# Nusantara Energy plc

ANNUAL REPORT

for the year ended

31 December 2011

Company Registration No. 06156525

# Nusantara Energy plc
COMPANY INFORMATION

| | | |
|---|---|---|
| Directors | M J M Groat | (resigned 14 April 2012) |
| | R A M Healey | (resigned 12 June 2012) |
| | K D Irons | (resigned 31 January 2012) |
| | A Irawan | (lapsed 1 February 2011) |
| | B C Hosking | (resigned 22 August 2012) |
| | C Hardeman | (appointed 21 February 2012)<br>(resigned 22 August 2012) |
| | N Morland | (appointed 11 April 2012)<br>(resigned 16 July 2012) |
| | A Simpson | (appointed 22 August 2012)<br>(resigned 1 October 2012) |
| | A R Butler | (appointed 22 August 2012) |
| | N McLoughlin | (appointed 22 August 2012) |
| Secretary | M J M Groat | (resigned 14 April 2012) |
| | A Simpson | (appointed 11 April 2012)<br>(resigned 1 October 2012) |
| | B J Stuart | (appointed 1 October 2012) |
| Company registration number | 06156525 | |
| Registered office | Belmont House<br>Station Way<br>Crawley<br>West Sussex<br>RH10 1JA | |
| Auditors | Grant Thornton UK LLP<br>Grant Thornton House<br>Melton Street<br>Euston Square<br>London<br>NW1 2EP | |
| Bankers | Barclays Bank plc<br>One Churchill Place<br>London<br>E14 5HP | |
| Business address | Arena Business Centre<br>Holy Rood Close<br>Poole<br>Dorset<br>BH17 7FJ | |

# Nusantara Energy plc

CONTENTS

The directors present their report together with the audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The principal activity of the Group is the development of coal mines in Indonesia, including the acquisition of economic interests in those mines and potential mines.

The Company is a public but unlisted limited company incorporated and domiciled in England.

CHAIRMAN'S STATEMENT

With the benefit of hindsight, the former Chairman's Statement, accompanying the financial statements for the year ended 31 December 2010, proved overly optimistic in many respects, both in terms of progressing the heads of terms, which were reported in that Statement to have been signed, to an actual trade sale and also in the fall-back strategy of moving the project towards production, should the trade sale fail to complete.

That Statement, a year ago, implied that it was lack of, or delays in obtaining, further funding for the project which was the principal challenge, but it is now clear that deficiencies in permitting were an equal if not more significant problem. Indeed, it was the failure to obtain the necessary consents for the potential buyer to conduct its confirmatory drilling programme which caused the expected sale to collapse in February 2012.

Shareholder patience was stretched to the full and, after a further fundraising of £2.2.million (US$3.4million) in early 2012 (see under Business and Financial Review below) failed to resolve the permitting issues, two new independent non-executive directors were appointed to the Board and the Company Secretary was also replaced. Finally, in June 2012, the Chairman and Chief Executive, who had founded the Company and run it from the start, was asked to resign and complied. Two of the non executive directors stepped up into executive roles and set about building a plan to secure the Company's future.

With the final maturity date of the Gersec convertible loan note fast approaching, on 28 August 2012 (see under Business and Financial Review below for details), the Board and its advisers considered five possible refinancing options. Only one of these options, a proposal from Perella Weinberg Partners Xerion Master Fund Ltd ("Xerion proposal"), was presented to shareholders for approval.

Understandably, shareholders wished to have an opportunity to choose between at least two alternative refinancing proposals. Consequently on 22 August 2012 shareholders representing in aggregate over 50% of total shareholders gave notice to the Company, as provided for in the Company's Articles of Association, that the two existing directors were being removed from the Board and three new directors were being appointed, charged with negotiating at least two proposals to be presented to shareholders for their final decision.

After due consideration, it became clear to the Board that the Xerion proposal had been highly conditional and was a non-starter within this timetable. Concentrated negotiation with two alternative parties, offering competing proposals, ensued and agreement was reached with Gersec to defer its rights under the loan note for five days, to allow a shareholder poll to be conducted between a proposal made by Ianto Finance Limited ("Ianto"), an associated company of Gersec, and a proposal made by Zamin Energy Limited, a global mining company.

The poll closed at 9.00 am on Monday 3 September 2012 and the Ianto proposal was declared the winner, with a majority of 50.3% of all issued voting rights expressing preference for this option and 42.8% expressing preference for the Zamin proposal. In the subsequent days and weeks, the Ianto proposal was negotiated into a binding commitment, comprising the underwriting of an £18.5million (US$29.6million) Open Offer of new shares to existing shareholders of the Company, the proceeds of which would be used to satisfy the outstanding debt finance of approximately £10.8million (US$16.8million), with the remainder to be used as working capital, seen as sufficient for the first year of implementation of the Business Plan, including first coal production.

CHAIRMAN'S STATEMENT *(continued)*

A shareholder circular was prepared and a General Meeting ("GM") convened for 28 September 2012. The GM took place, was well supported and all resolutions were passed, resulting in a successful recapitalisation of the Company, including repayment and/or equitisation of all outstanding debt finance and Ianto Finance Limited becoming the new majority shareholder of the Company.

Antony Butler
Chairman

## BUSINESS AND FINANCIAL REVIEW

On 16 January 2009, a new law relating to mining companies was passed in Indonesia. Under the previous law, government-issued mining permits could only be held by Indonesians or wholly owned Indonesian companies. The new law, which took effect from 16 January 2010, effectively enabled foreign entities to themselves own/hold the mining permits. In response to this change, the Board of Nusantara decided to buy out its local trading partner.

During February 2011, the Group executed an agreement with PT Sukses Lancar Santosa ("SLS"), the Company's Indonesian trading partner, to acquire their 5% minority stake in PT Artha Nusantara Resources ("ANR") and bring ANR under 100% group control, for a total of US$19.5million. This payment represented a buyout of future royalty streams payable upon commencement of production at Jambi, which would have amounted to 3% of future revenues for the first five years of operations, and 2% thereafter. This acquisition was funded in the following ways:

- The Company signed a £4million (US$6.16million) secured, convertible loan note with a Lender, Gersec Trust REG ("Gersec"), who is also a shareholder of the Company. The note was secured on the Indonesian operating subsidiaries of the Group. The loan note carried interest at 20% per annum. Final repayment was due on 28 August 2012. If repayment was not made by this date, the Lender had an option to convert the entire loan to share capital for a 51% holding in the Company;

- The Company signed a second, £2million (US$3.08million) loan note with another lender, CIPAF International SA, who is also an existing shareholder of the Company. The loan note carried interest at 20% per annum;

- The Company issued US$3million (£1,898,734) worth of shares at 63 cents (40p) to Glittering Ocean Investments Limited ("Glittering Ocean"), an affiliate company of SLS. The Company agreed to buyback these shares from Glittering Ocean by May 2011 ("Share Buy-back Agreement); and

- The Group forgave a US$7.5million due from SLS, advanced in 2007/2008, against the consideration due.

The Company was unable to meet its obligation at the repurchase date under the Share Buy-back Agreement due to lack of funds. Moreover, assistance was required from SLS later in the year to expedite the Izin Pinjam Pakai ("IPP") licences. Consequently, in October 2011, agreement was reached with Glittering Ocean that non-compound interest at a rate of 5% per month would accrue on the capital sum of US$3million from 30 November 2011 until repayment in full.

During the year, the Group acquired the ownership rights from SLS to the three Indonesian companies which own the mining concessions, PT Anugerah Jambi Coalindo ("AJC"), PT Bakti Sarolangun Sejahtera ("BSS"), and PT Sinar Anugerah Sukses ("SAS"), for a total of US$5million. This was settled by the offset of the US$5million loan previously made by the Group to SLS in 2007. These acquisitions had two major impacts on the Group and the Group Financial Statements: (i) a Group corporate reorganisation; and (ii) a restatement of prior year accounts, arising from a write-off of deferred exploration expenditure, as explained below.

BUSINESS AND FINANCIAL REVIEW *(continued)*

For details of the Group reorganisation, you are referred to Note 9 to the Consolidated Financial Statements on Page 31 below.

The adjustment of prior year accounts involves the restatement of cumulative exploration costs of £5,735,149 at 31 December 2010 and £4,952,269 at 31 December 2009, which were included within Exploration and Evaluation assets in those respective years in prior year financial statements.

These prior year restatements resulted from the Group reorganisation. Under Indonesian mining laws (Article 124 (3) of new mining law no. 28/2009), PMA companies must contract directly for core mining services and are not allowed to engage with their affiliates for the provision of mining services. This meant that the PMA companies had to take over the core mining activities previously undertaken by PT Artha Nusantara Resources ("ANR") and PT Artha Nusantara Mining ("ANM") from October 2011 onwards.

ANR, previously the main operational subsidiary, was now classified as a "trading" company, rather than a "mining" company and so could no longer hold deferred exploration costs on its books. At the effective date of conversion, ANR held US$13 million of such deferred exploration expenditure as a mining asset. The most obvious treatment would have been to transfer this asset to the PMA companies, but his would have given rise to a US$1.3 million VAT liability. The US$13 million was therefore dealt with as follows.

US$90k was transferred to AJC, BSS and SAS, while another US$7.3million was transferred to the Parent Company, as part payment for the intercompany loan. The remaining balance of US$5.6million was written off in the Group's books in the year in which the expenditure was originally incurred to reflect increased uncertainty around the value of the assets being held, and the judgement that some of these items should have been treated as revenue rather than capital items in the year they were incurred. For further details of the prior year restatements, please see Note 21 to the Consolidated Financial Statements.

At the end of 2011, the Group was running short of funds, and a new round of fund raising was undertaken, in which 45,354,440 new ordinary shares were finally issued to existing investors on 1 June 2012, raising a total of £2.2million (US$3.4million) in new capital.

For developments post 31 December 2011, please see Post Balance Sheet Events as set out in Note 19 to the Consolidated Financial Accounts on Page 40 below.

The Group does not currently have any production facilities and, until very recently, was focused entirely on development and exploration. For this reason the directors did not monitor any other financial and non-financial key performance indicators during the period under review. There was a Group loss after taxation for the year of US$6,251,854 (2010: US$4,453,875 restated). The increase in loss was due primarily to interest costs of US$ 2,213,566 in 2011, arising from the debt finance assumed in February 2011, compared to interest income of US$289,226 in 2010.

DIVIDEND

The directors do not recommend payment of a dividend.

## GOING CONCERN

The financial position of the Group, its cash flows and liquidity are described elsewhere in this Report and Accounts. The Group does not currently have any production assets and is in a development phase in which it is reliant on external sources of funds. At the year ended 31 December 2011 the Group had cash and cash equivalents of US$191k and borrowings of US$12.2m, in the form of US$9.2m convertible loan notes and US$3m borrowings under a share buy-back facility. The recent fund raising of £18.5million (US$29.6million) has raised sufficient funds to repay all existing debt finance and provide sufficient working capital for at least a year, which will allow implementation of the first year of the Business Plan, including first coal production.

In view of this successful fund raising, the fact that the Group has sufficient funds to continue with its operations for the foreseeable future, and plans to commence low level production late in 2012, the directors consider the Group to be a going concern for at least twelve months from the date of approval of these financial statements.

## RISK REVIEW

The risks inherent in the Group's exploration business are kept under review by the Board. Readers should be aware that mineral exploration businesses generally are at the higher risk end of investment opportunities, but that such risk is matched by potentially high returns to investors, if and when management succeeds in steering through to deliver sustained profitable mining operations.

Specific, identified key risks at 31 December 2011 include:

a) Liquidity Risk
The Group has various outgoings in connection with its activities, but is not yet in production. Therefore, the funds to cover these outgoings come solely from investors. Should investors cease to fund the Group, it will run out of money. The successful, underwritten fund raising in September 2012 mitigates this risk, as the Group now has sufficient funds to continue operations for the foreseeable future, and commence low-level production late in 2012. However, this remains a key risk to the business going forward.

b) Project Technical Risk
The directors are satisfied that the exploration works completed in previous years demonstrate that the project has a large, valuable deposit of thermal coal, lying in a relatively easily mined deposit, and are of the opinion that sufficient detail of the haul road and barging plan has been examined to give confidence that the whole project is technically feasible. The economic feasibility is, of course, dependant on the relative costs of the overall project and prices obtainable in the market for the specific product.

c) Indonesia Legal/Operating Risk
Many of the world's best remaining potential mines lie in countries that carry higher than average legal and operating risk. Indonesia is one of these countries. The challenges of operating in the country are generally understood by investors, especially those familiar with the coal mining sector, which is one of the world's largest exporters of thermal coal. Recent changes in mining law have helped clarify the regulatory environment and enabled the Group to acquire direct ownership rights over the mining concessions, but uncertainties remain in what is generally a difficult operating environment.

d) Permitting Risk
The permitting process in Indonesia is quite complex and rigidly applied. This is acerbated by the recent changes in law mentioned under preceding Risk c), since the regime allowing foreign ownership of mining concessions is still relatively young and under implementation. The new Board and the new majority shareholder of the Company have been working closely together to ensure the validity of the Group's mining and forestry licences accordingly, a process which has uncovered certain anomalies inherited from the Group's previous management which are being resolved as a matter of urgency

RISK REVIEW *(continued)*

e) Currency risk

Currency risk exists in any business operating outside its home currency area. The Group has a conventional range of techniques in place for managing that risk. In general, known specific significant future exchange obligations are anticipated at the time of the commitment arising, by converting funds raised in sterling into the appropriate currency in which the future commitment falls due. The Group does not speculate on currency movements. The Group will increasingly operate in US dollars and this may mean changing the Group's relationship with sterling in the future. For the time being, however, funds are raised in sterling, a large portion of which is converted to US dollars and/or Indonesian rupiah, either for specific expenditure items or routinely to cover expected regular expenditure in Indonesia.

f) Commodity price risk

The Group has economic interests in coal mining concessions, and is therefore exposed to price fluctuations in the commodity market for Indonesian thermal coal. Coal prices had increased significantly in recent years but have fallen approximately 30% since the last quarter of 2011. Nevertheless the directors consider the project still to be financially viable in the medium to long term, since strong underlying demand from growing Asian economies for coal-generated electricity is likely to place a floor under Indonesian thermal coal prices over time. Even at current levels of lower market prices, the project is not uneconomic.

DIRECTORS

The directors who served during the year were:

| | |
|---|---|
| M J M Groat | (resigned 14 April 2012) |
| R A M Healey | (resigned 12 June 2012) |
| K D Irons | (resigned 31 January 2012) |
| A Irawan | (lapsed 1 February 2011) |
| B C Hosking | (resigned 22 August 2012) |
| C Hardeman | (appointed 21 February 2012) |
| | (resigned 22 August 2012) |
| N Morland | (appointed 11 April 2012) |
| | (resigned 16 July 2012) |
| A Simpson | (appointed 22 August 2012) |
| | (resigned 1 October 2012) |
| A R Butler | (appointed 22 August 2012) |
| N McLoughlin | (appointed 22 August 2012) |

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs).

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group 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 estimates that are reasonable and prudent;
- State that applicable accounting standards have been followed; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each of the directors is aware at the time the report is approved:

- There is no relevant audit information of which the Company's auditors are unaware, and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## POST BALANCE SHEET EVENTS

Post balance sheet events are described in Note 19 to the Group Accounts on Page 40.

## PAYMENT POLICY AND PRACTICE

It is the Group's normal practice to settle the terms of payment when agreeing the terms of the transaction to ensure that suppliers are aware of those terms, and to abide by them. The number of days' purchases outstanding at 31 December 2011 for the Group and Company was 163 days (2010: 23 days) and 173 days (2010: 24 days) respectively. The increase in creditor days was due to the tight liquidity situation in which the Company found itself, which was only finally resolved with the recent, successful recapitalisation of the Company in late September/early October 2012.

## GOVERNANCE

As set out in the equivalent section of the Directors' Report in the 2010 Annual Report, the corporate governance framework in place was on paper broadly in line with the recommendations of the London Stock Exchange for listed companies, including Remuneration and Audit Committees of the Board. A feature of these arrangements was that the Remuneration Committee, in addition to its more normal duties, was specifically also charged with responsibility for overseeing potential conflicts of interest between the Company and individual directors.

With the benefit of hindsight, however, the governance framework set out, although strong in theory, had not really been effective in practice from the beginning, largely because of the personal dominance of the Chairman and Chief Executive. The Remuneration Committee seems to have been a weak link, both in terms of keeping executive and non-executive rewards within reasonable bounds for a pre-operating mining company and also for dealing effectively with the conflicts of interest of individual directors.

The Board is now working closely and constructively with the new majority shareholder, Ianto Finance Limited. Both sides are wholly committed to rebuilding the Company for the benefit of all stakeholders and/enhanced corporate governance practice will be put in place at the Company over the coming weeks and months.

## AUDITORS

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 489 (4) of the Companies Act 2006.

These financial statements were approved by the Board on 1 November 2012.

**A R Butler**
Director

We have audited the Group financial statements of Nusantara Energy plc for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group 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**

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

**Opinion on financial statements**

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**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 Group financial statements are prepared is consistent with the Group financial statements.

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

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

- 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

**Other matter**

We have reported separately on the Parent Company financial statements of Nusantara Energy plc for the year ended 31 December 2011.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
2 November 2012

# Nusantara Energy plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

| | *Notes* | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ Restated |
|---|---|---|---|
| OVERHEADS | | | |
| Administrative expenses | | (4,087,566) | (4,167,216) |
| OPERATING LOSS BEFORE FINANCE | 3 | (4,087,566) | (4,167,216) |
| FINANCE COSTS | | | |
| Interest income | 5 | 34,567 | 289,226 |
| Foreign exchange gain | | 12,373 | 351,908 |
| Interest expense | 6 | (2,123,566) | - |
| Prior year restatement | 21 | - | (782,880) |
| LOSS FROM CONTINUING ACTIVITIES BEFORE TAXATION | | (6,164,192) | (4,308,962) |
| Income tax expense | 8 | (87,662) | (144,913) |
| LOSS ATTRIBUTABLE TO EQUITY OWNERS FOR THE YEAR | | (6,251,854) | (4,453,875) |
| OTHER COMPREHENSIVE LOSS | | | |
| Movement on foreign exchange | | (2,582,848) | (401,572) |
| TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO EQUITY OWNERS FOR THE YEAR | | (8,834,702) | (4,855,447) |

The accompanying notes form an integral part of these consolidated financial statements.

# Nusantara Energy plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

| | *Notes* | At 31 December 2011 US$ | At 31 December 2010 US$ Restated | At 31 December 2009 US$ Restated |
|---|---|---|---|---|
| <u>ASSETS</u> | | | | |
| NON CURRENT ASSETS | | | | |
| Intangible assets | 9 | 32,252,062 | 7,302,893 | 6,451,546 |
| Property, plant and equipment | 10 | 138,053 | 228,649 | 192,337 |
| Trade and other receivables | 11 | 551,390 | 556,112 | 4,046,484 |
| TOTAL NON CURRENT ASSETS | | 32,941,505 | 8,087,654 | 10,690,367 |
| CURRENT ASSETS | | | | |
| Trade and other receivables | 11 | 490,455 | 13,001,266 | 8,959,551 |
| Cash and cash equivalents | | 191,701 | 795,458 | 3,451,820 |
| TOTAL CURRENT ASSETS | | 682,156 | 13,796,724 | 12,411,371 |
| TOTAL ASSETS | | 33,623,661 | 21,884,378 | 23,101,738 |
| <u>LIABILITIES</u> | | | | |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 12 | (16,837,314) | (1,050,869) | (1,495,730) |
| NON CURRENT LIABILITIES | | | | |
| Provisions | 12 | (30,202) | (16,032) | - |
| NET ASSETS | | 16,756,145 | 20,817,477 | 21,606,008 |
| <u>EQUITY</u> | | | | |
| Equity attributable to equity holders of Parent: | | | | |
| Issued capital | 13 | 553,040 | 541,010 | 525,856 |
| Share premium | | 45,085,994 | 40,324,654 | 36,272,892 |
| Translation reserve | | (2,882,875 | (3,248,825) | (2,898,455) |
| Retained deficit | | (26,000,014) | (16,786,862) | (12,281,785) |
| | | 16,756,145 | 20,829,977 | 21,618,508 |
| Minority interest | | - | (12,500) | (12,500) |
| TOTAL EQUITY | | 16,756,145 | 20,817,477 | 21,606,008 |

These above financial statements were approved by the Board on 1 November 2012.

**A R Butler**
Director
Company Registration No. 06156525

The accompanying notes form an integral part of these consolidated financial statements.

# Nusantara Energy plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

| | Share capital | Share premium | Translation reserve | Retained losses attributable to equity holders of Parent Restated | Minority interest | Total Restated |
|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ |
| At 1 January 2010 | 525,856 | 36,272,892 | (2,898,455) | (12,281,785) | (12,500) | 21,606,008 |
| Loss for the year | - | - | - | (4,453,875) | - | (4,453,875) |
| Movement on foreign exchange | - | - | (350,370) | (51,202) | - | (401,572) |
| TOTAL COMPREHENSIVE INCOME FOR YEAR | - | - | (350,370) | (4,505,077) | - | (4,855,447) |
| Shares issued during the year | 15,154 | 4,531,072 | - | - | - | 4,546,226 |
| Costs of raising equity | - | (479,310) | - | - | - | (479,310) |
| TOTAL TRANSACTIONS WITH EQUITY OWNERS | 15,154 | 4,051,762 | - | - | - | 4,066,916 |
| At 31 December 2010 | 541,010 | 40,324,654 | (3,248,825) | (16,786,862) | (12,500) | 20,817,477 |
| At 1 January 2011 | 541,010 | 40,324,654 | (3,248,825) | (16,786,862) | (12,500) | 20,817,477 |
| Loss for the year | | | - | (6,251,854) | - | (6,251,854) |
| Movement on foreign exchange | - | - | 365,950 | 51,202 | - | 417,152 |
| TOTAL COMPREHENSIVE INCOME FOR YEAR | - | - | 365,950 | (6,200,652) | - | (5,834,702) |
| Shares issued during the year | 12,030 | 4,800,207 | - | - | - | 4,812,237 |
| Costs of raising equity | - | (38,867) | - | - | - | (38,867) |
| Purchase of minority interest | - | - | - | (12,500) | 12,500 | - |
| Share buyback provision | - | - | - | (3,000,000) | - | (3,000,000) |
| TOTAL TRANSACTIONS WITH EQUITY OWNERS | 12,030 | 4,761,340 | - | (3,012,500) | 12,500 | 1,773,370 |
| At 31 December 2011 | 553,040 | 45,085,994 | (2,882,875) | (26,000,014) | - | 16,756,145 |

The accompanying notes form an integral part of these consolidated financial statements.

# Nusantara Energy plc
## CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2011

| | *Notes* | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ Restated |
|---|---|---|---|
| CASH FLOWS USED IN OPERATING ACTIVITIES | 14 | 12,448,387 | (4,995,138) |
| INVESTING ACTIVITIES | | | |
| Interest received | | 4,389 | 4,264 |
| Loans advanced | | - | - |
| Interest paid | | (2,123,566) | - |
| Purchase of exploration and evaluation assets | | (342,448) | (1,634,227) |
| Purchase of property, plant and equipment | | - | (98,177) |
| Purchase of investments | | (24,606,721) | - |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | (27,068,346) | (1,728,140) |
| FINANCING ACTIVITIES | | | |
| Issue of ordinary shares | | 4,773,370 | 4,066,916 |
| Issue of loan notes | | 9,242,832 | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | 14,016,202 | 4,066,916 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (603,757) | (2,656,362) |
| Cash and cash equivalents brought forward | | 795,458 | 3,451,820 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD | | 191,701 | 795,458 |

The accompanying notes form an integral part of these consolidated financial statements.

## 1 ACCOUNTING POLICIES

### 1.1 Basis of preparation of financial statements

These financial statements present information about the Group for the year ended 31 December 2011.

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

The financial statements have been prepared under the historical cost convention.

The financial statements are presented on the going concern basis and the directors believe there are sufficient resources to continue trading for at least twelve months from the date of approval of these financial statements.

### 1.2 Going concern

The consolidated financial statements have been prepared on the going concern basis.

The financial position of the Group, its cash flows and liquidity are described elsewhere in this Report and Accounts. The Group does not currently have any production assets and is in a development phase in which it is reliant on external sources of funds. At the year ended 31 December 2011 the Group had cash and cash equivalents of US$191k and borrowings of US$12.2m, in the form of convertible loan notes and borrowings under a share buyback agreement. The recent fund raising of £18.5million (US$29.6million) has raised sufficient funds to repay all existing debt finance and provide sufficient working capital for at least a year, which will allow implementation of the first year of the Business Plan, including first coal production.

In view of this successful fund raising, and the fact that the Group has sufficient funds to continue its operations for the foreseeable future and to commence its plans to enter low level production late in 2012, the directors consider the Group to be a going concern for at least twelve months from the date of approval of these financial statements.

## 1 ACCOUNTING POLICIES *(continued)*

### 1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2011. Control is achieved where the Company has the power to govern the financial statements and operating policies of an investee entity so as to obtain benefits from its activities.

The accounting policies of the subsidiary are uniform with the Parent Company. The results of the subsidiary are included in the consolidated financial statements from the effective date of acquisition.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation unless there are indicators of impairment.

The minority interest share of any loss is restricted to the level of the minority interest investment.

## 1 ACCOUNTING POLICIES *(continued)*

### 1.4 Foreign currencies

For the 2011 year end, the presentational currency of the consolidated financial statements has changed from sterling to US dollars. It is anticipated that US dollars will be the trading currency of the Group once production commences, and on 1 January 2011, the functional currency of PT Artha Nusantara Resources (ANR) and PT Artha Nusantara Mining (ANM), two of the group subsidiaries, was changed from Indonesian rupiah to US dollars. Additionally, on 15 August 2012, the Group received approval from the Indonesian Finance Minister for the three other group subsidiaries to change their functional currency from Indonesian rupiah to US dollars from 1 January 2012, for inclusion in the 2012 financial statements. It is currently anticipated that production will commence in late 2012, and it was decided to present the financial statements in US dollars from the 2011 year end in preparation for this accordingly. The functional currency of the Parent Company remains sterling, and the Parent Company continues to fund raise in sterling.

Prior year numbers for the Indonesian group subsidiaries have been converted from Indonesian rupiah to US dollars at the prevailing exchange rates. Prior year numbers for the Company have also been restated at the prevailing exchange rates.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than US dollars are translated into US dollars upon consolidation. As described above, the functional currency of the Group subsidiaries, ANR and ANM, Group have changed from Indonesian rupiah to US dollars during the reporting period.

On consolidation, assets and liabilities have been translated into US dollars at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and translated into US dollars at the closing rate.

### 1.5 Employee benefits

Defined contribution pension scheme: The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

## 1 ACCOUNTING POLICIES *(continued)*

### 1.6 Share based payments

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Shares warrants granted by the Group vest immediately after grant. All equity-settled share-based payments are ultimately recognised as an expense in the statement of comprehensive income with a corresponding credit to retained losses in the statement of financial position. If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised. Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

The fair value has been arrived at using the Black-Scholes model. The key inputs to these models include: exercise price; share price volatility; dividend yield (if any); lapse rate, etc.

### 1.7 Taxation

Income tax expense represents the sum of the tax currently payable.

Current tax is the tax currently payable based on taxable profit for the year using tax rates enacted or substantially enacted at the statement of financial position date.

Deferred tax is recognised on the difference between carrying values of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that a taxable profit will be available against which deductible temporary differences can be utilised.

Tax losses which are available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets relating to brought forward tax losses are not yet recognised by the Group, but they will be recognised when it is probable that taxable profit will be available in the future.

### 1.8 Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term.

## 1 ACCOUNTING POLICIES *(continued)*

### 1.9 Interest income and expense

Interest income and expenses are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income and expenses arising from interest bearing financial instruments are recognised in the statement of comprehensive income using the effective interest method on the bases of the cost of the financial instruments.

### 1.10 Exploration and evaluation assets

All costs associated with mineral exploration and investments are capitalised on a project-by-project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. Such capitalised expenditure is reviewed for impairment at each statement of financial position date.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the related expenditures will be transferred to mining assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a licence is relinquished or a project abandoned, the related costs are written off. Where the Group maintains an interest in a project, but the value of the project is considered to be impaired, a provision against the relevant capitalised costs will be raised.

### 1.11 Property, Plant and Equipment

Property, plant and equipment are held at historical cost net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment over their estimated useful economic lives. The useful economic lives are assessed at least annually. The rates generally applicable are:

Motor vehicles 33%
Plant & equipment 25%
Computer equipment 50%
Fixtures, fittings & office equipment 20%

Material residual value estimates are updated as required, but at least annually. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

## 1 ACCOUNTING POLICIES *(continued)*

### 1.12 Capital risk management

The Group's capital risk management objectives are:

- To ensure the Group's ability to continue as a going concern;
- To increase the value of the assets of the business; and
- To maximise the return to shareholders through optimisation of debt equity balance, at the time the assets are put into full production

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production and cash flow, either with partners or by our own means.

The Group monitors capital on the basis of the carrying amount of equity plus its Group loans, less cash and cash equivalents as presented on the face of the consolidated statement of financial position. Capital for the reporting periods under review is summarised in note 13 and in the consolidated statement of changes in equity.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders (in the future), return capital to shareholders, issue new shares, or sell assets to reduce debt.

### 1.13 Reserves

Equity comprises the following:

- "Share capital" is the nominal value of equity shares
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- "Translation reserve" represents the differences arising from translation of investments in overseas subsidiaries
- "Retained deficit" represents cumulative retained losses attributable to holders of ordinary share of the Company

## 1 ACCOUNTING POLICIES *(continued)*

### 1.14 Financial instruments

The Group does not use structured financial instruments. Currency transactions are carried out using spot rates from Group bankers, and any surplus funds are held on short term deposit.

Financial assets and liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

All of the Group's financial assets are classified as loans and receivables. All of the Group's financial liabilities are classified as other payables carried at amortised cost.

(i) Trade and other receivables

Trade receivables and loans are measured initially at fair value and subsequently at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Investments

Investments are recognised where a purchase of an investment is under contract and are initially measured at cost, including transaction costs. Provisions against investments are made when there is evidence that the recoverable amount is lower than the carrying amount, for example when the trading activity and profitability of the investee is much reduced.

(iii) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand which is readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iv) Trade and other payables

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

(v) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

**1 ACCOUNTING POLICIES *(continued)***

**1.15 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

No material changes to accounting policies arose as a result of new and amended standards adopted by the Group.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted them:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)
- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1 January 2012)
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 First-time Adoption of
- International Financial Reporting Standards (effective 1 July 2011)
- Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (effective 1 July 2012)
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (effective 1 January 2013)
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (effective 1 January 2014)
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015)
- Government Loans – Amendments to IFRS 1 (effective 1 January 2013)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective 1 January 2013)

As far as can be determined at this stage, the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

## 1 ACCOUNTING POLICIES *(continued)*

### 1.16 Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit’s recoverable amount exceeds its carrying amount.

## 2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF UNCERTAINTY

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying accounting policies**

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Exploration and evaluation assets**

Exploration and evaluation costs are accounted for in accordance with IFRS6 "Exploration for and evaluation of mineral resources" and where the recognition criteria are met the costs are capitalised as intangible assets.

**Key sources of estimation uncertainty**

Impairment of intangible assets

In accordance with the Group's accounting policies, the Group tests annually to see whether any of its exploration and evaluation projects have suffered impairment. The recoverable amount of the cash generating units is determined using discounted cash flow analysis which requires the use of estimates on a number of input variables.

Fair value of financial instruments

The Group has both financial assets and liabilities which are recognised at fair value and subsequently are measured at amortised cost. Where estimates of receipts or payments are revised their carrying value is adjusted to reflect actual and revised estimated cash flows. The adjustment is recognised as income or expense in profit or loss.

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Group has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Group is the Black-Scholes valuation model.

## 3 OPERATING LOSS

| | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ |
|---|---|---|
| The operating loss is stated after charging: | | |
| Auditors' remuneration paid to Grant Thornton Worldwide: | | |
| Fees payable to the Group's auditor for the audit of the Group's annual accounts | 79,336 | 61,405 |
| Other services related to taxation | 71,829 | 39,797 |
| All other services | - | 5,457 |
| Depreciation expense | 69,571 | 61,865 |
| Operating lease rentals | 161,112 | 192,366 |
| Tax penalties and charges | 51,839 | 125,269 |

## 4 STAFF COSTS

| | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ |
|---|---|---|
| Staff costs for the Group, including directors' remuneration, were as follows: | | |
| Wages and salaries | 1,388,782 | 1,509,921 |
| Social security costs | 114,123 | 122,397 |
| Money purchase pension contributions | 51,009 | 44,904 |
| | 1,553,914 | 1,677,222 |

Total directors' remuneration for the Group for the year is US$943,221 (2010: US$858,200).

The highest paid director for the year was paid US$333,767 (2010: US$328,057), and received defined contribution pension contributions of US$33,670 (2010: US$32,367). No other directors accrued pension benefits during the year (2010: 1 director).

The Group considers its' directors to be the key management personnel.

| | 2011 No. | 2010 No. |
|---|---|---|
| The average monthly number of employees for the Group, including directors, during the period was as follows: | | |
| Management and administration | 17 | 16 |
| Operational | 7 | 6 |
| | 24 | 22 |

## 5 INTEREST INCOME

| | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ |
|---|---|---|
| Unwinding of discounting on interest free loan | 30,178 | 284,962 |
| Bank interest | 4,389 | 4,264 |
| | 34,567 | 289,226 |

## 6 INTEREST EXPENSE

| | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ |
|---|---|---|
| Loan note interest | 1,821,724 | - |
| Share buyback interest | 300,000 | - |
| Other loan interest | 1,842 | - |
| | 2,123,566 | - |

In February 2011, the Group signed a £4million (US$6.16million) loan note with a Lender, Gersec Trust REG ("Gersec"), who is also a shareholder of the Company, to help fund the group restructure. Final repayment was due on 28 August 2012 and interest was chargeable at 20% per annum. If repayment was not made before due date, the Lender had the option to convert the entire loan to share capital at 1.3694p, at a price which would have resulted in a 51% holding in the Company. Repayment of the loan note was not made by the final repayment date, but Gersec agreed to delay conversion, whilst the Group sought alternative methods of financing. Repayment was denominated in sterling. The principal and interest accrued under the loan note was converted to ordinary shares in the Company under the September 2012 Open Offer of shares.

In February 2011, the Group signed a £2million (US$3.08million) loan note with a second Lender, CIPAF International SA ("CIPAF"), who is also an existing shareholder of the Company, to help fund the group restructure. Final repayment was due on 17 August 2012 and interest was chargeable at 20% per annum. Repayment of this loan note was not made by the final repayment date, but CIPAF agreed to delay its rights under the loan note, whilst the Group sought alternative methods of financing. Repayment is denominated in sterling. Approximately 89% of the principal and interest accrued under the loan note was converted to ordinary shares in the Company under the September 2012 Open Offer of shares.

In February 2011, the Group issued US$3million (£1,898,734) worth of shares at 63 cents (40p) to Glittering Ocean Investment Limited, a company related to PT Sukses Lancar Santosa ("SLS"), the Group's Indonesian trading partner, as part-payment for the acquisition of the 5% minority interest in ANR from SLS. The Company agreed to buyback these shares from SLS by May 2011, but was unable to do so due to lack of funds. In the meantime, assistance was required from SLS late in 2011 to expedite the Izin Pinjam Pakai ("IPP") licence. In consequence, in November 2011, it was agreed with Glittering Ocean that non-compound interest of 5% per month would be paid on the principal amount from 30 November 2011 until final repayment in full. Final repayment took place on 1 November 2012.

## 7 SEGMENTAL ANALYSIS

In the opinion of the directors, the operations of the Group comprise one class of business being the exploration and development of coal and other minerals. The Group's main operations are located within Indonesia.

## 8 INCOME TAX EXPENSE

| | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ |
|---|---|---|
| **Taxation on profit on ordinary activities** | | |
| Overseas taxation | 131,356 | 136,285 |
| Corporation tax | - | 6,008 |
| Deferred tax | (43,694) | 2,620 |
| **Total current tax** | 87,662 | 144,913 |

The tax incurred for the period is lower than the standard rate of corporation tax of 28% (2010: 28%) in the UK

| | Year to 31 December 2011 US$ | Year to 31 December 2010 US$ Restated |
|---|---|---|
| Loss on ordinary activities before tax | (6,164,192) | (4,308,962) |
| Loss on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 28% (2010: 28%) | (1,725,974) | (1,206,509) |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | 48,481 | 490,600 |
| Bad debt recovery not deductible for tax purposes | - | (2,100,000) |
| Brought forward tax losses utilised against current year liabilities | 1,774,858 | 1,930,589 |
| Overseas withholding tax chargeable | 131,356 | 136,645 |
| Net fair value adjustment on loans | (8,450) | (79,789) |
| Adjustment for deferred tax from prior year loss | (49,848) | (1,397,728) |
| Difference in effective tax rate | 5,242 | (7,766) |
| Currency losses / (gains) | (109,731) | 2,375,075 |
| Other permanent timing differences | 21,728 | 3,796 |
| Current charge for the period | 87,662 | 144,913 |

**Factors that may affect future tax charges**

The Group has tax losses carried forward of US$6,933,765 (2010: US$1,691,684) that are available for offset against future taxable profits

## 8 INCOME TAX EXPENSE *(continued)*

**Unrecognised deferred tax assets**

The Group has a deferred tax asset of US$1,941,454 (2010: US$473,672) due to taxable losses carried forward. This has not been recognised in the Group accounts due to the uncertainty of the realisation of this asset in the foreseeable future.

## 9 INTANGIBLE ASSETS

| | At 31 December 2011 US$ | At 31 December 2010 US$ Restated | At 31 December 2009 US$ Restated |
|---|---|---|---|
| **Exploration and evaluation assets** | | | |
| ***Cost and net book value*** | | | |
| At 1 January | 7,302,893 | 6,451,546 | 4,976,789 |
| Additions | 342,448 | 1,634,227 | 3,260,960 |
| Prior year restatements | - | (782,880) | (1,786,203) |
| At 31 December | 7,645,341 | 7,302,893 | 6,451,546 |
| **Licences** | | | |
| At 1 January | - | - | - |
| Acquisition of ANR's interest and IUPs | 24,606,721 | - | - |
| At 31 December | 24,606,721 | - | - |
| | 32,252,062 | - | - |

The technical feasibility and commercial viability of extracting a mineral resource has not yet been demonstrated in the above intangible assets. These assets are not amortised until technical feasibility and commercial viability is established. No impairment review has been carried out as there are no facts and circumstances which suggest that the carrying value may exceed the recoverable amount.

In 2011, the decision was taken to restate the prior year results in relation to cumulative exploration costs of £5,735,149 at 31 December 2010 and £4,952,269 at 31 December 2009, which were included within Exploration and Evaluation assets in those respective years in the prior years' financial statements.

These prior year restatements are a direct result of the Group reorganisation exercise carried out when the Group acquired direct ownership of the PMA companies that own the mining concessions, in October 2011. Under Indonesian mining laws (Article 124 (3) of new mining law no. 28/2009), PMA companies must contract directly for core mining services and are not allowed to engage with their affiliates for the provision of mining services. This meant that the PMA companies had to take over the core mining activities previously undertaken by PT Artha Nusantara Resources ("ANR") and PT Artha Nusantara Mining ("ANM") from October 2011 onwards.

**9 INTANGIBLE ASSETS *(continued)***

As a side effect of this, ANR, the main operational subsidiary, was now classified as a "trading" company, rather than a "mining" company under Indonesian regulations, and so could no longer hold deferred exploration costs within its books. At the effective date of conversion, ANR held US$13million worth of deferred exploration costs within its books, with the default treatment being to write them all off as an expense in 2011.

In order to reduce the loss to the group as much as possible, other options were considered. The preferred option would have been to transfer these deferred costs to the PMA companies, but, unfortunately, group VAT registration is not available within Indonesia, so asset transfers between Indonesian companies incur an immediate charge of 10% VAT, and transferring all of the deferred costs to other Indonesian companies would have incurred an immediate tax charge of US$1.3m, which would not have been an efficient use of the Group's limited funds.

Ultimately US$90k of core mining costs were transferred to AJC, BSS and SAS to reduce the VAT liability as far as possible, with another US$7.3million transferred to the Parent Company, without incurring any tax charges, as part-payment for the intercompany loan. The remaining balance of US$5.6million was written off in the Group's books in the year in which they were originally incurred to reflect increased uncertainty around the value of the assets being held, and the judgement that some of these items should have been treated as revenue rather than capital items in the year they were incurred.

In February 2011, the Group executed an agreement with its Indonesian trading partner, PT Sukses Lancar Santosa ("SLS"), to acquire the remaining 5% interest in PT Artha Nusantara Resources (ANR), and bring ANR under 100% group control, for a total of US$19.5million. This payment represented a buyout of future royalty streams payable upon commencement of production at Jambi, which would have amounted to 3% of future revenues for the first five years of operations, and 2% thereafter. The face value of the shares acquired was US$12,500.

In February 2011, the Group also acquired the ownership rights from SLS to the three Indonesian companies which own the mining concessions, PT Anugerah Jambi Coalindo ("AJC"), PT Bakti Sarolangun Sejahtera ("BSS"), and PT Sinar Anugerah Sukses ("SAS"), for a total of US$5million. The value of the net liabilities acquired was US$119k.

## 10 PROPERTY, PLANT AND EQUIPMENT

| | Plant & equipment | Motor vehicles | Computers | Fixtures, fittings and office equipment | Total |
|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ |
| **Cost** | | | | | |
| At 1 January 2010 | 19,002 | 54,195 | 8,110 | 158,926 | 240,233 |
| Additions | - | 124,402 | 2,277 | - | 126,679 |
| At 31 December 2010 | 19,002 | 178,597 | 10,387 | 158,926 | 366,912 |
| **Depreciation** | | | | | |
| At 1 January 2010 | (8,316) | (23,226) | (3,319) | (13,035) | (47,896) |
| Charged in the year | (4,752) | (50,471) | (3,356) | (31,788) | (90,367) |
| At 31 December 2010 | (13,068) | (73,697) | (6,675) | (44,823) | (138,263) |
| **Net book value** | | | | | |
| At 31 December 2010 | 5,934 | 104,900 | 3,712 | 114,103 | 228,649 |
| At 31 December 2009 | 10,686 | 30,969 | 4,791 | 145,891 | 192,337 |

| **10 PROPERTY, PLANT AND EQUIPMENT** ***(continued)*** | Plant & equipment | Motor vehicles | Computers | Fixtures, fittings and office equipment | Total |
|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ |
| **Cost** | | | | | |
| At 1 January 2011 | 19,002 | 178,597 | 10,387 | 158,926 | 366,912 |
| Additions | - | - | - | - | - |
| At 31 December 2011 | 19,002 | 178,597 | 10,387 | 158,926 | 366,912 |
| **Depreciation** | | | | | |
| At 1 January 2011 | (13,068) | (73,697) | (6,675) | (44,823) | (138,263) |
| Charged in the year | (4,752) | (51,386) | (2,670) | (31,788) | (90,596) |
| At 31 December 2011 | (17,820) | (125,083) | (9,345) | (76,611) | (228,859) |
| **Net book value** | | | | | |
| At 31 December 2011 | 1,182 | 53,514 | 1,042 | 82,315 | 138,053 |
| At 31 December 2010 | 5,934 | 104,900 | 3,712 | 114,103 | 228,649 |

The Group's property, plant and equipment are free from any mortgage or charge. None of the Group's property, plant and equipment is owned by the Company.

## 11 TRADE AND OTHER RECEIVABLES

| | At 31 December 2011 US$ | At 31 December 2010 US$ | At 31 December 2009 US$ |
|---|---|---|---|
| **Non current** | | | |
| Loans receivable | - | - | 3,833,718 |
| Guarantee deposits | 551,390 | 556,112 | 212,766 |
| | 551,390 | 556,112 | 4,046,484 |
| **Current** | | | |
| Loans receivable | 71,333 | 11,562,284 | 8,020,855 |
| Recoverable tax | 349,721 | 225,341 | 8,590 |
| Prepayments and accrued income | 69,401 | 1,213,641 | 930,106 |
| | 490,455 | 13,001,266 | 8,959,551 |

**Non current**

The Group has granted guarantee deposits to PT Samhutani, an Indonesian based forestry company, for usage of PT Samhutani land, and when the Group commences production, the guarantee deposits will be converted in lieu of paying compensation to PT Samhutani.

## 12 TRADE AND OTHER PAYABLES

| | At 31 December 2011 US$ | At 31 December 2010 US$ | At 31 December 2009 US$ |
|---|---|---|---|
| **Non Current** | | | |
| Provisions | 30,202 | 16,032 | - |
| | 30,202 | 16,032 | - |
| **Current** | | | |
| Loan notes | 9,242,832 | - | - |
| Trade payables | 1,390,968 | 375,395 | 158,556 |
| Other payables | 3,545,197 | 307,003 | 1,016,664 |
| Accruals and deferred income | 2,658,317 | 368,471 | 320,510 |
| | 16,837,314 | 1,050,869 | 1,495,730 |

**Current**

Included in loan notes is a £4million (US$6.16million) secured, convertible loan note signed by the Group in February 2011 with a Lender who is also a shareholder of the Company, to help fund the group restructure. The note was secured on the Indonesian operating subsidiaries of the Group and bore interest at a rate of 20% per annum. Interest of US$1.2million (2010 and 2009: Nil) due on this loan note is included within accruals and deferred income. Final repayment was due on 28 August 2012. If repayment was not made before this date, the Lender had the option to convert the entire loan to share capital at 1.3694p at a price which would have resulted in a 51% holding in the Company. Repayment was not made by the final repayment date, but the Lender agreed to delay the conversion, whilst the Company sought alternative methods of financing. The loan note was finally settled when 100% of the loan note principal and accrued interest was converted to ordinary share capital of the Company under the Open Offer of new shares in September 2012.

Also included in loan notes is a second loan note of £2million (US$3.08million), bearing interest at a rate of 20% per annum, signed by the Group in February 2011, with another Lender who is also an existing shareholder of the Company, to help fund the group restructure. Repayment is denominated in sterling. Interest of US$0.5million (2010 and 2009: Nil) due on this loan note is included within accruals and deferred income. The loan note was finally settled when approximately 89% of the loan note principal and accrued interest was converted to ordinary share capital under the Open Offer of new shares in September 2012 and the balance was paid in cash.

Included in other payables is a US$3million provision against an agreed share buyback. In February 2011, the Group issued US$3million (£1,898,734) worth of shares at 63 cents (40p) to Glittering Ocean Investment Limited, a company related to PT Sukses Lancar Santosa (“SLS”), the Group’s Indonesian trading partner, as part-payment for the acquisition of the 5% minority interest in ANR from SLS. The Company agreed to buyback these shares from SLS by May 2011, but was unable to do so due to lack of funds. In the meantime, assistance was required from SLS late in 2011 to expedite the Izin Pinjam Pakai (“IPP”) licence. In consequence, in November 2011, it was agreed with Glittering Ocean that non-compound interest of 5% per month would be paid on the principal amount from 30 November 2011 until final repayment in full. Interest of US$0.3million (2010 and 2009: Nil) due on this share buyback agreement is included within accruals and deferred income. Outstanding principal and accrued interest was repaid on 1 November 2012.

## 12 TRADE AND OTHER PAYABLES *(continued)*

Also included in other payables is US$262,559 (2010: US$173,177, 2009: US$746,837) due in relation to overseas taxation

Included in accruals and deferred income is loan note interest of US$1.8million (2010 and 2009: Nil), and share buyback interest of US$0.3million (2010 and 2009: Nil), both described above.

The £4m (US$6.16million) loan note was secured on the Indonesian operating subsidiaries of the Group. The other payables listed above were all unsecured. The fair value of trade and other payables is not materially different to the carrying values presented.

## 13 SHARE CAPITAL

| | At 31 December 2011 US$ | At 31 December 2010 US$ | At 31 December 2009 US$ |
|---|---|---|---|
| **Authorised** | | | |
| 400,000,000 Ordinary shares of 0.1p each | 785,000 | 785,000 | 785,000 |
| **Allotted, called up and fully paid** | | | |
| 288,147,130 (2010: 280,640,295, 2009: 270,640,295) Ordinary shares of 0.1p each | 553,040 | 541,010 | 525,856 |

During the year the Company issued 7,506,835 ordinary shares of 0.1p for a total consideration of US$4,812,237 excluding share issue costs, and including a share premium of US$4,800,207.

The Company granted warrants to subscribe for shares as follows:

| | Exercise price Pence | At 1 January 2011 Number | Expired in year Number | At 31 December 2011 Number |
|---|---|---|---|---|
| **Warrants** | | | | |
| Warrants granted 20 August 2008 | 25p | 2,200,000 | 2,200,000 | - |
| | | 2,200,000 | 2,200,000 | - |

The warrants granted in August 2008 expired on 20 August 2011. No warrants were exercisable at 31 December 2011.

## 14 RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

| | At 31 December 2011 US$ | At 31 December 2010 US$ Restated |
|---|---|---|
| Operating loss | (4,087,566) | (4,167,216) |
| Depreciation charged | 90,596 | 61,865 |
| Exchange rate gain (loss) | 429,525 | (49,664) |
| Decrease / (increase) in receivables | 12,515,533 | (551,343) |
| (Increase) / decrease in payables | 3,557,783 | (428,829) |
| Unwinding of discounting on interest free loan | 30,178 | 284,962 |
| Income taxes paid | (87,662) | (144,913) |
| **Net cash (used in) / generated from operating activities** | 12,448,387 | (4,995,138) |

## 15 SHARE BASED PAYMENTS

**Share warrants**
The Group operates a scheme under which directors and employees may be awarded warrants convertible to ordinary shares in Nusantara Energy plc. The only condition attached to the warrants is that the warrant holder must be a director or employee of Nusantara Energy plc at the date of exercise.

No share warrants were granted to directors and employees of the Company in 2011. The main assumptions used to arrive at the value per option are detailed in the table below:

| | Stock price (pence) | Exercise price (pence) | Volatility | Expiry period (years from issue) | Interest rate |
|---|---|---|---|---|---|
| Grant date | | | | | |
| 20 August 2008 | 25 | 25 | 95% | 3 | 4.25% |

The warrants granted in August 2008 expired on 31 August 2011. No warrants were exercisable at 31 December 2011.

## 16 OPERATING LEASE COMMITMENTS

The Group had the total of future minimum lease payments under non-cancellable operating leases as follows:

| | Land and Buildings 2011 US$ | Land and Buildings 2010 US$ |
|---|---|---|
| Expiry date: | | |
| Not later than one year | 27,850 | 95,579 |
| Between one and three years | 19,620 | 19,620 |

## 17 RELATED PARTY TRANSACTIONS

During the year fees of US$289,920 (2010: US$294,185) were incurred for consulting services provided by Mr M Groat to Med Mining and Minerals Ltd, a company of which he is a director. This amount has been included in the Staff Costs note. At the end of 2011 US$191,444 (2010: US$36,941) was outstanding.

During the year fees of US$57,720 (2010: US$55,686) were incurred for consulting services provided by Mr K Irons to Southington Ltd, a company of which he is a director. This amount has been included in the Staff Costs note. At the end of 2011 US$71,979 (2010: US$5,447) was outstanding.

During the year fees of US$56,116 (2010: US$35,987) were incurred for consulting services provided by Mr B Hosking to ABH Investments Ltd, a company of which he is a director. This amount has been included in the Staff Costs note. At the end of 2011 US$69,979 (2010: US$5,296) was outstanding.

During the year fees of US$119,419 (2010: US$36,941) were also incurred for payment to Meyer Hosking, a company of which Mr B Hosking is a director, in relation to recruitment and geological services. At the end of 2011 US$162,209 (2010: US$Nil) was outstanding.

During the year fees of US$Nil (2010: US$301,489) were incurred for payment to Bath Travel, a company of which Mr R Healey is the Non-Executive Chairman, in relation to air travel costs. At the end of 2011 US$Nil (2010: US$22,226) was outstanding.

During the year fees of US$15,080 (2010: US$5,989) were incurred for payment to Kew Kars, a company of which Mr R Healey is a director, in relation to chauffeur services. At the end of 2011 US$17,252 (2010: US$2,179) was outstanding.

During the year, an interest free loan of US$232,188 was made to the Company by Equatorial Energy, a company of which Mr R Healey and Mr M Groat are also directors. At the end of 2011, US$70,663 was outstanding, with final repayment made on 28 February 2012.

During the year, the Group executed an agreement with PT Sukses Lancar Santosa (“SLS”), the Company’s Indonesian trading partner, to acquire their 5% minority stake in PT Artha Nusantara Resources (“ANR”) and bring ANR under 100% group control, for a total of US$19.5million. This payment represented a buyout of future royalty streams payable upon commencement of production at Jambi, which would have amounted to 3% of future revenues for the first five years of operations, and 2% thereafter. This acquisition was funded in the following ways:

- The Company signed a £4million (US$6.16million) secured, convertible loan note with a Lender, ((Gersec Trust REG (“Gersec”)), who is also a shareholder of the Company. The note was secured on the Indonesian operating subsidiaries of the Group. The loan note carried interest at 20% per annum. Final repayment was due on 28 August 2012. If repayment was not made by this date, the Lender had an option to convert the entire loan to share capital at a price of 1.3694p per share for a 51% holding in the Company;

- The Company signed a second £2million (US$3.08million) loan note with another Lender who is also an existing shareholder of the Company. The loan note carried interest at 20% per annum;

- The Company issued US$3million (£1,898,734) worth of shares at 63 cents (40p) to Glittering Ocean Investment Limited, a company related to SLS. The Company agreed to buyback these shares from SLS by May 2011 (“Share Buy-back Agreement); and

The Group forgave US$7.5million due from SLS, advanced in 2007/2008, against the consideration due.

## 17 RELATED PARTY TRANSACTIONS *(continued)*

The Company was unable to meet its obligation at the repurchase date under the Share Buy-back Agreement due to lack of funds. Moreover, assistance was required from SLS later in the year to expedite the Izin Pinjam Pakai ("IPP") licences. Consequently, in October 2011, an agreement was reached with Glittering Ocean that non-compound interest of 5% per month would accrue on the capital sum of US$3million from 30 November 2011 until payment in full.

## 18 ULTIMATE CONTROLLING PARTY

As at 31 December 2011 there is considered to be no ultimate controlling party. Following shareholder approval of the Ianto transaction at a General Meeting of the Company on 28 September 2012 and subsequent completion of the £18,500,000 Open Share offer underwritten by Ianto, the ultimate controlling party became Ianto Finance Limited.

## 19 POST BALANCE SHEET EVENTS

A new round of fund raising was undertaken, in which 45,354,440 shares were issued to existing investors, raising a total of £2.2million. This fundraising was completed on 1 June 2012. The specific purpose of this fundraising had been represented to shareholders as being to finalise obtaining the Izin Pinjam Pakai ("IPP") licenses, which were essential both for the confirmatory drilling in the context of the mooted trade sale. Unfortunately the proceeds of the fundraising were spent, but the objective was not achieved.

Between January and June 2012, various changes to the Board of Directors and to the Company Secretariat occurred, as follows:

- On 31 January 2012, Keith Irons resigned from the Board;
- On 21 February 2012, Charles Hardeman was appointed to the Board;
- On 11 April 2012, Nicholas Morland was appointed to the Board;
- On 11 April 2012, Adrian Simpson was appointed as Company Secretary;
- On 14 April 2012, Malcolm Groat resigned from the Board and as Company Secretary;
- On 12 June 2012, Richard Healey resigned from the Board;
- On 15 July 2012, Nicholas Morland resigned from the Board;
- On 22 August 2012, Charles Hardeman and Brian Hosking were removed from the Board by notice to the Company by a majority of shareholders, as provided for by the Company's Articles of Association;
- Simultaneously on 22 August 2012, Neil Mclouglin, Tony Butler and Adrian Simpson were appointed to the Board by such notice to the Company; and
- Adrian Simpson resigned as a director and Company Secretary on 1 October 2012.

On 24 July 2012, Med Mining & Minerals Limited ("MMM") issued proceedings against the Company in an amount of £423,036.11, arising from claimed unpaid invoices and an unpaid payment in lieu of notice in respect of MMM's provision of Malcolm Groat's services as Finance Director of the Company.

Between Thursday 9 August and Monday 13 August 2012, the Board sent three letters to shareholders, asking them to sign consent forms in favour of a refinancing proposal from Perella Weinberg Partners Xerion Master Fund ("Xerion"), saying that they had received an alternative offer from Zamin Energy Limited ("Zamin"), a global mining company, but that it did not represent a satisfactory solution for the Company, and finally that if shareholders did not send in their consent forms in favour of the Xerion proposal by the stated deadline of 4.00 pm on Monday 13 August 2012, the directors would file for administration the following morning, Tuesday 14 August 2012 at 9.00pm.

In the face of this threat, the required percentage of shareholders sent in their consent forms, in the knowledge that these would not commit them until and unless the Xerion non-binding term-sheet was moved to a binding commitment and put to shareholders in a formal resolution for approval. Their intention was not to accept the Xerion proposal, which they regarded as being forced on them against their wishes. Rather, at minimum, they desired that at least one alternative proposal be put to them for consideration, which they knew existed, alongside the Xerion proposal, so that they were presented with a choice.

On 21 August 2012 the Company advised Malcolm Groat and Richard Healey of its intention to serve proceedings against them, by joining them as additional parties in its defence of the MMM action against the Company, mentioned above, and to bring a counterclaim against them,

Between 13 and 22 August 2012, a majority of shareholders concluded that they no longer had confidence in the current directors and developed a plan to remove them from office and replace them with a new Board. This was put into effect on 22 August 2012, on which date Board changes were made as set out above.

In the five calendar days remaining before the trigger date for conversion of the Gersec loan, concerted negotiations took place with two offering parties, Zamin and Ianto Finance Limited ("Ianto"), an affiliate of Gersec, in order to present the shareholders with a choice of proposals to consider and choose between, which was the purpose of the change of Board. At the same time, parallel negotiations took place with Gersec seeking deferral of its conversion rights under the loan note. In the meantime, it was established that the Xerion proposal, which in any case had never advanced beyond a term-sheet for discussion purposes and was associated with the former Board, had been withdrawn.

The negotiations continued into the loan note maturity date itself and, at the very last moment, agreement was reached with Gersec on a temporary five day extension of its rights to repayment or conversion of the loan note, until midnight on Sunday 2 September 2012, in order to allow the Company to conduct a full poll of its shareholders to choose between the Zamin and Ianto proposals. The poll was closed at 9.00am on Monday 3 September 2012, with the result being declared that afternoon as 50.3% of total voting rights in issue in favour of Ianto and 40.8% in favour of Zamin.

With a clear majority of all voting rights in favour of Ianto, the Board focused on reaching final agreement with Ianto and the convening of a General Meeting to seek formal shareholder approval of its offer, which comprised underwriting an £18.5million (US$29.6million) Open Offer of new shares to existing to existing shareholders of the Company, the proceeds of which would be used to repay existing debt finance of approximately £10.8 million (US$16.8million), with the remainder to be used as working capital for implementation of the Business Plan, including first coal production.

Agreement was reached on 12 September 2012 and a shareholder circular setting out the transaction, together with papers convening the general meeting for 28 September 2012 were sent to shareholders.

On 28 September 2012, all resolutions were passed at the General Meeting as proposed, resulting in a successful recapitalisation of the Company, including: (i) equitisation, or repayment, of all outstanding debt finance; and (ii) Ianto becoming the new majority shareholder of the Company. Specifically, 100% of the Gersec loan note principal and accrued interest and approximately 89% of the CIPAF loan note principal and accrued interest was converted to ordinary share capital under the Open Offer of shares.

On 19 October 2012, a defence and counterclaim to the action brought by MMM against the Company was filed with the court, joining Malcolm Groat and Richard Healey in their personal capacities as additional parties in the proceedings.

On 1 November 2012, the principal and accrued interest outstanding under the Share Buy-back Agreement was repaid in full.

## 20 FINANCIAL INSTRUMENTS

| | At 31 December 2011 US$ | At 31 December 2010 US$ | At 31 December 2009 US$ |
|---|---|---|---|
| **Categories of financial instruments** | | | |
| **Financial Assets** | | | |
| Loans and receivables | 71,333 | 11,363,564 | 11,655,853 |
| Cash and cash equivalents | 191,701 | 795,458 | 3,451,820 |
| | 263,034 | 12,159,022 | 15,107,673 |
| **Financial Liabilities** | | | |
| At amortised cost – falling due within one year | 16,765,221 | 1,023,974 | 748,893 |

The Group's principal financial assets are loans and receivables, whilst the financial liabilities of the Group are wholly comprised of trade and other payables. The carrying amount of the Group's financial assets and liabilities are stated at their approximate fair value.

The Group did not hold or issue any financial instruments for trading purposes at the Statement of financial position date.

The Group has not pledged any of its financial assets as collateral for its financial liabilities. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

(a) Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk related primarily to cash and cash equivalents, as the Group does not hold any interest bearings borrowings, hence the interest rate risk is considered to be immaterial.

(b) Foreign Currency Risk

Foreign currency denominated financial assets and liabilities, translated into US$ as the closing rate, are as follows:

| | GBP US$'000s | IDR US$'000s |
|---|---|---|
| **Financial Assets** | | |
| Loans and receivables | 23 | - |
| Cash and cash equivalents | 77 | 112 |
| | 100 | 112 |
| **Financial Liabilities** | | |
| Trade and other payables | 12,395 | 340 |

**20 FINANCIAL INSTRUMENTS *(continued)***

(b) Foreign Currency Risk *(continued)*

The following information illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and liabilities and the sterling/US dollar and sterling/Indonesian rupiah exchange rates, on the assumption that all consolidated statement of comprehensive income sensitivities also impact upon equity.

The information below assumes a +/- 19% change in the US dollar/sterling and a +/- 16% US dollar/Indonesian rupiah exchange rate for the period ended 31 December 2011. These percentages have been based on the approximate average market volatility in exchange rates in the previous 19 months. Bearing in mind current economic conditions and the financial outlook both in the UK and throughout Europe, the Board is of the opinion that, as far as it is possible predict future currency movements, historical exchange movements over the last 19 month provide a reasonable estimation of possible future fluctuations in exchange rates.

If the US dollar had weakened / strengthened against sterling by 12% the following impact would have resulted – net result for the year up by US$1,466,000, down by US$1,466,000 respectively, and equity up by US$1,466,000, down by US$1,466,000 respectively.

If the US dollar had weakened / strengthened against the Indonesian rupiah by 7% the following impact would have resulted – net result for the year up by US$16,000, down by US$16,000 respectively, and equity down by US$16,000, up by US$16,000 respectively.

The Group undertakes transactions principally in sterling and US dollar. Whilst the Group continually monitors its exposure to movements in currency rates, it does not utilise hedging instruments to protect against currency risks. The main currency exposure risk to the Group is in relation to advances denominated in US dollars. The currency risk arising on items denominated in Indonesian rupiah is considered to be immaterial.

(c) Liquidity Risk

An objective of the Group is to manage its funding risk to ensure that it can meet its financial obligations as and when they fall due. At the year end there was US$9.2m debt outstanding in the form of convertible loan notes. As the Group operates, it will incur costs which will need to be covered by liquid funds, so although there is no risk at the year end, the Group will continue to be exposed.

(d) Credit Risk

The Group's maximum exposure to credit risk is US$682,156 (2010: US$13,598,004, 2009: US$12,212,651).

In relation to cash and cash equivalents, the Group manages its credit risk by holding surplus funds in high credit worthy institutions, and maintains minimum balances with financial institutions in remote locations.

The principal credit risk is attributable to trade receivables being advances made to trading partners in Indonesia in respect of future royalties payable. The Group continues to monitor its credit exposure in this matter and management are satisfied that there are no doubtful receivables in this period for which the Group has not made provision.

## 21 PRIOR YEAR RESTATEMENTS

In 2011, the decision was taken to restate the prior year results in relation to cumulative exploration costs of US$5,735,149 at 31 December 2010 and US$4,952,269 at 31 December 2009, which were included within Exploration and Evaluation assets in those respective years in the prior years' financial statements.

These prior year restatements are a direct result of the Group reorganisation exercise carried out when the Group acquired direct ownership of the PMA companies that own the mining concessions, in October 2011. Under Indonesian mining laws (Article 124 (3) of new mining law no. 28/2009), PMA companies must contract directly for core mining services and are not allowed to engage with their affiliates for the provision of mining services. This meant that the PMA companies had to take over the core mining activities previously undertaken by PT Artha Nusantara Resources ("ANR") and PT Artha Nusantara Mining ("ANM") from October 2011 onwards.

As a side effect of this, ANR, the main operational subsidiary, was now classified as a "trading" company, rather than a "mining" company under Indonesian regulations, and so could no longer hold deferred exploration costs within its books. At the effective date of conversion, ANR held US$13million worth of deferred exploration costs within its books, with the default treatment being to write them all off as an expense in 2011.

In order to reduce the loss to the group as much as possible, other options were considered. The preferred option would have been to transfer these deferred costs to the PMA companies, but, unfortunately, group VAT registration is not available within Indonesia, so asset transfers between Indonesian companies incur an immediate charge of 10% VAT, and transferring all of the deferred costs to other Indonesian companies would have incurred an immediate tax charge of US$1.3m, which would not have been an efficient use of the Group's limited funds.

Ultimately US$90k of core mining costs were transferred to AJC, BSS and SAS to reduce the VAT liability as far as possible, with another US$7.3million transferred to the Parent Company, without incurring any tax charges, as part-payment for the intercompany loan. The remaining balance of US$5.6million was written off in the Group's books in the year in which they were originally incurred to reflect increased uncertainty around the value of the assets being held, and the judgement that some of these items should have been treated as revenue rather than capital items in the year they were incurred.

As a result, comprehensive income and financial position statements for 2009 and 2010 have been restated. $1,786,203 worth of Exploration and Evaluation assets incurred in 2009 have been recognised in the income statement in 2009, thereby reducing the profit for that year from US$7,659,057 to US$5,872,854, whilst reducing intangible assets from US$8,237,749 to US$6,451,546, and reducing net assets from US$23,392,211 to US$21,606,008. US$782,880 worth of Exploration and Evaluation assets incurred in 2010 have been recognised in the income statement for 2010, thereby increasing the loss for that year from US$3,670,995 to US$4,453,875, whilst reducing intangible assets from US$8,085,773 to US$7,302,893, and reducing net assets from US$21,600,357 to US$20,817,477.

We have audited the Parent Company financial statements of Nusantara Energy plc for the year ended 31 December 2011 which comprise the Parent Company balance sheet, the Parent Company reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company 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**

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

**Opinion on financial statements**

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

**Other matter**

We have reported separately on the Group financial statements of Nusantara Energy plc for the year ended 31 December 2011.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
2 November 2012

# Nusantara Energy plc
COMPANY BALANCE SHEET
At 31 December 2011

| | *Notes* | At 31 December 2011 £ | At 31 December 2010 £ |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 5 | 4,342,973 | - |
| Investments | 6 | 14,432,115 | 276,090 |
| **TOTAL FIXED ASSETS** | | 18,775,088 | 276,090 |
| **CURRENT ASSETS** | | | |
| Debtors: amounts falling due within one year | 7 | 13,450,132 | 21,520,626 |
| Cash at bank | | 51,347 | 309,042 |
| **TOTAL CURRENT ASSETS** | | 13,501,479 | 21,829,668 |
| **CURRENT LIABILITIES** | | | |
| Creditors: amounts falling due within one year | 8 | (10,310,994) | (476,057) |
| **NET CURRENT ASSETS** | | 3,190,485 | 21,353,611 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 21,965,573 | 21,629,701 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 9 | 288,147 | 280,640 |
| Share premium account | 10 | 25,051,558 | 22,080,331 |
| Profit and loss account | 10 | (3,374,132) | (731,270) |
| **SHAREHOLDERS' FUNDS** | 11 | 21,965,573 | 21,629,701 |

The financial statements were approved by the Board on 1 November 2012.

**A R Butler**
Director

The accompanying notes form an integral part of these consolidated financial statements.

## 1 SIGNIFICANT ACCOUNTING POLICIES

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with all applicable UK accounting standards. The principal accounting policies which differ from those set out in note 1 to the consolidated financial statements are noted below.

### 1.1 Basis of preparation of financial statements

These financial statements present information about the Company for the year ended 31 December 2011 as an individual entity. The Parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. These financial statements present information about the Company for the year ended 31 December 2011.

A consolidated cash flow statement has been included in the consolidated Group financial statements. The Company has therefore taken advantage of the exemption under FRS1 (Revised 1996) “Cash flow statements” not to produce a cash flow statement.

### 1.2 Going Concern

These financial statements have been prepared on the going concern basis.

The Company does not currently have any production assets and is in a development phase in which it is reliant on external sources of funds. At the year ended 31 December 2011 the Company had cash and cash equivalents of £50k and borrowings of £6million, in the form of convertible loan notes. The recent fund raising of £18.5million has raised sufficient funds to repay all existing debt finance and provide sufficient working capital for at least a year, which will allow implementation of the first year of the Business Plan, including first coal production.

In view of this successful fund raising, and the fact that the Company has sufficient funds to continue its operations for the foreseeable future and to commence its plans to enter low level production late in 2012, the directors consider the Company to be a going concern for at least twelve months from the date of approval of these financial statements.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 1.3 Investments

Investments in subsidiaries are valued at cost less provision for impairment.

### 1.4 Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

### 1.5 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

## 2 AUDITORS REMUNERATION

| | Year to 31 December 2011 £ | Year to 31 December 2010 £ |
|---|---|---|
| **Auditors' remuneration paid to Grant Thornton UK LLP:** | | |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 30,000 | 30,000 |

## 3 COMPANY RESULTS

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The loss for the Company for the year ended 31 December 2011 was £695,407 (2010: £199,466).

## 4 STAFF COSTS

| | Year to 31 December 2011 £ | Year to 31 December 2010 £ |
|---|---|---|
| Staff costs, including directors' remuneration, were as follows: | | |
| Wages and salaries | 476,236 | 590,690 |
| Social security costs | 18,812 | 38,418 |
| Money purchase pension contributions | 31,812 | 29,115 |
| | 526,860 | 658,223 |

Total directors' remuneration for the Company for the year is £398,233 (2010: £445,573).

The highest paid director for the year was paid £92,600 (2010: £102,750), and received defined contribution pension contributions of £21,000 (2010: £21,000). No other directors accrued pension benefits during the current or previous year.

| | 2011 No. | 2010 No. |
|---|---|---|
| The average monthly number of employees for the Company, including directors, during the period was as follows: | | |
| Management | 8 | 9 |

## 5 INTANGIBLE ASSETS

| | Exploration costs £ |
|---|---|
| **Cost** | |
| At 1 January 2011 | - |
| Additions | 4,342,973 |
| At 31 December 2011 | 4,342,973 |

The additions during the year represent the transfer of assets from PT Artha Nusantara Resources, in part payment of the intergroup loan previously made by the Company to PT Artha Nusantara Resources.

## 6 INVESTMENTS

| | Shares in Group undertakings |
|---|---|
| **Cost** | |
| At 1 January 2011 | 276,090 |
| Additions | 14,156,025 |
| At 31 December 2011 | 14,432,115 |

During the year, the Company spent £11,309,487 to acquire the remaining 5% minority interest in PT Artha Nusantara Resources to bring Group ownership up to 100%.

Also during the year, the value of investments increased by an additional £2,846,538, which represented an increase in the PT Artha Nusantara Resources share capital during the year. The Company paid for this via the partial offset of the intergroup loan previously made by the Company to PT Artha Nusantara Resources.

**Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

| **Name** | **Business** | **Country of Incorporation** | **Holding** | **Cost at 31 December 2011 £** |
|---|---|---|---|---|
| PT Artha Nusantara Resources | Mining | Indonesia | 100% | 14,274,337 |
| PT Artha Nusantara Mining | Mining | Indonesia | 100% | 157,778 |

## 7 DEBTORS

| | At 31 December 2011 £ | At 31 December 2010 £ |
|---|---|---|
| **Due within one year** | | |
| Amounts owed by Group undertakings | 13,420,653 | 21,484,225 |
| Other debtors | 15,000 | 20,682 |
| Prepayments and accrued income | 14,479 | 15,719 |
| | 13,450,132 | 21,520,626 |

| 8 **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | At 31 December 2011 £ | At 31 December 2010 £ |
|---|---|---|
| Loan notes | 6,000,000 | - |
| Trade creditors | 679,314 | 229,347 |
| Other creditors | 2,190,603 | 131,772 |
| Accruals and deferred income | 1,431,497 | 114,938 |
| Taxation | 9,580 | - |
| | 10,310,994 | 476,057 |

Included in loan notes is a £4million secured, convertible loan note signed by the Group in February 2011, with a Lender, Gersec Trust REG, who is also a shareholder of the Company, to help fund the group restructure. The note was secured on the Indonesian operating subsidiaries of the Group and bore interest at a rate of 20% per annum. Interest of £800,000 (2010 & 2009: Nil) due on this loan note is included within accruals and deferred income. Final repayment was due on 28 August 2012. If repayment was not made before this date, Gersec had the option to convert the entire loan to share capital at 1.3694p for a 51% holding in the Company. Repayment was not made by the final repayment date, but Gersec agreed to delay the conversion, whilst the Company sought alternative methods of financing. The loan note was finally settled when 100% of the loan note principal and accrued interest was converted to ordinary share capital of the Company under the Open Offer of new shares in September 2012.

Also included in loan notes is a second loan note of £2million loan note, bearing interest at a rate of 20% per annum, signed by the Group in February 2011 with another Lender, CIPAF International SA, who is also an existing shareholder of the Company, to help fund the group restructure. Interest of £333,333 (2010 & 2009: Nil) due on this loan note is included within accruals and deferred income. The loan note was finally settled when approximately 89% of the loan note principal and accrued interest was converted to ordinary share capital under the Open Offer of new shares in September 2012 and the balance was paid in cash.

Included in other creditors is a £1.9million provision against an agreed share buyback. In February 2011, the Group issued £1,898,734 worth of shares at 63 cents (40p) to Glittering Ocean Investment Limited, a company related to PT Sukses Lancar Santosa ("SLS"), the Company's Indonesian trading partner, as part-payment for the acquisition of the 5% minority interest in ANR from SLS. The Company agreed to repurchase these shares by May 2011, but was unable to do so due to lack of funds. In the meantime, assistance was required from SLS late in 2011 to expedite the Izin Pinjam Pakai ("IPP") licence, In consequence, in November 2011 it was agreed with Glittering Ocean that non compound interest of 5% per month would be paid on the principal amount from 30 November 2011 until final repayment in full. Interest of £191,065 (2010 & 2009: Nil) due on this share buyback agreement is included within accruals and deferred income. Outstanding principal and accrued interest was finally repaid on 1 November 2012.

## 9 SHARE CAPITAL

| | At 31 December 2011 £ | At 31 December 2010 £ |
|---|---|---|
| **Authorised** | | |
| 400,000,000 Ordinary shares of 0.1p each | 400,000 | 400,000 |
| **Allotted, called up and fully paid** | | |
| 280,147,130 (2010: 280,640,295) Ordinary shares of 0.1p each | 288,147 | 280,640 |

During the year the Company issued 7,506,835 ordinary shares of 0.1p for a total consideration of £3,002,734.

| | Exercise price (p) | At 1 January 2011 | Lapsed in year | At 31 December 2011 |
|---|---|---|---|---|
| Warrants granted 20 August 2008 | 25p | 2,200,000 | (2,200,000) | - |
| | | 2,200,000 | (2,200,000) | - |

## 10 RESERVES

| | Share premium account £ | Profit and loss account £ |
|---|---|---|
| At 1 January 2011 | 22,080,331 | (731,270) |
| Loss for the year | - | (695,407) |
| Premium on shares raised during the year | 2,995,227 | - |
| Costs of raising equity | (24,000) | - |
| Share buyback liability | - | (1,947,455) |
| At 31 December 2011 | 25,051,558 | (3,374,132) |

## 11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Shareholders' funds £ |
|---|---|
| At 1 January 2011 | 21,629,701 |
| Loss for the year | (695,407) |
| Shares issued during the period | 7,507 |
| Share premium on shares issued (net of expenses) | 2,971,227 |
| Share buyback liability | (1,947,455) |
| At 31 December 2011 | 21,965,573 |

## 12 SHARE BASED PAYMENTS

Share-based payments are set out in note 15 of the Group financial statements.

## 13 OPERATING LEASE COMMITMENTS

The Company had the total of future minimum lease payments under non-cancellable operating leases as follows;

| | Land and Buildings 2011 £ | Land and Buildings 2010 £ |
|---|---|---|
| Expiry date: | | |
| Not later than one year | 18,078 | 8,820 |

## 14 RELATED PARTY TRANSACTIONS

During the year fees of £180,820 (2010: £189,940) were incurred for consulting services provided by Mr M Groat to Med Mining and Minerals Ltd, a company of which he is a director. This amount has been included in the Staff Costs note. At the end of 2011 £124,276 (2010: £23,905) was outstanding.

During the year fees of £36,000 (2010: £36,000) were incurred for consulting services provided by Mr K Irons to Southington Ltd, a company of which he is a director. This amount has been included in the Staff Costs note. At the end of 2011 £46,725 (2010: £3,525) was outstanding.

During the year fees of £35,000 (2010: £23,333) were incurred for consulting services provided by Mr B Hosking to ABH Investments Ltd, a company of which he is a director. This amount has been included in the Staff Costs note. At the end of 2011 £45,427 (2010: £3,427) was outstanding.

During the year fees of £74,400 (2010: £24,000) were incurred for payment to Meyer Hosking, a company of which Mr B Hosking is a director, in relation to recruitment and geological services. At the end of 2011 £105,298 (2010: £Nil) was outstanding.

During the year fees of £Nil (2010: £194,750) were incurred for payment to Bath Travel, a company of which Mr R Healey is the Non-Executive Chairman, in relation to air travel costs. At the end of 2011 £Nil (2010: £14,383) was outstanding.

During the year fees of £9,789 (2010: £3,872) were incurred for payment to Kew Kars, a company of which Mr R Healey is a director, in relation to chauffeur services. At the end of 2011 £11,199 (2010: £1,410) was outstanding.

During the year, an interest free loan of £141,000 was made to the Company by Equatorial Energy, a company of which Mr R Healey and Mr M Groat are also directors. At the end of 2011, £45,871 was outstanding, with final repayment made on 28 February 2012.

During the year, the Group executed an agreement with PT Sukses Lancar Santosa ("SLS"), the Company's Indonesian trading partner, to acquire their 5% minority stake in PT Artha Nusantara Resources ("ANR") and bring ANR under 100% group control, for a total of US$19.5million. This payment represented a buyout of future royalty streams payable upon commencement of production at Jambi, which would have amounted to 3% of future revenues for the first five years of operations, and 2% thereafter. This acquisition was funded in the following ways:

- The Company signed a £4million secured, convertible loan note with a Lender, ((Gersec Trust REG ("Gersec")), who is also a shareholder of the Company. The note was secured on the Indonesian operating subsidiaries of the Group. The loan note carried interest at 20% per annum. Final repayment was due on 28 August 2012. If repayment was not made by this date, the Lender had an option to convert the entire loan to share capital at a price of 1.3694p per share for a 51% holding in the Company;

- The Company signed a second £2million loan note with another Lender who is also an existing shareholder of the Company. The loan note carried interest at 20% per annum;

- The Company issued US$3million (£1,898,734) worth of shares at 63 cents (40p) to Glittering Ocean Investment Limited, a company related to SLS. The Company agreed to buyback these shares from SLS by May 2011 ("Share Buy-back Agreement); and

The Group forgave £3,787,781 due from SLS, advanced in 2007/2008, against the consideration due.

## 14 RELATED PARTY TRANSACTIONS *(continued)*

The Company was unable to meet its obligation at the repurchase date under the Share Buy-back Agreement due to lack of funds. Moreover, assistance was required from SLS later in the year to expedite the Izin Pinjam Pakai ("IPP") licences. Consequently, in October 2011, an agreement was reached with Glittering Ocean that non-compound interest of 5% per month would accrue on the capital sum of US$3million from 30 November 2011 until payment in full.

## 15 POST BALANCE SHEET EVENTS

Post balance sheet events are described in Note 19 to the Group Financial Statements on Page 40.