KN FSO began its normal operations in Kakap Natuna block.

Key Performance Indicators

The Company's ultimate parent entity Star Energy Geothermal Pte Ltd (formerly known as Star Energy Holdings Pte Ltd), is the parent entity in the consolidated Star Energy Group. The Company holds a 6.25% non-operator interest in the Kakap Production Sharing Contract. 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 PSC against its strategic targets.

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.

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT (CONTINUED)

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 are listed below. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms 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

Directors

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

Bret Wayne Mattes	Director (resigned on 31 January 2012)
Rudy Suparman	Director
Hendra Soetjipto Tan	Director (appointed on 26 April 2012 as Director, previously served as Alternate Director to Rudy Suparman)
James Patrick Johnston Fairrie	Director
Spencer Saffer	Director

Creditor Payment Policy and Practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2012, the Company had an average of 26 days purchases outstanding in trade creditors (31 December 2011: 16 days)

Events since the Balance Sheet Date

Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi

In a decision (the "Decision") issued on November 13, 2012, the Constitutional Court ordered the dissolution of BP Migas. The Decision is effective on November 13, 2012, and all the functions of BP Migas were shifted to the Ministry of Energy and Mineral Resources, based on Presidential Regulation No. 95/2012, which was issued shortly by the President of Indonesia following the Decision. The Decision stated that all existing Production Sharing Contracts will still be valid until their expiry dates. Following such Presidential Regulation, the Government of Indonesia created an interim task force, referred to as SKSP Migas which is under the Ministry of Energy and Mineral Resources, to assume the work of BP Migas.

On January 10, 2013, the President of Indonesia issued a Presidential Regulation No. 9 Year 2013 regarding the establishment of a permanent special task force called SKK Migas (replacing the temporary task force, i.e. SKSP Migas) to assume the work of BP Migas until a new permanent regulatory body is formed under the planned revision to the 2001 Oil and Gas Law or until the formulation of a new law on oil and gas sector.

NATUNA UK (KAKAP 2) LIMITED

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DIRECTORS' REPORT (CONTINUED)

Events since the Balance Sheet Date (continued)

Senior Term Loan Facility Agreement

On 1 February 2013, the Star Energy Kakap Limited ("SEKL") and Star Energy Kakap Holdings Limited ("SEHL") (or together referred to as "the Borrowers") have entered into a US\$60,000,000 Senior-Term Loan Facility Agreement ("New Loan") with DBS Bank Ltd ("DBS") ("Lenders"). The initial utilization was on 8 February 2013 amounting to US\$60,000,000. The borrowing is denominated in U S dollar.

The purpose of the loan is to repay a bridge loan facility in relation to the Acquisition Facility Agreement amounting to US\$58,000,000 and any fees, cost and expenses, any stamp and other charges in connection with the facility. The Acquisition Facility Agreement was entered on 7 December 2012 between Star Energy Investment Ltd and DBS Bank Ltd for the purposes of financing the acquisition of the remaining shares in Star Energy Group Holdings Pte Ltd by Star Energy Investment Ltd. 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.


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)

Auditor

Pursuant to board of director's resolution dated 26 June 2012, Ernst & Young LLP has been reappointed as the auditor of the Company for the ensuing year.

By order of the Board



Rudy Suparman
Director



Hendra Soetjipto Tan
Director

26 July 2013

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

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

The directors are responsible for preparing the Directors' Report and the Company 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 NATUNA UK (KAKAP 2) LIMITED

We have audited the financial statements of Natuna UK (Kakap 2) Limited for the year ended 31 December 2012 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 21. 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 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 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 NATUNA UK
(KAKAP 2) LIMITED (continued)**

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Moira Ann Lawrence (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory auditor
London

15 AUGUST 2013

NATUNA UK (KAKAP 2) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 US\$000	2011 US\$000
Revenue	2	13,576	15,742
Cost of sales		(6,168)	(6,028)
Gross profit		7,408	9,714
Other income		41	12
Operating profit	3	7,449	9,726
Financial expenses	4	(89)	(15)
Profit before tax		7,360	9,711
Income tax expense	5	(2,956)	(3,923)
Net profit for the year		4,404	5,788
Other comprehensive income, net of tax		-	-
Total Comprehensive income for the year		4,404	5,788

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

NATUNA UK (KAKAP 2) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012


	Share Capital	Share Premium	Retained Earnings	Total
	US\$000	US\$000	US\$000	US\$000
Balance as at 1 January 2011	-	10,208	(647)	9,561
Total comprehensive income for the year, net of tax	-	-	5,788	5,788
Balance as at 31 December 2011	-	10,208	5,141	15,349
Total comprehensive income for the year, net of tax	-	-	4,404	4,404
Dividend to shareholders	-	-	(5,000)	(5,000)
Balance as at 31 December 2012	-	10,208	4,545	14,753


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

NATUNA UK (KAKAP 2) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012 US\$000	2011 US\$000
Non-current assets			
Oil and gas assets	8	8,453	7,759
Other asset		11	15
Total non-current assets		8,464	7,774
Current assets			
Inventories	9	511	373
Cash in bank		1,469	-
Restricted cash in bank		-	1,498
Trade and other receivables	10	2,896	3,835
Amounts owing from related entities	17	20,753	15,190
Total current assets		25,629	20,896
Total assets		34,093	28,670
Equity			
Share capital	15	-	-
Share premium	15	10,208	10,208
Retained earnings		4,545	5,141
Total equity		14,753	15,349
Non-current liabilities			
Provisions	12	3,254	2,982
Deferred tax liabilities	13	982	1,088
Amount owing to related entities	17	10,830	5,063
Total non-current liabilities		15,066	9,133
Current liabilities			
Trade and other payables	11	3,591	2,176
Current tax liabilities		683	2,012
Total current liabilities		4,274	4,188
Total liabilities		19,340	13,321
Total equity and liabilities		14,753	15,349

These financial statements were approved by the Board of Directors on 26 July 2013 and were signed on its behalf by


Rudy Suparman
 Director


Hendra Soetjipto Tan
 Director

NATUNA UK (KAKAP 2) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 US\$000	2011 US\$000
Cash flows from operating activities			
Receipts from customers and joint venture parties		13,306	14,378
Payments to suppliers and employees		(2,698)	(3,407)
Income taxes paid		(2,897)	(3,725)
Net cash flows from operating activities	16	<u>7,711</u>	<u>7,246</u>
Cash flows from investing activities			
Payments for			
Oil and gas assets expenditure		(1,446)	(608)
Net cash used in investing activities		<u>(1,446)</u>	<u>(608)</u>
Cash flows from financing activities			
Payments to related entities		(10,563)	(11,240)
Receipts from related entities		5,767	4,602
Net cash provided by (used in) financing activities		<u>(4,796)</u>	<u>(6,638)</u>
Net increase in cash and cash equivalents		1,469	-
Cash and cash equivalents at the beginning of the year		<u>-</u>	<u>-</u>
Cash and cash equivalents at the end of the year		<u>1,469</u>	<u>-</u>

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

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies

Natuna UK (Kakap 2) Limited ("the Company") is a company incorporated and domiciled in the United Kingdom

The Company is engaged in a joint venture 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 6.25%.

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 PSC extension 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 26 July 2013.

(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. dollar, USD or US\$) unless otherwise stated.

The Company's activities are conducted in Indonesia under a Production Sharing Contract ("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.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments effective as of January 1, 2012:

- **IAS 12, *Income Taxes (Amendment)* - *Deferred Taxes Recovery of Underlying Assets***
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after January 1, 2012 and has no effect on the Company's financial position, performance or its disclosures.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

New and amended standards and interpretations (continued)

- **IFRS 1, *First-Time Adoption of International Financial Reporting Standards (Amendment)***
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011.
- **IFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements***
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after July 1, 2011. The Company does not have any assets with these characteristics and therefore the standard has no impact on the presentation of its financial statements.

(c) Jointly controlled assets

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

A joint venture characterised as a jointly controlled asset involves the joint control, and often the joint ownership, by the venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of expenses incurred. Each venturer has control over its share of future economic benefits through its share of jointly controlled assets.

The interests of the Company in unincorporated joint ventures are brought to account by recognising in the financial statements the Company's share of jointly controlled assets, share of expenses and liabilities incurred, and the income from the sale or use of its share of the production of the joint venture in accordance with the revenue policy in Note 1(s).

(d) Foreign currency

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in United States dollars, which is the Company's functional and presentation currency.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(d) Foreign currency (continued)

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

(e) Exploration and evaluation expenditure

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

An area of interest refers to an individual geological area where the presence of oil or a natural gas field is considered favourable or has been proved to exist, and in most cases will comprise an individual oil or gas field.

Exploration and evaluation expenditure is recognised in relation to an area of interest when the rights to tenure of the area of interest are current and either

- (i) Such expenditure is expected to be recovered through successful development and commercial exploitation of the area of interest, or alternatively by its sale, or
- (ii) The exploration activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in or in relation to the area of interest are continuing.

The carrying amounts of the Company's exploration and evaluation assets are reviewed at each balance sheet date, in conjunction with the impairment review process referred to in Note 1(m), to determine whether any of the following indicators of impairment exist:

- (i) Tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed,
- (ii) Substantive expenditure 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 Company 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.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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 the statement of comprehensive income

When a discovered oil or gas field enters the development phase the accumulated exploration and evaluation expenditure is transferred to oil and gas assets – assets in development

(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 in development

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 tangible assets and include past exploration and evaluation costs, development drilling and other sub-surface expenditures, surface plant and equipment and any associated land and buildings

When commercial operations commence 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 tangible 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 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 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 PSC, these balances have been recorded as assets in the Company's financial statements based on its working interest in the PSC

(g) Plant and equipment

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(g) Plant and equipment (continued)

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 the comprehensive income or expense 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 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 other property, 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 balance sheet date, and adjusted prospectively, if appropriate. The effects of any revision are recognized in the comprehensive income or expense when the changes arise.

(i) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contracts are not measured at fair value with changes in fair value recognised in comprehensive income or expense.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1 Significant Accounting Policies (continued)

(j) Inventories

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

Cost is determined as follows:

- (1) Materials and supplies, which include plant spares, consumables and maintenance and drilling tools used for ongoing operations, are valued at weighted average cost, and
- (2) 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 onto crude tankers.

Management assesses the need for any allowance for slow moving and obsolete inventories at each balance sheet date.

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

(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 balance sheet 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 the statement of comprehensive income.

(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 balance sheet.

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".

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(m) Impairment

Plant and equipment 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 the fair value less cost to sell and the 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 CGU (Cash Generating Unit) to which the asset belongs

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

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. 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. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash generating unit to which the asset belongs

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 future 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 recognised as an impairment loss in the statement of comprehensive income, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease

Exploration and evaluation assets are assessed for impairment in accordance with Note 1(e)

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount

Reversal of impairment

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of an asset other than goodwill 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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(m) Impairment (continued)

A reversal of impairment loss for an asset is recognized in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case, such a reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognized in the statement of comprehensive income, a reversal of that impairment is also recognized in the statement of comprehensive income.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

(o) Provisions

A provision is recognized in the balance sheet 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 balance sheet 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.

Site restoration and abandonment costs

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

The provision for future restoration costs is the best estimate of the present value of the future expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements, the discount rate is based on the borrowing rate at the time of recognition. Future restoration costs are reviewed annually and any changes in the estimate (including impact of change in discount rate) are reflected in the present value of the restoration provision at the balance sheet date with a corresponding change in the cost of the associated asset.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(o) Provisions (continued)

The amount of the provision for future restoration 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 a finance cost.

(p) 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.

(q) 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.

(r) Share capital

Ordinary share capital and share premium

Ordinary share capital and share premium are classified as equity.

Dividends

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

(s) Revenue

Revenues comprise the fair value of the consideration of contributions received or receivable for the rendering of services and sale of goods in the ordinary course of the Company's activities. Revenues are presented, net of value-added-tax, rebates and discounts, and after eliminating sales within the Company.

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.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(s) Revenue (continued)

- Revenue earned under a production sharing contract ("PSC") is recognized on a net entitlements basis according to the terms of the 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 exceed 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).

(t) Other Income

Other income is recognised in the statement of comprehensive income 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 the statement of comprehensive income 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.

(u) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(u) Leases (continued)

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Assets under finance lease are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(v) Income tax

Current income tax for current and prior periods is recognized at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognized for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, 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 when the related deferred income tax asset is realized or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date, and
- (ii) based on the tax consequence that will follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(w) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on management's judgement regarding estimates and assumptions of future events. The reasonableness of estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period are

Estimates of reserve quantities

The estimated quantities of Proven plus Probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserves estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

Exploration and evaluation

The Company's policy for exploration and evaluation expenditure is discussed in Note 1(e). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income. The Company has no exploration and evaluation assets at 31 December 2012 (2011: US\$nil).

Provision for restoration

The Company estimates the future removal and restoration costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, future environmental legislation, the extent of restoration activities required and future removal technologies.

The carrying amount of the provision for restoration is disclosed in Note 12 and the accounting policy for providing for restoration is included in Note 1(o).

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(w) Significant accounting judgements, estimates and assumptions (continued)

Impairment of oil and gas assets

The Company assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the assets belong. The assumptions used in the estimation of recoverable amount and the carrying amount of oil and gas assets are discussed in Note 1(m).

(x) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

- ***IAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income***

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- ***IAS 19, Employee Benefits (Amendment)***

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The Company is currently assessing the full impact of these amendments. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- ***IAS 27, Separate Financial Statements (as revised in 2011)***

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly arrangements, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- ***IAS 28, Investments in Associates and Joint Ventures (as revised in 2011)***

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- ***IAS 32, Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)***

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(x) Standards issued but not yet effective (continued)

- *IFRS 7, Financial Instruments Disclosures - Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Company's financial position or performance.

- *IFRS 9, Financial Instruments Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012.

- *IFRS 10, Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after January 1, 2013.

- *IFRS 11, Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Ventures*.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant Accounting Policies (continued)

(x) Standards issued but not yet effective (continued)

- *IFRS 12, Disclosure of Interest in Other Entities*
 IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.
- *IFRS 13, Fair Value Measurement*
 IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

The Company is still evaluating the effects of the above-mentioned pronouncements and expects that the adoption of these pronouncements will not have significant impact on the financial statements in the period of initial application.

2. Revenue

	2012 US\$000	2011 US\$000
Product sales		
Crude oil	4,672	5,031
Gas and ethane	8,904	10,711
Total revenue	<u>13,576</u>	<u>15,742</u>

3 Operating Profit

Included are the following items

Depreciation and depletion		
Depletion of subsurface assets	780	391
Depreciation of plant and equipment	-	16
	<u>780</u>	<u>407</u>
Other operating expenses		
Operating lease payments - minimum lease payments for FSO rental services	<u>522</u>	<u>874</u>

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 US\$000	2011 US\$000
4. Financial Expenses		
Unwind of the effect of discounting on provisions	(89)	(15)

5 Taxation

Tax on Profit for the year

The tax charge is made up as follows

Current tax

UK Corporation tax on profits for the year	2,148	2,803
Double tax relief	(2,099)	(2,749)
Overseas taxation	3,013	3,572
Total current tax charge	3,062	3,626

Deferred tax

Origination and reversal of temporary differences	(106)	297
Total deferred tax (credit)/charge (Note 13)	(106)	297

Total tax charge	2,956	3,923
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Factors affecting the current tax charge for the year

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

Current tax

Profit before tax	7,360	9,711
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Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% for the period up to 31 March 2012 and 24% for the period to 31 December 2012

1,803	2,573
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Effect of

Permanent differences	49	53
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Impact of higher foreign taxes	1,104	1,297
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Total tax charge for the year	2,956	3,923
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NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

6. Employees and Directors emoluments

Other than Directors, the Company has no employees in 2012 and 2011

In 2011, the Company entered in an agreement with ATC Corporate Services (UK) Limited under a contract for the provision of director services for two (2) nominated directors

As at 31 Desember 2012, Two (2) of the directors are also directors of the immediate parent undertaking, ultimate parent undertaking and its subsidiaries. These directors received a total remuneration during 2012 amounting to US\$1,415,000 (2011 US\$1,409,189) from subsidiaries of the ultimate parent undertaking, Star Energy (Kakap) Limited and Star Energy Geothermal Wayang Windu Ltd. As of the date of these financial statements, the two directors agreed to provide director services to the Company without receiving any remuneration from the Company. As such, none of the total remuneration received by these directors from the subsidiaries of the ultimate parent undertaking was allocated to the Company.

	2012 US\$000	2011 US\$000
7. Auditors' Remuneration		
Audit of these financial statements	38	46
Other fees to auditors		
Corporate tax compliance and other tax services	62	9
Total fees	100	55

8. Oil and Gas Assets

	Subsurface assets US\$'000	2012 Plant and equipment US\$'000	Total US\$'000	Subsurface assets US\$'000	2011 Plant and equipment US\$'000	Total US\$'000
Cost at 31 December	29,800	10,663	40,463	28,330	10,658	38,988
Less accumulated depreciation, depletion and impairment	(24,637)	(7,373)	(32,010)	(23,856)	(7,373)	(31,229)
Balance at 31 December	5,163	3,290	8,453	4,474	3,285	7,759
Reconciliation of movements						
Producing assets						
Balance at 1 January	4,474	3,285	7,759	4,257	3,301	7,558
Additions	1,441	5	1,446	608	-	608
Change in restoration asset	28	-	28	-	-	-
Depreciation and depletion expense (Note 3)	(780)	-	(780)	(391)	(16)	(407)
Balance at 31 December	5,163	3,290	8,453	4,474	3,285	7,759

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 US\$000	2011 US\$000
9. Inventories		
Drilling and maintenance stocks	511	373
Total inventories at the lower of cost and net realisable value	511	373

10. Trade and Other Receivables

Current

Trade receivables	1,466	1,196
VAT receivables	529	243
Deposit	34	178
Prepayments	77	70
Receivable from Santos (SPV) Pty Limited (Note 12)	-	1,392
Other	790	756
Total trade and other receivables	2,896	3,835

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

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 amount of the Company's trade and other receivables are denominated in the following currencies

US Dollars	2,638	3,399
Indonesian rupiah	258	436
	2,896	3,835

11. Trade and Other Payables

Current

Deferred Revenue	644	629
Trade payables	415	449
Non-trade payables and accrued expenses	2,532	1,098
Total trade and other payables	3,591	2,176

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

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

12. Provisions

Non-current

	2012 US\$'000	2011 US\$'000
Employee benefits	953	695
Restoration	518	504
Provision for branch profits tax (Note 18e)	1,783	1,783
	<u>3,254</u>	<u>2,982</u>

The employees' benefits liability was calculated by an independent actuary, PT Padma Radya Aktuaria, for the years ended 31 December 2012 and 2011, in its reports dated 18 April 2013 and 26 March 2012, respectively, using the "Projected Unit Credit" method with the following assumptions

	<u>2012</u>	<u>2011</u>
Salary increment rate	10% p a	10% p a
Discount rate	5.5% p a	6.2% p a
Mortality rate	100% TMI** 3	100% TMI 2
Disability rate	5% TMI 3	5% TMI 2
Resignation rate	2.5% p a until age 35 then decrease linearly into 0% at age 58	2.5% - 3% p a until age 35 then decrease linearly into 0% at age 58*
Proportion of normal 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/BP000000/ 2010/SO issued in 2010

** Tabel Mortalita Indonesia

Reconciliation of movements in provisions during the year

	Employee benefits US\$'000	Restoration US\$'000	Branch Profits Tax US\$'000	Total US\$'000
Balance at 1 January 2012	695	504	1,783	2,982
Unwinding of discount	-	89	-	89
Provisions made during the year	258	28	-	286
Escrow account	-	(103)	-	(103)
Balance at 31 December 2012	<u>953</u>	<u>518</u>	<u>1,783</u>	<u>3,254</u>

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 in 2020 (2011-2023). 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.

NATUNA UK (KAKAP 2) LIMITED
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12 Provisions (continued)

Restoration (continued)

The discount rate of 5.5% was used in the calculation of the provision as at December 31, 2012 and 2011

In accordance with Standard Operating Procedure No. 040/PTK/XI/2010 dated November 24, 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 of 31 December 2012, the above escrow accounts are placed in PT Bank Mandiri Tbk

Branch profits 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 December 2008, the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") concluded the audit result of Natuna UK for the years 1994 to 2004. As a result, the Company was required to pay additional BPT of 10% amounting to US\$2,389,000. This amount was paid by the Company prior to its acquisition by Star Energy Group. With the payment of this additional 10%, the Company effectively paid BPT of 20% for those years. Further, the Company recorded provision for the additional 10% rate on the BPT for years 2005 to 2007 amounting to US\$1,783,000 (Note 18e)

The management is of the opinion that the 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\$1,392,000 (Note 10)

Prior to the acquisition of the Company by SEHL from Star Energy Holdings Pte Ltd ("SEHPL"), in May 2009, PT Medco Energi Internasional Tbk ("Medco") had reached an agreement with Santos (SPV) Pty Limited ("Santos SPA") to acquire from Santos the total issued share capitals of Natuna UK and Novus Nominees. Santos SPA included indemnification of tax exposure arising from those years when Natuna UK was owned by Santos. This indemnification was valid for 7 years after the enforcement of SPA. Such indemnification is still applicable even with the transfer of ownership in Natuna UK from Medco to SEHPL and from SEHPL to SEHL

With the above indemnification, as at 31 December 2011, the Company has recorded the underpayment of BPT under "Trade and other receivables" as amount due from Santos (Note 10) and "Current taxes liabilities". Subsequently on 17 February 2012, Santos paid the underpayment of the BPT directly to the Tax Office and provided the management with the transfer receipt. The Company has reported such payment to the Tax Office

The management continues to believe that the Company is subject to BPT at the rate of 10%. Accordingly, no further accrual was made for the additional 10% rate on the BPT for year 2009 to 2012 totalling to US\$2,230,000

NATUNA UK (KAKAP 2) LIMITED
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13. Deferred Tax Liabilities

Deferred tax liabilities are attributable to the following

	Liabilities	
	2012 US\$000	2011 US\$000
Exploration and evaluation assets, oil and gas assets and other land, buildings, plant and equipment	982	1,088
	982	1,088

	1 January 2012 US\$000	Recognised in statement of comprehensive income (Note 5) US\$000	31 December 2012 US\$000
Movement in deferred tax during the year			
Exploration and evaluation assets, oil and gas assets, and other land, buildings, plant and equipment	1,088	(106)	982
	1,088	(106)	982

14. Obligations under Operating Lease Agreement and Capital Commitments

The Company has interests in the following unincorporated joint venture

<i>Joint Venture</i>	<i>Principal Activities</i>	<i>% Interest</i>
West Natuna Basin	Oil and gas exploration and production	6 25

	2012 US\$000	2011 US\$000
The amount of capital expenditure commitments and lease commitments in respect of the Company's unincorporated joint venture are		
Capital expenditure commitments	3,558	9,591
Lease commitments	3,939	938
	<u>7,939</u>	<u>10,529</u>

Total future minimum rentals payable under non-cancellable leases relating to FSO contracts for each of the following periods are as follows

Not later than one year	579	750
After one year but not more than five years	3,360	188
	<u>3,939</u>	<u>938</u>

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15 Share Capital

	2012 US\$000	2011 US\$000
Authorised and issued capital		
Share capital		
251 (2011 251) fully paid US\$1 ordinary shares	-	-
Share Premium	10,208	10,208

Share Capital and Share Premium

The balance of share capital and share premium includes the total net proceeds (both nominal and share premium) on issue of the Company's equity share capital, comprising 251 ordinary shares of US\$1 each

Based on the minutes of meeting of the Board of Directors held on 16 November 2012, the Company's Board of Directors declared non cash dividend amounting to US\$5,000,000 to the shareholder, SEKHL. The Company agreed to waive an intercompany balance amounting to \$5,000,000 which has been treated as a non cash dividend between the company and its shareholder

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

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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15. Share Capital (continued)

Capital risk management (continued)

The gearing ratios at 31 December 2012 and 31 December 2011 were as follows

	2012 US\$'000	2011 US\$'000
Total interest-bearing loans and borrowings	-	-
Less		
Cash and cash equivalents	1,469	-
Net funds	1,469	-
Total equity	14,753	15,349
Total capital	16,222	15,349
Gearing ratio	9,05%	0%

16. Notes to the Statement of Cash Flows

Reconciliation of cash flows from operating activities

	2012 US\$000	2011 US\$000
Profit for the year	4,404	5,788
Add non-cash items		
Depreciation and depletion	780	407
Movement in provisions	244	220
Deferred tax (credit)/charge	(106)	297
Net cash flows from operating activities before change in assets or liabilities	5,322	6,712
Add/(deduct) change in operating assets or liabilities		
Net decrease/(increase) in receivables	2,441	(1,106)
Net increase in inventories	(138)	(35)
Net increase in payables	1,415	299
Net (decrease)/increase in income taxes payable	(1,329)	1,376
Net cash from operating activities	7,711	7,246

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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17. Related Parties

		2012 US\$000	2011 US\$000
<i>Payable</i>	Relationship with the related parties		
- Kakap Holdings Pte Ltd	The same ultimate shareholder	461	461
- Star Energy Kakap Holdings Limited	Parent entity	9,962	4,227
- Star Energy (Kakap) Limited	The same ultimate shareholder	400	367
- Star Energy (Sekayu) Limited	The same ultimate shareholder	7	8
		<u>10,830</u>	<u>5,063</u>
<i>Receivable</i>			
- Star Energy Kakap Holdings Limited	Parent entity	20,511	14,985
- Novus Petroleum Canada (Kakap) Limited	The same ultimate shareholder	170	170
- Star Energy (Sekayu) Limited	The same ultimate shareholder	9	8
- Star Energy Geothermal (Wayang Windu) Limited	The same ultimate shareholder	63	27
		<u>20,753</u>	<u>15,190</u>

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

17. Related Parties (continued)

(b) Related party balances (continued)

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

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

(c) 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

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

Name	Position
Bret Wayne Mattes	Director (resigned on 31 January 2012)
Rudy Suparman	Director
Hendra Soetjipto Tan	Director (appointed on 26 April 2012 as Director, previously served as Alternate Director to Rudy Suparman)
James Patrick Johnston Fairrie	Director
Spencer Saffer	Director

The Company employs no permanent staff

18 Commitments and Contingencies

a. Government audit claim

The accounting policies specified in the PSC are subject to interpretation by SKK Migas and the Government of the Republic of Indonesia. Annually, the accounting records and reports of the Joint Venture are subjected to an audit by SKK Migas and/or the Government. Claims arising from these audits are either agreed by the management of the Company and recorded in its accounting records, or are disputed. Resolution of disputed claims may require a lengthy negotiation process extending over a number of years. As of the completion date of these financial statements, the joint venture has various disputed claims outstanding amounting to US\$2,998,131 for the periods up to 2012. The claims consist of home office overhead US\$1,970,221, severance payment US\$714,218 and various other matters US\$313,692, which are still under discussion between the Operator and the auditors.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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18 Commitments and Contingencies (continued)

a Government audit claim (continued)

If these claims materialize, the Company's entitlement will be reduced by approximately US\$125,009 and will lead to exposure for underpayment of tax amounting to US\$46,296. Management believes that the claims are without merit, therefore no accrual has been recognized in relation to the claims in the financial statements.

b Significant disputes

The following disputes are current contingencies and may result in any future liabilities 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 S\$13,218,265, which is equivalent to US\$10,835,000 as at 31 December 2012 (2011: US\$10,263,000).

As of the completion date of these financial statements, there is no further progress on the above cases No (i) and (ii), and that 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 dates.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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18. Commitments and Contingencies (continued)

c. Gas supply agreement

The Operator, Pertamina and other gas producers entered into a Gas Supply Agreement under which each supplier agreed to make gas available for sale and delivery by Pertamina under a Gas Sales Agreement between Pertamina and Buyer. The future contract quantity for the Company is 76 72 Btu with the following annual amount to be delivered:

Year	Btu
2011	7 8
2012-2023	68 92

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

d Contract for provision of FSO Rental Services

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

On 5 October 2010, Operator of the Kakap PSC had extended the lease contract of the EF FSO up to 31 December 2010. On 1 December 2010, the lease contract was extended up to 31 January 2011 (Note 17a). On 12 January 2011, the lease contract of EF FSO rental service has been further extended for a twelve months period starting 1 February 2011. However, since 9 March 2011, the EF FSO has been demobilized from Kakap field and was temporarily replaced by a new vessel MT Barunawati. Originally, the vessel that will replace EF FSO is MT Badraini which was under modification until July 2011. In July 2011, the Operator used MT Badraini for its first oil lifting for 2011.

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

The dry docking of KN FPSO was completed on July 31, 2012, after completed the dry docking process, Kakap Natuna change name become Kakap Natuna Floating Storage and Offloading ("KNFSO") vessel and as at 22 August 2012, KN FSO has already begun its normal operation in Kakap Natuna block.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

18. Commitments and Contingencies (continued)

e Provision for Branch Profit Tax ("BPT")

In December 2008, the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") concluded the audit result of Natuna UK for the years 1994 to 2004. As a result, The Company was required to pay additional BPT of 10% amounting to US\$2,389,000. The Company already paid US\$2,389,000 prior to its acquisition by Star Energy Group. With the payment of this additional 10%, the Company ended paying BPT of 20% for those years. Further, the Company recorded provision for the additional 10% rate on the BPT for year 2005 to 2007 amounting to US\$1,783,000 (Note 12).

f. Senior Term Loan Facility Agreement

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

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

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

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

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

On 4 September 2012, all bank loans have been fully paid including accrued interest up to the repayment date. As at December 31, 2012, all the bank loans have been fully paid.

NATUNA UK (KAKAP 2) LIMITED
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18. Commitments and Contingencies (continued)

g Hedging Transaction

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

As of December 31, 2012 there are no outstanding hedging transaction due to all the bank loans having been fully paid.

19 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 dollar borrowings from a related entity.

(b) Interest rate risk

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

(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 2012, the company had no open oil price swap contracts (2011: \$ nil), 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 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).

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

19. Financial Risk Management (continued)

(e) Liquidity risk

The following table analyses the contractual maturities of the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date

	On demand
	<u>US\$000</u>
2012	
Trade and other payables (Note 11)	<u>2,904</u>
2011	
Trade and other payables (Note 11)	<u>1,547</u>

(f) Fair values

The financial assets and liabilities of the Company are recognised on the balance sheet 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

Financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where the cash flows are in a foreign currency the present value is converted to US dollars at the foreign exchange rate prevailing at the reporting date

20 Parent Entities

Star Energy Oil and Gas Pte Ltd, a newly incorporated holding company in Singapore, which the directors regard as the Company's ultimate parent undertaking with respect to the financial year ended 31 December 2012, 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

In April 2012, Star Energy Group has completed a group restructuring. As part of the Group restructuring, Star Energy Geothermal Pte Ltd ("SEGPL") (formerly known as Star Energy Holdings Pte Ltd) transferred its 100% ownership interest in the Company to Star Energy Oil and Gas Pte Ltd, ("SEOGPL") and SEOGPL became the new holding company for entities in the oil and gas industry

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

NATUNA UK (KAKAP 2) LIMITED
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21 EVENTS AFTER THE REPORTING PERIOD

a Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi

In a decision (the "Decision") issued on November 13, 2012, the Constitutional Court ordered the dissolution of BP Migas. The Decision is effective on November 13, 2012, and all the functions of BP Migas were shifted to the Ministry of Energy and Mineral Resources, based on Presidential Regulation No. 95/2012, which was issued shortly by the President of Indonesia following the Decision. The Decision stated that all existing Production Sharing Contracts will still be valid until their expiry dates. Following such Presidential Regulation, the Government of Indonesia created an interim task force, referred to as SKSP Migas which is under the Ministry of Energy and Mineral Resources, to assume the work of BP Migas.

On January 10, 2013, the President of Indonesia issued a Presidential Regulation No. 9 Year 2013 regarding the establishment of a permanent special task force called SKK Migas (replacing the temporary task force, i.e. SKSP Migas) to assume the work of BP Migas until a new permanent regulatory body is formed under the planned revision to the 2001 Oil and Gas Law or until the formulation of a new law on oil and gas sector.

b Senior Term Loan Facility (New Loan)

On 1 February 2013, SEKL and SEHL (or together referred to as "the Borrowers") have entered into a US\$60,000 Senior Term Loan Facility Agreement ("New Loan") with DBS Bank Ltd ("DBS") ("Lenders"). The initial utilization was on 8 February 2013 amounting to US\$60,000. The borrowing is denominated in U.S. dollar.

The purpose of the loan is to repay Bridge Loan Facility A in relation to the Acquisition Facility Agreement amounting to US\$58,000 and any fees, cost and expenses, any stamp and others in connection with the Facility or Finance documents. The Acquisition Facility Agreement was entered on 7 December 2012 between Star Energy Investment Ltd and DBS Bank Ltd for the purposes of financing the acquisition of the remaining shares in Star Energy Group Holdings Pte Ltd by Star Energy Investment Ltd. 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.

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)