

## **Colag UK Limited**

Report and Financial Statements

Year Ended

30 June 2010

Company Number 04511114

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# **Colag UK Limited**

## **Report and financial statements for the year ended 30 June 2010**

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### **Country of incorporation**

England and Wales

### **Legal form**

Private company limited by shares

### **Directors**

P D Moore  
M G Allen

### **Secretary and registered office**

M G Allen, 3rd Floor, 20 Abchurch Lane, London, EC4N 7BB

### **Company number**

04511114

### **Auditors**

BDO LLP, 55 Baker Street, London, W1U 7EU

# **Colag UK Limited**

## **Report of the directors for the year ended 30 June 2010**

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The directors present the report and audited financial statements of the Company for the year ended 30 June 2010

### **Principal activity**

Colag UK Limited is an oil and gas business focused on an area offshore from the Philippines. The principal activity of the Company during the year comprised investment in oil and gas exploration. The strategy of the Company is to build a significant portfolio of assets through the discovery and exploitation of oil and gas reserves.

The Company owns an indirect interest of 9.39% in the Galoc Block SC14 Service Contract through its holding of an equity interest of 15.69% in Galoc Production Company (GPC), the operator of the block, which is located offshore North West Palawan in the Republic of the Philippines.

In March 2006 the plan of development for the Galoc Oil Field was approved by the Philippines Department of Energy. In March 2007 the Company successfully closed the project financing for the development of the project. In October 2008, first oil was produced from the Galoc Oil Field. To date, over 6 million barrels of oil have been produced from the Galoc Oil Field.

The principal risks facing the Company are its ability to fund its exploration and development activity and the risk that the Company's portfolio of oil and gas reserves do not contain the expected level of commercially producible hydrocarbons.

### **Results and dividends**

The Company results for the year are shown in the statement of comprehensive income on page 6. No dividends were paid or are proposed for the year (2009 – Nil).

### **Going concern**

Otto Energy Limited, the parent company, has confirmed its intention to provide operational and financial support to Colag UK Limited and to fund the operations of the company for the foreseeable future and in any event for a period of at least twelve months following the date of the signing of these financial statements.

For this reason the directors believe it remains appropriate to continue to prepare the financial statements on a going concern basis.

### **Post reporting date events**

No matters or circumstances have arisen since the end of the financial year to the date of signature of these financial statements which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

# Colag UK Limited

## Report of the directors for the year ended 30 June 2010 (*Continued*)

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### Directors

Directors who served during the year and up to the date of signing the financial statements were as follows

Paul Derek Moore	(appointed 31 July 2009)
Jacob Jan Kornelis Poll	(resigned 22 September 2010)
Matthew Gerard Allen	(appointed 22 July 2010)

### Directors' indemnities

The ultimate parent company Otto Energy Limited maintains liability insurance for its directors and officers during the year and also as at the date of the directors report. This group cover extends to and includes the directors and officers of the Company.

### Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### Auditors

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the next annual general meeting.

### By order of the Board



Matthew Gerard Allen  
Director

Date 29 MARCH 2011

# **Colag UK Limited**

## **Directors' responsibilities for the year ended 30 June 2010**

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### **Directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- they have been prepared in accordance with IFRSs as adopted by the European Union, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

# **Colag UK Limited**

## **Independent auditor's report**

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### **TO THE MEMBERS OF COLAG UK LIMITED**

We have audited the financial statements of Colag UK Limited for the year ended 30 June 2010 which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the statement of cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU ("IFRS")

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

### **Respective responsibilities of directors and auditors**

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS's as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Colag UK Limited

## Independent auditor's report (*Continued*)

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

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

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



Anne Sayers, (*senior statutory auditor*)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom

29 March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

## Colag UK Limited

### Statement of comprehensive income for the year ended 30 June 2010

	Note	2010 \$'000	2009 \$'000
Administrative expenses		92	146
<b>Loss from operations</b>		(92)	(146)
Finance income	4	347	697
<b>Profit before tax</b>		255	551
Tax expense	5	(72)	(187)
<b>Profit and total comprehensive income for the year</b>		183	364

The notes on pages 10 to 22 form part of these financial statements



## Colag UK Limited

### Statement of changes in equity for the year ended 30 June 2010

	Share capital \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2008	1	664	665
Total comprehensive income	-	364	364
Balance at 30 June 2009 and 1 July 2010	1	1,028	1,029
Total comprehensive income	-	183	183
Balance at 30 June 2010	1	1,211	1,212

The following describes the nature and purpose of each reserve within owner's equity

Share capital - amount subscribed for share capital at nominal value

Retained earnings – Cumulative net gains and losses recognised in the financial statements

The notes on pages 10 to 22 form part of these financial statements

# Colag UK Limited

## Statement of Financial Position at 30 June 2010

<b>Company number 04511114</b>	<b>Note</b>	<b>2010 \$'000</b>	<b>2010 \$'000</b>	<b>2009 \$'000</b>	<b>2009 \$'000</b>
<b>Assets</b>					
<b>Non-current assets</b>					
Investment in an associate	6	402		402	
<b>Total non-current assets</b>			402		402
<b>Current assets</b>					
Trade and other receivables	7	1,600		15,986	
<b>Total current assets</b>			1,600		15,986
<b>Total assets</b>			2,002		16,388
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	8	2		1	
Corporate tax liability		201		267	
Loans	9	587		15,091	
<b>Total current liabilities</b>			790		15,359
<b>Total liabilities</b>			790		15,359
<b>Total net assets</b>			1,212		1,029
<b>Capital and reserves attributable to equity holders of the company</b>					
Share capital	10		1		1
Retained earnings			1,211		1,028
<b>Total equity</b>			1,212		1,029

The financial statements were approved and authorised for issue by the Board of Directors on 29 MARCH and were signed on its behalf by



M G Allen  
Director

The notes on pages 10 to 22 form part of these financial statements

# Colag UK Limited

## Statement of cashflows for the year ended 30 June 2010

	2010 \$'000	2010 \$'000	2009 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>				
Profit for the year		183		364
Adjustment for Depreciation				-
Interest income		(347)		(697)
Taxation		72		187
Decrease in trade and other payables		1		-
		<u>          </u>		<u>          </u>
<b>Cash flows used in operations</b>		(91)		(146)
Income taxes paid		(138)	-	
		<u>          </u>		<u>          </u>
<b>Net cash flows used in operating activities</b>		(229)		(146)
<b>Investing activities</b>				
Decrease/ (Increase) in loans receivable	14,733		(7,687)	
	<u>          </u>		<u>          </u>	
<b>Net cash flows from investing activities</b>		14,733		(7,687)
<b>Financing activities</b>				
Decrease in advances from parent	(14,504)		(232)	
Increase in advances from parent	-		4,071	
	<u>          </u>		<u>          </u>	
<b>Net cash flows from financing activities</b>		(14,504)		3,839
		<u>          </u>		<u>          </u>
<b>Net decrease in cash and cash equivalents</b>		-		(3,994)
<b>Cash and cash equivalents at beginning of year</b>		-		3,994
		<u>          </u>		<u>          </u>
<b>Cash and cash equivalents at end of year</b>		-		-
		<u>          </u>		<u>          </u>

The notes on pages 10 to 22 form part of these financial statements

# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010

### 1 Accounting policies

#### General information

Colag UK Limited is a company incorporated in the UK. The address of the registered office is given in the officers and advisers section of this report. The nature of the Company's operations and its principal activities are set out in the Directors' report.

The Company's functional currency is the United States dollar (US\$). The Company adopts the US\$ as its presentation currency.

#### Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared on the basis of a going concern and in line with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union and in accordance with Companies Act 2006. The adoption of all of the new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB that are relevant to the operations and effective for annual reporting years beginning on 1 July 2009 are reflected in these financial statements.

#### Going concern

Otto Energy Limited, the parent company, has confirmed its intention to provide operational and financial support to Colag UK Limited and to fund the operations of the company for the foreseeable future and in any event for a period of at least twelve months following the date of the signing of these financial statements. For this reason the directors believe it remains appropriate to continue to prepare the financial statements on a going concern basis.

#### New Accounting Standards, Amendments and Interpretations to Existing Standards

The accounting policies adopted in the preparation of the Company's financial statements have been consistently applied in all years presented unless otherwise stated.

The IASB and IFRIC have issued the following standards and interpretations:

*There were no amendments to published standards and interpretations to existing standards effective in the year which were relevant and adopted by the Company.*

*Standards, interpretations and amendments to published standards effective in the year but which are not relevant to the Company.*

International Accounting Standards (IAS/IFRS)			Effective date (periods beginning on or after)
•	IFRIC 12	Service concession arrangements	1 Jan 2009
•	IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction	1 Jan 2009
•	IFRIC 13	Customer loyalty programmes	1 Jul 2009
•	IAS 39/IFRS 7	Reclassification of financial instruments	1 Jul 2009
•	IAS 39/IFRS 7*	Reclassification of financial instruments – Effective date and transition	1 Jul 2009

# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010

### 1 Accounting policies (Continued)

#### Basis of preparation (continued)

*Standards, Interpretations and amendments, which are effective for reporting periods beginning after the date of these financial statements*

International Accounting Standards (IAS/IFRS)			Effective date (periods beginning on or after)
•	IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 Oct 2009
•	IAS 1	Amendment - Presentation of financial statements a revised presentation	1 Jan 2010
•	IAS 23	Amendment - Borrowing costs	1 Jan 2010
•	IAS 32 and 1	Amendments - Puttable financial instruments and obligations arising on Liquidation	1 Jan 2010
•	IFRS 1	First-time adoption of international accounting standards	1 Jan 2010
•	IFRS 2	Amendment - Vesting conditions and cancellations	1 Jan 2010
•	IFRS 2	Amendment - Share-based payment vesting conditions and cancellations	1 Jan 2010
•	IFRS 7	Amendment – Improving Disclosures about Financial Instruments	1 Jan 2010
•	IFRS 8	Operating Segments	1 Jan 2010
•	IFRS1 and IAS 27	Amendments – Cost of an Investment in a subsidiary, jointly controlled entity or associate	1 Jan 2010
•	IFRIC 15	Agreements for the Construction of Real Estate	1 Jan 2010
•	IFRIC9 and IAS 39	Amendments – Embedded derivatives	30 Jun 2010
•	IAS 27	Amendment - Consolidated and separate financial statements	1 Jul 2010
•	IAS 39	Amendment – Recognition and measurement Eligible hedged items	1 Jul 2010
•	IFRS 3	Revised - Business combinations	1 Jul 2010
•	IFRIC 17	Distributions of non-cash assets to owners	1 Jul 2010
•	IFRIC 18	Transfers of assets from customers	1 Jul 2010
•	IFRS 1	Additional exemptions for first-time adopters	1 Jan 2010
•	IFRS 2	Amendment – Group cash-settled share based payment transactions	1 Jan 2010
•		Improvements to IFRSs (2010)	generally 1 Jan 2010
•	IAS 32	Amendment – Classification of rights issues	1 Feb 2010
•	IFRIC19*	Extinguishing financial liabilities with equity instruments	1 Apr 2010
•	IFRS 1	Amendment – first-time adopters of IFRS	1 Jul 2010
•	IAS24	Revised – Related party disclosures	1 Jan 2011
•	IFRIC 14	Amendment to IFRIC 14 – IAS 19 Limit on a defined benefit asset, Minimum funding requirements and their interaction	1 Jan 2011
•		Improvements to IFRSs (2010)*	generally 1 Jan 2011
•	IFRS9*	Financial instruments	1 Jan 2013

Except for the adoption of IFRS 3 Revised and the adoption of IAS 23 the above standards, interpretations and amendments will not significantly affect the Group's results or financial position, although the adoption of IFRS 8 may affect note disclosures. The impact of IFRS 9 on the Company is not yet fully known but management will continue to monitor and assess its impact.

Items marked \* had not yet been endorsed by the European Union at the date that these financial statements were approved and authorised for issue by the Board.

# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 1 Accounting policies (*Continued*)

#### Investments in associate

An associate is an entity over which the Company has significant influence but not control and which is neither a subsidiary nor a joint venture. Investments in associates are carried at cost, less any impairment losses.

#### Deferred taxation

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

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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

#### Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

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

#### Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired, if any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### **Finance income**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, calculated in accordance with the effective interest rate method.

#### **Financial Instruments**

##### Initial Recognition

Financial assets and financial liabilities are recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done at trade date, which is the date on which the Company commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value plus transaction costs except for those designated at fair value through profit and loss (FVTPL).

##### Classification of Financial Instruments

The Company considers the classification of its financial assets against the following categories: held-to-maturity (HTM), available-for-sale (AFS) investments, financial assets at FVTPL, and loans and receivables. Financial liabilities are classified as financial liabilities at FVTPL and other liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

The Company classifies its financial assets into the following categories

- *Loans and Receivables*

Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Included in Loans and Receivables are Cash and Cash Equivalents. These include cash in bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

The Company's loan receivable is included in this category (see Note 8).

The Company classifies its financial liabilities into the following categories

- *Other Financial Liabilities*

This classification pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. Included in this category are liabilities arising from operations or borrowings.

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

The Company's advances from the parent and accrued expenses are included in this category (see Note 9).



# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

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### 1 Accounting policies (*Continued*)

#### *Derecognition of Financial Assets and Liabilities*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when (a) the rights to receive cash flows from the asset have expired, (b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or (c) the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income

#### *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, when the related assets and liabilities are presented gross in the balance sheet

#### **Related Parties**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Individuals, associates or companies that directly or indirectly control or are controlled by or under common control are considered related parties

#### **Provisions and Contingencies**

Provisions are recognized when there is a present obligation (legal or constructive) 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

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable

#### **Events after the Financial Reporting Date**

Post year-end events up to the date of the auditor's report that provide additional information about the Company's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events up to the date of the auditor's report that are not adjusting events are disclosed in the notes to the financial statements when material

# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

### 2 Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, which result from both its operating and investing activities. The Company's principal financial instruments comprise of loan receivables from a related party, and advances from a related party. The main purpose of these financial instruments is to raise finance for the operation.

The Company has policies and guidelines covering credit risk, market risk, liquidity risk and interest rate risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company results and financial position.

The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

#### *Credit Risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to risks through its loans receivable amounting to US\$1,600,212 (2009US\$15,986,051), with maximum exposure equivalent to its carrying amount.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	2010 US\$'000	2009 US\$'000
Loans receivable	1,600	15,986

#### *Market Risk*

Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### *Liquidity Risk*

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is mainly exposed to liquidity risk through its maturing liabilities. The Company has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met.

As of 30 June 2010, the company's advances from NorAsian Energy Limited ("NAEL") amounted to – US\$587,367 (2009 - US\$15,090,777).

# Colag UK Limited

## Notes forming part of the financial statements for the year ended 30 June 2010 (Continued)

### 2 Financial Risk Management Objectives and Policies (Continued)

#### *Interest Rate Risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Company's interest rate exposure management policy centres on reducing its exposure to changes in interest rates. The Company's exposure to changes in interest rates relates primarily to the cash in bank with fixed interest rates.

Management have calculated that as at 30 June 2010 a 2 percentage point change to the LIBOR interest rate would have increased finance income \$211,957(2009 \$263,529), with the corresponding change in net assets. On the other hand, a 2% decrease will have decreased finance income by \$211,957(2009 \$306,436), with the corresponding change in net assets.

#### *Capital Risk Management*

The primary objective of the Company's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios to support its business and maximize shareholder value.

The Board of Directors has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the related risks underlying the Company's business operations and industry.

The Company receives continual support, where required, from Nor-Asian Energy Limited, its immediate parent.

### 3 Staff costs

The only employees of the company during the year were the directors, none of whom received any remuneration from the company. All directors were remunerated through another group company, and it is not possible to apportion the cost of their remuneration relevant to services rendered to Colag UK Limited.

### 4 Finance income

	2010 \$'000	2009 \$'000
<i>Finance income</i>		
Interest received on bank deposits	-	36
Interest income on financial assets	347	661
	<hr/>	<hr/>
Total finance income	347	697
	<hr/>	<hr/>

## Colag UK Limited

Notes forming part of the financial statements  
for the year ended 30 June 2010 (*Continued*)

### 5 Tax expense

	2010 \$'000	2009 \$'000
Current Corporation tax	72	187

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows

	2010 \$'000	2009 \$'000
Profit for the year	255	551
Expected tax charge based on the standard rate of corporation tax in the UK of 28 % (2009 – 28 %)	71	154
Expenses not deductible for tax purposes	1	33
Total tax expense	72	187

# Colag UK Limited

Notes forming part of the financial statements  
for the year ended 30 June 2010 (*Continued*)

## 6 Investments in associates

The following entities meet the definition of an associate and are recorded at cost

Name	Country of incorporation	Proportion of ownership interest at 30 June	
		2010	2009
Galoc Production Corp ("GPC")	Bahrain	15.69%	15.69%
		<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
GPC		402	402

Despite owning less than 20% of the company, management still consider the investment to represent an associate. This was because

- In accordance with the sale and purchase agreement, the Company was represented by 2 of 5 directors at GPC
- During the year the funding loan between the two companies was material. The Company has an outstanding loan to GPC of US\$1,600,212 (\$15,986,051 in June 2009)

## Colag UK Limited

### Notes forming part of the financial statements for the year ended 30 June 2010 (*Continued*)

#### 7 Trade and other receivables

	2010 \$'000	2009 \$'000
Loans to related parties	1,600	15,986
	<u>1,600</u>	<u>15,986</u>

The loan to the related party represents shareholder loans to the associated company, GPC

All outstanding principal amounts as well as accrued interest must be repaid by the borrower five years from the date of the initial advance (30 September 2006) The GPC loan is subordinated to the senior project debt

The loan is denominated in US\$ and bears interest at LIBOR + 3%

The ageing of receivables is as follows

	2010 \$'000	2009 \$'000
6 to 12 months	1,600	15,986
	<u>1,600</u>	<u>15,986</u>

The carrying values of the group's trade and other receivables are denominated in US\$

#### 8 Trade and other payables

	2010 \$'000	2009 \$'000
Accruals	2	1
	<u>2</u>	<u>1</u>

The Company's financial liabilities are due within 3 months of the year end

The audit fee is borne by another entity in the Group of which the company is a subsidiary

# Colag UK Limited

Notes forming part of the financial statements  
for the year ended 30 June 2010 (Continued)

## 9 Loans and borrowings

The book value and fair value of loans and borrowings are as follows

	Book value 2010 \$'000	Fair value 2010 \$'000	Book value 2009 \$'000	Fair value 2009 \$'000
Advances from the Parent	587	587	15,091	15,091
Total borrowings	587	587	15,091	15,091

The company receives financial support from Nor-Asian Energy Limited to fund its operations. These advances are non-interest bearing, unsecured and payable upon commercial production depending on the net cash flows of the Galoc oil field development project.

## 10 Share capital

	2010 Number	Authorised 2010 \$'000	2009 Number	2009 \$'000
Ordinary shares of 10p each	12,500,000	2,497	12,500,000	2,497
		Allotted, issued and fully paid		
	2010 Number	2010 \$'000	2009 Number	2009 \$'000
Allotted, issued and fully paid ordinary shares	5,000	1	5,000	1

## 11 Related party transactions

In 2010, the Company provided US\$14,732,910 (2009 -US\$7,722,073) support and recognised interest income of -US\$347,070 (2009 - US\$661,362) which was capitalised as part of the loan balance. The support provided has been treated as an additional loan made by the shareholders to GPC. The loan bears interest of three percent (3%) above LIBOR rate compounded quarterly and is repayable within 5 years from the date of initial loan. The outstanding balance at 30 June 2010 amounted to US\$1,600,212 (2009US\$15,986,051).

Moreover, the Company receives financial support from Nor-Asian Energy Limited to fund its operations. The outstanding balance of advances as at 30 June 2010 amounted to US\$587,367 (2009 - US\$15,090,777).

# **Colag UK Limited**

**Notes forming part of the financial statements  
for the year ended 30 June 2010 (*Continued*)**

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## **12 Events after the balance sheet date**

There have been no reportable events subsequent to the reporting date

## **13 Ultimate parent company**

At 30 June 2010 the Company's immediate parent company was NorAsian Energy Limited. The Company's ultimate parent company is Otto Energy Limited.

Subsequent to the Balance Sheet date, the immediate parent company has changed to Otto Energy Limited due to the sale of NorAsian Energy Limited's shares.