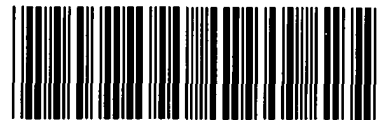

NATUNA UK (KAKAP 2) LIMITED
REGISTERED NUMBER 3115420
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2017
(THIS REPORT IS PREPARED IN UNITED STATES DOLLARS)

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COMPANIES HOUSE

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

BOARD OF DIRECTORS

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

SECRETARY AND REGISTERED OFFICE

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

STATUTORY AUDITOR

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

REGISTERED IN ENGLAND NO: 3115420

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

STRATEGIC REPORT

The directors present the strategic report, their report and financial statements for the year ended 31 December 2017.

Principal Activities

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

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

Business Review

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

The Company operates in one geographical segment being Indonesia.

Oil and condensate gross production by the Kakap PSC, in the West Natuna Sea, Indonesia averaged 2,555 boepd in 2017 (2,768 boepd in 2016). Gas gross production averaged 2,345 boepd in 2017 (2,697 boepd in 2016).

Revenue increase due to increment in oil and gas price in 2017 compared to price in 2016 and revenue from Annual Take or Pay (AToP) period prior to 2017. This increment netted-off with decrease in oil and gas production in 2017 compared to 2016. The average oil price in 2017 was US\$53.86/bbl (2016: US\$42.81/bbl) and the average gas price in 2017 was US\$10.19/mscf (2016: US\$7.48/mscf).

The results for the years ended 31 December 2017 and 2016 are summarised below:

	2017 US\$'000	2016 US\$'000
Revenue	6,128	4,626
Profit before tax	2,384	845
Income tax expense	(879)	(745)
Profit after tax for the year	1,505	100

The Company's profit for the year after taxation was US\$1,505,000 in 2017 (profit in 2016: US\$100,000). The profit in 2017 primarily arose due to increment in revenue from increment in price of oil and gas in 2017 compared to 2016, increment from settlement of Annual Take or Pay (AToP) period prior to 2017 amounting to US\$485,000 and decrement of cost of sales in 2017 due to settlement of dispute in daily cash call GTA2 as reduction of the operation costs amounting to US\$ 518,000.

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

STRATEGIC REPORT (CONTINUED)

Key Performance Indicators

The Company's ultimate parent entity Star Energy Investment Ltd., is the parent entity in the consolidated Star Energy Group. The Company holds a 6.25% non-operator interest in the Kakap PSC. The Star Energy Group has strategic targets for its base business including production targets and safety performance levels. The Company contributed to the attainment of these overall Star Energy Group strategic targets. As the Company is not the operator, the management of the Company meets regularly with the Operator through operating and technical forums to monitor the progress of the Kakap PSC against its strategic targets.

Principal Risks and Uncertainties

The principal risks that the Company faces are:

Exploration and development risk

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

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

Competition

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

Commodity prices, fiscal regimes and currency

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

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

Financing

The development of the Company's properties will depend upon the Operator of Kakap Block ability to obtain financing through the projects in Kakap Block.

Credit risk

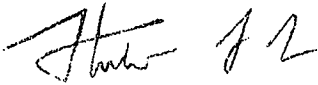
Credit risk arises from cash on hand and in banks, time deposits with banks and financial institutions, as well as credit exposures from trade receivables. The Company is subject to concentration of credit risk as its entire oil and gas sales are solely to Lukoil Asia Pacific Pte. Ltd. and SembCorp Gas Pte. Ltd., respectively.

NATUNA UK (KAKAP 2) LIMITED
REGISTERED NUMBER 3115420
STRATEGIC REPORT (CONTINUED)

By order of the Board



Rudy Suparman
Director



Hendra Soetjipto Tan
Director

26 September 2018

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

DIRECTORS' REPORT

The Directors present their directors' report for the year ended 31 December 2017.

Directors

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

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

Future Developments

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

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

Going Concern

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

Directors' statement as to disclosure of information to auditor

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

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

Dividends

The Company has not declared any dividends in 2017 and 2016.

Events after the Reporting Period

On 22 February 2018, the Borrowers, defined in note 17d, made partial repayment of the principal loan amounting to US\$2,170,000, including interests for period 15 November 2017 up to 15 February 2018 amounting to US\$100,000 to the Lender.

On 19 April 2018, the Borrowers, defined in note 17d, made fully repayment of the principal loan amounting to US\$4,543,000, including interests and break funding cost for period 15 February 2018 up to 19 April 2018 amounting to US\$53,000 to the Lender.

Auditor

Pursuant to board of director's resolution dated 29 September 2017, Ernst & Young LLP has been reappointed as the auditor of the Company for the ensuing year.

NATUNA UK (KAKAP 2) LIMITED
REGISTERED NUMBER 3115420
DIRECTORS' REPORT (CONTINUED)

By order of the Board



Rudy Suparman
Director



Hendra Soetjipto Tan
Director

26 September 2018

NATUNA UK (KAKAP 2) LIMITED

REGISTERED NUMBER 3115420

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

In preparing those financial statements the directors are required to:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATUNA UK (KAKAP 2) LIMITED

Opinion

We have audited the financial statements of Natuna UK (Kakap 2) Limited for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 20, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATUNA UK (KAKAP 2) LIMITED (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept by the parent company, 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATUNA UK (KAKAP 2) LIMITED (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Jacqueline Ann Geary (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory auditor
London
26 September 2018

NATUNA UK (KAKAP 2) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 US\$'000	2016 US\$'000
Revenue	2	6,128	4,626
Cost of sales	3	(4,086)	(3,838)
Gross profit		2,042	788
Other income		331	39
Operating profit		2,373	827
Financial income	4	11	18
Profit before tax		2,384	845
Income tax expense	5	(879)	(745)
Net profit for the year		1,505	100
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gains on defined benefit plans		9	65
Income tax effect	13	(3)	(24)
Other comprehensive income, net of tax		6	41
Total other comprehensive income for the year		1,511	141

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

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

NATUNA UK (KAKAP 2) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

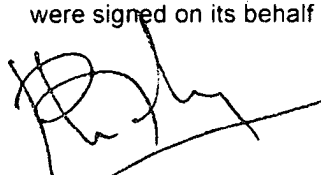
	Share Capital	Share Premium	Retained Earnings	Non- Distributable Reserves (OCI)	Total Equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2016	–	10,208	945	3	11,156
Net profit for the year	–	–	100	–	100
Other comprehensive income	–	–	–	41	41
Balance at 31 December 2016	–	10,208	1,045	44	11,297
Net profit for the year	–	–	1,505	–	1,505
Other comprehensive income	–	–	–	6	6
Balance at 31 December 2017	–	10,208	2,550	50	12,808

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 2017 AND 2016

	Note	2017 US\$'000	2016 US\$'000
Non-current assets			
Oil and gas assets	8	6,623	6,625
Total non-current assets		6,623	6,625
Current assets			
Inventories	9	605	686
Restricted cash in bank		335	21
Trade and other receivables	10	3,517	3,026
Amounts owing from related entities	16	7,146	6,335
Total current assets		11,603	10,068
Total assets		18,226	16,693
Equity			
Share capital	15	-	-
Share premium	15	10,208	10,208
Non-distributable reserves		50	44
Retained earnings		2,550	1,045
Total equity		12,808	11,297
Non-current liabilities			
Provisions	12	465	696
Deferred tax liabilities	13	1,568	1,126
Total non-current liabilities		2,033	1,822
Current liabilities			
Trade and other payables	11	2,295	2,660
Taxes payable		618	412
Amounts owing to related entities	16	472	502
Total current liabilities		3,385	3,574
Total liabilities		5,418	5,396
Total equity and liabilities		18,226	16,693

These financial statements were approved by the Board of Directors on ²⁶ September 2018 and were signed on its behalf by:


Rudy Suparman
 Director


Hendra Soetjipto Tan
 Director

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

NATUNA UK (KAKAP 2) LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 US\$'000	2016 US\$'000
Cash flows from operating activities			
Net profit for the year		1,505	100
Non-cash adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation and depletion	3,8	717	152
Pension cost	3	199	217
Income tax expense	5	879	745
Cash flows from operating activities before working capital changes		3,300	1,214
Net increase in receivables		(1,302)	(216)
Net decrease/(increase) in inventories		81	(13)
Net (decrease)/increase in payables		(394)	443
Net decrease in provisions		(421)	(366)
Net increase in taxes payables		14	191
Cash provided by operations		1,278	1,253
Income taxes paid		(249)	(304)
Income taxes refund		-	261
Net cash flows provided by operating activities		1,029	1,210
Cash flows from investing activities			
Payments for:			
Oil and gas assets expenditure	8	(715)	(1,733)
Net cash flows used in investing activities		(715)	(1,733)
Cash flows from financing activities			
Transfer from/(to) restricted cash in bank		(314)	523
Net cash flows from/(used in) financing activities		(314)	523
Net decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

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 2017

1. Significant accounting policies

Natuna UK (Kakap 2) Limited ("the Company") is a Company incorporated and domiciled in England and limited by shares.

The Company is engaged in a joint venture involved in exploration and production of crude oil and natural gas in South Natuna Sea area, Indonesia, under a Production Sharing Contract ("PSC") with Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi ("SKK Migas"), the oil and gas regulatory agency of Indonesia. The Company's working interest in the joint venture is 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 Extended PSC will expire on 22 March 2028. The Operator of the joint venture is Star Energy (Kakap) Limited, a related party.

The financial report was authorised for issue by the Directors on 26 September 2018.

(a) Statement of compliance

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

(b) Basis of preparation

The financial statements are prepared under the historical cost convention.

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

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

Going concern

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

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial period except in the current financial period, the Company has adopted all the new and amended standards which are effective for annual financial periods beginning on or after January 1, 2017. The adoption of these standards, as described in the following paragraphs, did not have any significant effect on the financial performance or position of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

(c) Joint arrangements

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(c) Joint arrangements (continued)

- **Joint operations**

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

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

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

- **Joint ventures**

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

(d) Currency translation

- (i) **Functional and presentation currency**

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates ("functional currency"). The financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency. U.S. dollar to 1 GBP exchange rate as of reporting date comprised 0.74366 (31 December 2016: 0.81393).

- (ii) **Transactions and balances**

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(e) Exploration and evaluation expenditure

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

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

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(f) Oil and gas assets

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

Assets under construction

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

Producing assets

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

Title of assets

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(g) Plant and equipment

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

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

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

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

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

(h) Depreciation and depletion

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

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

Plant and equipment

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(i) Impairment

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

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

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

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

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

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

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

(j) Inventories

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

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

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(k) Trade and other receivables

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

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

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

(l) Cash and cash equivalents

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

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

(m) Restricted cash in bank

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

(n) Provisions

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(n) Provisions (continued)

Decommissioning, site restoration and abandonment costs

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

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

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

Employee compensation

(i) Wages, salaries and annual leave

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

(ii) Long-term employee benefits

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

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(n) Provisions (continued)

Employee compensation (continued)

(ii) Long-term employee benefits (continued)

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(n) Provisions (continued)

Employee compensation (continued)

(ii) Long-term employee benefits (continued)

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

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

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

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

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

(o) Deferred income

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

(p) Trade and other payables

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

(q) Share capital

Ordinary share capital 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.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(r) Revenue

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

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

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

(s) Other income

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

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(t) Leases

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

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

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

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

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

(u) Income tax expenses

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

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

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

Deferred income tax is measured:

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

(u) Income tax expenses (continued)

Current and deferred taxes are recognized as income or expense in income tax benefit/(expense) in the statement of profit or loss, except to the extent that the tax arises from a transaction which is recognized directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

(v) Significant accounting judgements, estimates and assumptions

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

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

(i) Impairment and depreciation of oil and gas property

The amounts recorded for depletion, depreciation and amortization as well as the recovery of the carrying values of oil and gas properties depend on estimates of oil and gas reserves and the economic lives of future cash flows from related assets. The primary factors affecting these estimates are technical engineering assessments of producible quantities of oil and gas reserves in place and economic constraints such as the availability of commercial markets for the Company's production as well as assumptions related to anticipated commodity prices and the costs of development and production of the reserves (Note 8).

(ii) Income taxes

The Company is subject to income taxes in Indonesian and UK jurisdictions. Significant judgment is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the year in which such determination is made (Note 5).

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

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

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

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

The provision for future decommissioning, site restoration and abandonment costs is the best estimate of the present value of the future expenditure required to settle the obligation at the reporting date based on current legal requirements with the discount rate used based on the borrowing rate at the time of recognition of the provision (Note 12).

(iv) Employee benefits

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

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

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experiences or significant changes in the assumptions may materially affect its estimated liabilities for employee benefits and net employee benefits expense (Note 12).

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. Significant accounting policies (continued)

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

(iv) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events (Note 17).

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

(w) Standards issued but not yet effective

The Company has not applied the following new and revised standards that have been issued but are not yet effective:

		Effective for annual periods beginning on or after
IFRS 9	<i>Financial Instruments</i>	1 January 2018
IFRS 15	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRS 2 Amendments	<i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 1 Amendments	<i>Presentation of Financial Statements</i>	1 January 2018
IAS 28 Amendments	<i>Investment in Associates</i>	1 January 2018

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. Revenue

	2017 US\$'000	2016 US\$'000
Product sales:		
Crude oil	2,625	2,403
Gas and ethane	3,503	2,223
Total revenue	6,128	4,626

3. Cost of sales

	2017 US\$'000	2016 US\$'000
Included are the following items:		
Operating expenses	2,555	2,849
Depreciation and depletion of assets	717	152
General and administrative expenses	579	571
Pension cost	199	217
Exploration expenses	36	49
Total cost of sales	4,086	3,838

Total lease expenses amounting to US\$641,000 (2016: US\$723,000) are recorded as part of operating expenses.

4. Financial income/(expense)

	2017 US\$'000	2016 US\$'000
Unwind of the effect of discounting on provisions (Note 12)	11	18

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

5. Taxation

Tax on Profit for the year

The tax charge is made up as follows:

	2017 US\$'000	2016 US\$'000
Current tax:		
UK Corporation tax on profit for the year	-	-
Double tax relief	-	-
Foreign tax under provision	-	220
Foreign taxation	441	61
Total current tax charge	441	281
Deferred tax:		
Origination and reversal of temporary differences	438	464
Total deferred tax charge (Note 13)	438	464
Total tax charge	879	745

Factors affecting the 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:

	2017 US\$'000	2016 US\$'000
Profit before tax	2,384	845
Profit multiplied by the standard rate of corporation tax in the UK of 20% for the period up to 31 March 2017 and 19% for the period up to 31 December 2017 and 20% for the period up to 31 December 2016.	459	169
Effect of:		
Foreign tax under provision	-	220
Impact of higher foreign taxes	420	356
Total tax charge for the year	879	745

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

6. Employees and directors emoluments

Other than Directors, the Company has no employees in 2017 and 2016.

The Company entered in an agreement with Aspect Financial Limited ("Aspect") (formerly ATC Corporate Services (UK) Limited) under a contract for the provision of director services for two (2) directors. The fees paid to Aspect during 2017 amounted to US\$5,000 (2016: US\$6,000).

Two (2) of the directors of the Company received remuneration from Star Energy (Kakap) Ltd., the operator of Kakap PSC as the senior management of Star Energy (Kakap) Ltd. The portions of remuneration which represents a fair allocation to the Company, based on the working interest in Kakap PSC, amounts to US\$101,000 in 2017 (2016: US\$107,000). As at the date of the financial statements, the two directors agreed to provide director services to the Company without receiving any remuneration from the Company.

7. Auditor's remuneration

	2017 US\$'000	2016 US\$'000
Audit of these financial statements	30	19
Total fees	30	19

8. Oil and gas assets

	Subsurface assets US\$'000	2017 Plant and equipment US\$'000	Total US\$'000	Subsurface assets US\$'000	2016 Plant and equipment US\$'000	Total US\$'000
Cost at 31 December	36,109	10,735	46,844	35,398	10,731	46,129
Less accumulated depreciation	(28,364)	(7,405)	(35,769)	(27,657)	(7,395)	(35,052)
Less impairment loss	(4,452)	-	(4,452)	(4,452)	-	(4,452)
Balance at 31 December	3,293	3,330	6,623	3,289	3,336	6,625
Reconciliation of movements						
Producing assets						
Balance at 1 January	3,289	3,336	6,625	1,723	3,321	5,044
Additions	711	4	715	1,708	25	1,733
Depreciation and depletion expense (Note 3)	(707)	(10)	(717)	(142)	(10)	(152)
Balance at 31 December	3,293	3,330	6,623	3,289	3,336	6,625

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. Oil and gas assets (continued)

Impairment test on oil and gas properties

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

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

Based on management's assessment, the recoverable amount is more than the carrying amount of oil and gas properties as at 31 December 2017 and 2016.

Key assumptions used

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

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

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

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

The assumptions for Brent price used by management for impairment test as of 31 December 2017 are: US\$66.35 - US\$70.07 per bbls until 2026 (2016: US\$55.49 - US\$65.49 per bbls).

The increase of ten percent (10%) in oil price forecast will increase the recoverable amount of oil and gas properties by US\$1,288,000 as at 31 December 2017.

Discount rates: Discount rates are derived from the post-tax Weighted Average Cost of Capital (WACC). The WACC takes into account both debt and equity, weighted 40% and 60%, respectively. The cost of equity is equal to the return on risk-free securities plus the equity risk premium adjusted for the Company systematic risk. The cost of debt is based on the average historical interest rate loan of the Company until the 31 December 2017.

The discount rate used is 8.77% (2016: 9.13%) (post-tax): The increase of one percent (1%) in discount rate will decrease the recoverable amount of oil and gas properties by US\$224,000.

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

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

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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9. Inventories

	2017 US\$'000	2016 US\$'000
Drilling and maintenance stocks	605	686
Total inventories	605	686

During 2017 US\$84,000 (2016: US\$148,000) was recognised as an expense for inventory carried at net realisable value. This is recognised in operating expense.

10. Trade and other receivables

	2017 US\$'000	2016 US\$'000
Current		
Trade receivables	709	1,410
VAT receivables	276	359
Deposit	169	176
Prepayments	77	93
Other	2,286	988
Total trade and other receivables	3,517	3,026

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

	2017 US\$'000	2016 US\$'000
US dollars	3,084	2,524
Indonesian rupiah	433	502
	3,517	3,026

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

11. Trade and other payables

	2017 US\$'000	2016 US\$'000
Current		
Deferred revenue	120	167
Trade payables	678	529
Non-trade payables and accrued expenses	1,497	1,964
Total trade and other payables	2,295	2,660

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

12. Provisions

Reconciliation of movements in provisions during the year:

	Employee Benefits US\$'000	Restoration US\$'000	Total US\$'000
Balance at 1 January 2016	600	286	886
Unwinding of discount	-	(18)	(18)
Expected return on plan assets	(399)	-	(399)
Provision additions during the year	333	-	333
Escrow account	-	(106)	(106)
Balance at 31 December 2016	534	162	696
Unwinding of discount	-	(11)	(11)
Expected return on plan assets	(421)	-	(421)
Provision additions during the year	275	-	275
Escrow account	-	(74)	(74)
Balance at 31 December 2017	388	77	465

	2017 US\$'000	2016 US\$'000
Non-current		
Employee benefits	388	534
Restoration	77	162
Total provisions	465	696

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

12. Provisions (continued)

Employee benefits

Net employee defined benefit liability:

	2017 US\$'000	2016 US\$'000
Pre-retirement benefit	20	22
Other long-term benefit	10	10
Post-employment benefit	358	502
	<u>388</u>	<u>534</u>

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

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

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

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

The employees' benefits liability was calculated by an independent actuary, PT Padma Radya Aktuaria, for the years ended 31 December 2017 and 2016, in its reports dated 1 February 2018 and 28 February 2017, respectively, using the "Projected Unit Credit" method with the following assumptions:

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

12. Provisions (continued)

Employee benefits (continued)

	<u>2017</u>	<u>2016</u>
Salary increment rate	10% p.a.	10% p.a.
Discount rate	6.75% p.a.	8.25% p.a.
Mortality rate	100% TMI** 3	100% TMI** 3
Disability rate	5% TMI 3	5% TMI 3
Resignation rate	2.5% p.a. until age 35 then decrease linearly into 0% at age 56*	2.5% p.a. until age 35 then decrease linearly into 0% at age 56*
Retirement age	58	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/BP00000/ 2010/SO issued in 2010.

** Table Mortalita Indonesia

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

Pre-retirement benefits

Net benefit expense (recognized in profit or loss):

	<u>2017</u> <u>US\$'000</u>	<u>2016</u> <u>US\$'000</u>
Current service cost	2	2
Interest cost	2	2
Net benefit expense	4	4

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

	<u>2017</u> <u>US\$'000</u>	<u>2016</u> <u>US\$'000</u>
Defined benefit obligation at 1 January	22	21
Current service cost	2	2
Interest cost	2	2
Effect of employees transferred out	-	(1)
Actuarial changes arising from experience adjustment	(7)	(4)
Actuarial changes arising from changes in financial assumptions	1	1
Foreign exchange	-	1
Defined benefit obligation at 31 December	20	22

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

Employee benefits (continued)

Other long-term benefits

Net benefit expense (recognized in profit or loss):

	2017 US\$'000	2016 US\$'000
Current service cost	2	2
Interest cost	1	1
Actuarial changes arising from experience adjustment	1	(1)
Net benefit expense	4	2

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

	2017 US\$'000	2016 US\$'000
Defined benefit obligation at 1 January	10	9
Current service cost	1	2
Interest cost	1	1
Effect of employees transferred out	(2)	(1)
Actuarial changes arising from experience adjustment	1	(1)
Benefit payments	(1)	(1)
Foreign exchange	-	1
Defined benefit obligation at 31 December	10	10

Post-employment benefits

Net benefit expense (recognized in profit or loss):

	2017 US\$'000	2016 US\$'000
Current service cost	93	114
Interest cost	33	47
Net benefit expense	126	161

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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12. Provisions (continued)

Employee benefits (continued)

Post-employment benefits (continued)

2017 changes in the defined benefit obligation and fair value of plan assets:

	Defined benefit obligation	Fair value of plan assets	Benefit liability
Defined benefit obligation at 1 January	901	(399)	502
Current service cost	93	-	93
Interest cost	66	(33)	33
Foreign currency exchange rate (gain)/loss	(6)	8	2
Benefits paid	(261)	261	-
Effect of employees transferred out	-	-	-
Return on plan assets (excluding amounts included in net interest expenses)	-	10	10
Actuarial changes arising from experience adjustment	(89)	-	(89)
Actuarial changes arising from changes in financial assumptions	75	-	75
Contributions by employer	-	(268)	(268)
Defined benefit obligation at 31 December	779	(421)	358

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

	Defined benefit obligation	Fair value of plan assets	Benefit liability
Defined benefit obligation at 1 January	926	(356)	570
Current service cost	114	-	114
Interest cost	80	(33)	47
Foreign currency exchange rate (gain)/loss	23	(10)	13
Benefits paid	(107)	107	-
Effect of employees transferred out	(64)	-	(64)
Return on plan assets (excluding amounts included in net interest expenses)	-	9	9
Actuarial changes arising from experience adjustment	45	-	45
Actuarial changes arising from changes in financial assumptions	(116)	-	(116)
Contributions by employer	-	(116)	(116)
Defined benefit obligation at 31 December	901	(399)	502

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

12. Provisions (continued)

Employee benefits (continued)

The sensitivity analysis below has been determined based on the reasonably possible changes of each significant assumption on the defined benefit pension plan as at the end of the reporting period, assuming all other assumptions were held constant. A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 is as shown below:

Pre-retirement benefits

		Impact on the net defined benefit obligation (US\$'000)
Discount rates	Base discount rate plus 1%	(0.9)
	Base discount rate minus 1%	1.1
Future salary increases	Base discount rate plus 1%	1.1
	Base discount rate minus 1%	(1.0)

Other long-term benefits

		Impact on the net defined benefit obligation (US\$'000)
Discount rates	Base discount rate plus 1%	(0.3)
	Base discount rate minus 1%	0.4
Future salary increases	Base discount rate plus 1%	0.4
	Base discount rate minus 1%	(0.3)

Post-employment benefits

		Impact on the net defined benefit obligation (US\$'000)
Discount rates	Base discount rate plus 1%	(51.9)
	Base discount rate minus 1%	55.9
Future salary increases	Base discount rate plus 1%	53.3
	Base discount rate minus 1%	(49.7)

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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12. Provisions (continued)

Employee benefits (continued)

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

Pre-retirement benefit

	Amount (US\$'000)
Within the next 12 months (next annual reporting period)	-
Between 2 and 5 years	22
Beyond 5 years	40
Above 10 years	1
Total expected payments	63

The average duration of the defined benefit pension plan at the end of the reporting period is 5.96 years.

Other long-term benefit

	Amount (US\$'000)
Within the next 12 months (next annual reporting period)	1
Between 2 and 5 years	7
Beyond 5 years	13
Above 10 years	1
Total expected payments	22

The average duration of the defined benefit pension plan at the end of the reporting period is 5.39 years.

Post-employment benefit

	Amount (US\$'000)
Within the next 12 months (next annual reporting period)	41
Between 2 and 5 years	308
Beyond 5 years	617
Above 10 years	1,554
Total expected payments	2,520

The average duration of the defined benefit pension plan at the end of the reporting period is 8.46 years.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

12. Provisions (continued)

Employee benefits (continued)

The defined contribution plan is contributed by both employees and the Company for a fixed contribution of 6% from the Company and a contribution of 2%-14% from the employees. During the years of 2017 and 2016, the Company has contributed the funds amounted to US\$22,000 and US\$24,000, respectively, and charged to current year operations and presented as "employee compensation and benefits" under operating expenses.

The plan assets are quoted in active market (money market investments) and the Company portion amounted to US\$421,000 (2016: US\$399,000).

Restoration

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

Accretion credit to finance income (expenses) for the year ended 31 December 2017 amounted to US\$ 11,000 approximately (2016: credit of US\$18,000).

The discount rate of 5.06% was used in the calculation of the provisions as at 31 December 2017 (2016: 4.88%).

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

As at 31 December 2017 and 2016, the above escrow account was placed in PT Bank Mandiri (Persero) Tbk.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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13. Deferred tax liabilities

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

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

2017	1 January 2017	(Charged) to profit or loss	(Charged) to OCI	31 December 2017
	US\$'000	US\$'000	US\$'000	US\$'000
Deferred income tax assets:				
- Provision for decommissioning, site restoration and abandonment costs	60	(33)	-	27
- Estimated liabilities for long-term employee benefits	221	(51)	(3)	167
- Other	74	(18)	-	56
	355	(102)	(3)	250
Deferred income tax liabilities:				
- Oil and gas properties and other property and equipment, net	(1,482)	(253)	-	(1,735)
- Other	-	(83)	-	(83)
	(1,482)	(336)	-	(1,818)
Deferred tax liabilities, net	(1,127)	(438)	(3)	(1,568)
2016	1 January 2016	Credited /(Charged) to profit or loss	(Charged) to OCI	31 December 2016
	US\$'000	US\$'000	US\$'000	US\$'000
Deferred income tax assets:				
- Provision for decommissioning, site restoration and abandonment costs	105	(46)	-	59
- Estimated liabilities for long-term employee benefits	222	22	(24)	220
- Other	33	43	-	76
	360	19	(24)	355
Deferred income tax liabilities:				
- Oil and gas properties and other property and equipment, net	(998)	(483)	-	(1,481)
- Other	-	-	-	-
	(998)	(483)	-	(1,481)
Deferred tax liabilities, net	(638)	(464)	(24)	(1,126)

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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14. Obligations under operating lease agreement

	2017 US\$'000	2016 US\$'000
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The amount of lease commitments in respect of the Company's unincorporated joint venture are:

Lease commitments	978	1,883
	978	1,883

Total future minimum rentals payable under non-cancellable leases relating to floating storage and offloading ("FSO") contracts for each of the following periods are as follows:

Not later than one year	578	578
After one year but not more than five years	400	1,305
	978	1,883

15. Share capital

	2017 US\$'000	2016 US\$'000
Authorised and issued capital		
Share capital		
251 (2016: 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.

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
FOR THE YEAR ENDED 31 DECEMBER 2017

16. Related parties

		2017 US\$'000	2016 US\$'000
(a) Related party balances:			
<i>Payable</i>	Relationship with the related parties		
- Star Energy Oil and Gas Pte Limited	The same ultimate shareholder	10	9
- Kakap Holdings Pte Ltd	The same ultimate shareholder	461	461
- Star Energy (Kakap) Limited	The same ultimate shareholder	1	32
		472	502
<i>Receivable</i>			
- Star Energy Kakap Holdings Limited	Parent entity	7,141	6,220
- Star Energy (Sekayu) Limited	The same ultimate shareholder	2	2
- Star Energy (Sebatik) Limited	The same ultimate shareholder	3	3
- Star Energy Geothermal (Wayang Windu) Limited	The same ultimate shareholder	-	110
		7,146	6,335

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

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

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

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

(b) Key management personnel

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

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

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

The Company employs no permanent staff.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

17. Commitments and contingencies

a. Significant disputes

The following disputes are current contingent liabilities and assets and may result in future cash flows on a net basis from/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. As at the completion date of these financial statements, there is no further progress on the dispute cases with Vendor, and any final settlement on such cases is uncertain. Management believes that the disputes will be resolved with no material impact on the Company's financial statements, accordingly no provision has been recognized at the reporting date.
- (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 SIN\$13,218,265 (full amount), which is equivalent to US\$9,887,000 as at 31 December 2017 (2016: US\$9,148,000). As at the completion date of these financial statements, there is no further progress on the dispute cases with SOVH, and any final settlement on such cases is uncertain. Management believes that the disputes will be resolved with no material impact on the Company's financial statements, accordingly no provision has been recognized at the reporting date.
- (iii) The Operator is facing a legal dispute with PT SPIE Oil & Gas Services Indonesia ("SPIE") in relation to the breach of Contract No. 4200001271 for the Provision of Drilling Personnel Services dated 30 April 2014, by SPIE. Under the Contract, SPIE was obligated to provide all of the required administrative authorizations, including work permits, for its drilling personnel to enable such personnel to work within Operator's work location in the Indonesian territory. However, during the whole Contract period, SPIE has failed to fulfil its obligation to provide the work permits. The dispute has been filed at the Indonesian National Board of Arbitration (BANI) on 20 November 2015 by the Operator. The value of claim against SPIE amounted to US\$1,231,000 plus interest of 6% per annum from the total value of claim, calculated from the filing date of the arbitration claim until the total claim has been fully paid. On 26 May 2017, BANI has resolved the dispute by partially rejecting the Operator claim and instructed the Operator to pay compensation to SPIE. As a result, the Operator paid US\$669,000 as compensation to SPIE on 25 September 2017 and both parties agreed to close the case.

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

17. Commitments and contingencies (continued)

a. Significant disputes (continued)

- (iv) 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 of the Republic of Indonesia. 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 at 31 December 2017, the Operator has various disputed claims outstanding for the periods up to 2016, consisting of dry hole expenditure and other matters amounting to US\$46,907,000, which are still under discussion between the Operator and the auditors. Management believes that all the remaining claims are without merit, therefore no accrual has been recognized in relation to the remaining findings in the financial statements.

b. Gas supply agreement

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

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

On the same date, Pertamina, Kakap PSC and other gas suppliers have entered into a Gas Supply Agreement ("GSuA") in which under GSuA, each supplier agrees to make gas available to Pertamina based on each market share of the gas suppliers, to enable Pertamina fulfilling its commitment under the GSA. Kakap PSC's market share for year 2018 is 8.2% (2017:10%).

On the same date, Pertamina, Block B PSC, Kakap PSC and Block A PSC have entered into a Gas Transportation Agreement ("GSA TA") which was amended on 31 October 2008 ("GSA2 TA"). Under the GSA2 TA, Block A PSC agreed to pay daily cash call as the compensation of using SembGas Transportation Pipeline to transport gas from Gajah Baru platform. Under the contract, the daily cash call shall be a reduction of the operating costs in accordance with WNTS Joint Venture Agreement. However, Block A PSC has ceased to pay the daily cash call since December 2014 and disputed the GSA2 TA. As a result, Kakap PSC has outstanding receivable amounting to US\$12,935,000 until October 2017 from Block A PSC. On 20 December 2017, Block B PSC, Kakap PSC and Block A PSC have signed the clarification agreement to resolve the dispute of GSA2 TA. As a result, Block A PSC has settled the payment on 8 January 2018.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

17. Commitments and contingencies (continued)

c. Branch Profit Tax ("BPT")

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

In 1974, the Government of the Republic of Indonesia ("Gol") signed a tax treaty with the United Kingdom Government ("UK Government") which exempted BPT for UK permanent establishment/resident companies ("UK Companies") (Article 11 (8) of the 1974 tax treaty). In 1993, the Gol renewed the UK-Indonesia tax treaty ("New Treaty"). Under the New Treaty, a 10% BPT is applied for UK Companies which have signed Production Sharing Contract after 31 December 1983.

In December 2008, the Finance and Development Supervisory Agency (Badan Pengawasan Keuangan dan Pembangunan or referred to as "BPKP") concluded the audit result of the Company 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 up 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 and reversed it in 2014 as the statute of the limitation on the tax exposure had expired.

The management is of the opinion that the Company (a 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 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. Since the indemnification from Santos SPA is still valid and applicable for 7 years after the effective date of Santos SPA, as at 31 December 2011, the Company recorded the underpayment of BPT under "Trade and Other Receivables" as amount due from Santos 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 reported such payment to the Tax Office.

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

17. Commitments and contingencies (continued)

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

In February 2012, the Company filed an objection letter to the Tax Office regarding the basis for the issuance of tax assessment letters since the Company believes that the rate applied by the Company is supported by the Indonesian - UK Treaty, which reduced the tax rate to 10%. In addition, the Company received confirmations from UK HM Revenue and Custom ("UK HMRC") that it is entitled to apply the 10% treaty rate since the Company is a UK tax resident. On 19 February 2013, the Tax Office declined the objection letter and on 13 May 2013, the Company submitted an appeal letter to the Tax Court. On 26 March 2014, the Company gave the closing statement in the Tax Court. On 29 September 2016, the Tax Court rejected the Company appealed letter for 2008 fiscal year. The Tax Court argued that there is not sufficient documentation to support the appeals and therefore the Company is not eligible to apply UK-Indonesia Tax Treaty. The Company submitted the reconsideration request to Supreme Court on 11 January 2017. As at the completion date of the financial statements, no decision has been made by the Supreme Court.

In August 2014, the Company received tax assessment letters from the Tax Office related to the underpayment of BPT (including penalties) for fiscal year 2009 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$565,000. The Company made the payment on 14 August 2014 and sent an objection letter to the Tax Office on 3 October 2014. On 29 September 2015 and 2 October 2015, the Tax Office sent letters to reject the objection letters. On 23 December 2015, the Company submitted appeal letters to the Tax Court. On 25 April 2016, the Company received the BPT refund of US\$10,000. As at the completion date of the consolidated financial statements, no decision letter has been received from the Tax Court.

On 6 August 2015, the Company received tax assessment letters from the Tax Office related to the underpayment of the BPT for fiscal year 2010, 2011, 2012 and 2013 resulting from the difference between the tax rate and treaty rate, including the tax penalty, amounting to US\$3,434,000. The Company made the payment on 2 September 2015 and sent objection letters to the Tax Office on 3 November 2015. On 27 October 2016, the Tax Office sent the letters to reject the Company objection letters. On 24 January 2017, the Company submitted appeal letters to the Tax Court. On 5 February 2018, the Company gave the closing statement in the Tax Court. On 30 July 2018, the Tax Court rejected the Company appealed letter for 2010, 2011, 2012 and 2013 fiscal year. The Company is ongoing preparing the reconsideration request to Supreme Court.

On 30 April 2016, the Company received tax assessment letters for underpaid 2014 BPT amounting to US\$296,000. The Company made the payment on 12 July 2016 and sent objection letters to the Tax Office on 21 July 2016. On 18 July 2017, the Tax Office sent the letters to reject the Company objection letters. On 12 September 2017, the Company submitted appeal letters to the Tax Court. On 23 August 2018, the Company gave the closing statement in the tax Court. As at the completion data of the financial statements, no decision has been made by the Tax Court.

On 3 May 2017, the Company received the tax assessment letters for underpaid 2015 BPT amounting to US\$99,000. The Company has made the payment on 23 May 2017 and sent the objection letters to the Tax Office on 14 June 2017. On 30 May 2018, the Tax Office sent the letter to reject the Company objection letter. On 20 August 2018, the Company submitted appeal letters to the Tax Court. As at the completion data of the financial statements, no decision has been made by the Tax Court.

NATUNA UK (KAKAP 2) LIMITED
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17. Commitments and contingencies (continued)

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

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 2017.

d. Senior term loan facility agreement

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

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

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

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

The New Loan is guaranteed by the following related parties:

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

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

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

NATUNA UK (KAKAP 2) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

17. Commitments and contingencies (continued)

d. Senior term loan facility agreement (continued)

- d. Present Worth to Net Outstanding Debt ("ALCR") ratio should not be less than 1.45 : 1 for the period ended 31 March 2014 or later.

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

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

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

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

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

17. Commitments and contingencies (continued)

d. Senior term loan facility agreement (continued)

- (xiii) No creation of security or quasi-security over assets, except as expressly permitted under the Finance Documents,
- (xiv) Compliance with all laws and regulations (including applicable environmental laws), and
- (xv) Other standard covenants and undertakings customary for a financing of this type.

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

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

In 2017, the Borrowers made a total principal repayment of US\$10,000,000 including voluntary repayment of US\$5,000,000 on 15 November 2017 (2016: US\$5,000,000). The unamortized transaction costs on the New Loan as at 31 December 2017 is US\$Nil (2016: US\$135,000).

In 2018, the Borrowers made partial repayment of the principal loan of US\$2,170,000 including interests of US\$100,000 on 22 February 2018 and the Borrowers made fully repayment of the principal loan of US\$4,543,000 including interests and break funding cost of US\$53,000 to Lender on 19 April 2018.

e. Contractual commitment

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

18. Financial risk management

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

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

(a) Foreign currency risk

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

(b) Interest rate risk

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

(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 2017 and 2016, the Company had no open oil price swap contracts and is therefore not exposed to movements in commodity prices on financial instruments. The Company continues to monitor oil price volatility and to assess the need for commodity price hedging.

(d) Credit risk

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

Credit risk arises from cash on hand and in banks, deposits with banks and financial institutions, as well as credit exposures from trade and related party receivables. The Company is subject to concentration of credit risk as its entire sales are to two counterparties. Oil and Gas sales are solely to Lukoil Asia Pacific 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 2017

18. Financial risk management (continued)

(e) Liquidity risk

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

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

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

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

As at 31 December	Less than one year	More than one year
	US\$'000	US\$'000
2017		
Trade and other payables (Note 11)	2,295	-
2016		
Trade and other payables (Note 11)	2,660	-

(f) Fair values

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

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

Trade and other receivables

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

Trade and other payables

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

NATUNA UK (KAKAP 2) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. Parent entities

Star Energy Oil and Gas Pte. Ltd. ("SEOGPL"), a holding company in Singapore, which the directors regard as the Company's ultimate parent undertaking with respect to the financial year ended 31 December 2017, is the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and to which the Company is a member. On 24 July 2017, Star Energy Group Holdings Pte. Ltd. ("SEGHPL") as the Shareholder of SEOGPL entered into a Share Purchase Agreement with Star Energy Investment Ltd. ("SEIL") and SE Holdings Ltd. ("SEHL"), for which SEGHPL agreed to sell its ownership interests in SEOGPL and its subsidiaries by 59.54% and 40.46% to SEIL and SEHL, respectively. On 4 December 2017 SEHL transferred 100% of their ownership in SEOGPL and its subsidiaries to SEIL. Consequently, SEIL owned 100% of SEOGPL and its subsidiaries.

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

20. Events after the Reporting Period

- a. On 22 February 2018, the Borrowers, defined in note 17d, made partial repayment of the principal loan amounting to US\$2,170,000, including interests for period 15 November 2017 up to 15 February 2018 amounting to US\$100,000 to the Lender.
- b. On 19 April 2018, the Borrowers, defined in note 17d, made fully repayment of the principal loan amounting to US\$4,543,000, including interests and break funding cost for period 15 February 2018 up to 19 April 2018 amounting to US\$53,000 to the Lender.