Nusantara Energy plc

ANNUAL REPORT

for the year ended

31 December 2009

Company Registration No. 06156525

Directors	M J M Groat R A M Healey K D Irons A Kingsley A Irawan B Hosking
Secretary	M J M Groat
Company registration number	06156525
Registered office	Mitre House 160 Aldergate Street London EC1A 4DD
Auditors	Grant Thornton UK LLP Grant Thornton House Melton Street Euston Square London NW1 2EP
Bankers	Barclays Bank plc One Churchill Place London E14 5HP
Business address	Arena Business Centre Holy Rood Close Poole Dorset BH17 7FJ

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The directors present their report together with the audited financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

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

CHAIRMAN'S STATEMENT

Since the filing of last year's financial statements, the Group has made considerable progress as we have progressed from the exploration phase towards the mine development phase at our coal project in Jambi, Sumatra. The primary "value adding" milestones that have been achieved in the past twelve months are as follows:

- We now have a JORC Statement, independently verified, showing that to date our exploration work on the Jambi project has identified 721 million tonnes of JORC Resources, of which 482 million tonnes are JORC Reserves.

- Based on that JORC Report, we have developed a mine plan and feasibility study with costed haulage and shipping solutions that together should allow us to develop this mine for up to 20 million tonnes of output per annum.

- With these preparations completed for mine development to start, we have also started to progress with plans to float the Group on the London Stock Exchange. Initial planning for this has been undertaken with appointed advisers, and we have only refrained from progressing further towards flotation because our investment banking advisers are in talks with potential trade buyers.

- Finally, and in response to the new mining laws in Indonesia that permit foreign direct ownership, we have signed an agreement with our local partners, under which we will buy out their minority 5% in PT Artha Nusantara Resources, and take 100% direct ownership of the three underlying concession companies. Completion is to happen by the end of September 2010 and requires that the Group raise US$ 12 million over the summer. The board believes that this improves the Group's tenure, the net present value of future cash flows, and its structural and operational simplicity.

Looking ahead, pending the planned construction of our dedicated haul road and port facilities for full-scale production, and the additional fundraising, we are now close to moving into initial production.

BUSINESS REVIEW

During 2009 the Group progressed its exploration project at the Jambi mine in Sumatra. Additional drilling during the winter gave way to detailed modelling of the deposit and to detailed planning of the logistics for hauling and barging the coal from the mine to export ports. This additional work has resulted in a JORC Statement of Reserves and Resources, independently reviewed by an international firm, and also forms the basis of a Bankable Feasibility Study. The Group owns the economic rights to 721 million tonnes of JORC Resources, of which 482 million tonnes is classed as JORC Reserves, which demonstrates that this is a large, economically robust project. Management believes that, with a modest amount of infill drilling and drilling at certain points at the periphery of the exploration area, it should be possible to increase the Reserves figure by a material amount over the coming months.

Indonesia's mining laws were revised in 2009 and implementation of the changes is ongoing. Foreign companies were previously not allowed to hold concessions directly in their own name and, when the Group was set up, it followed normal practice by bringing in a local partner to acquire the concessions, whilst entering into a comprehensive contract between the concession companies and the Group under which the economic rights and responsibilities of ownership were granted to the Group. Foreign companies are now allowed to take direct ownership of coal deposits in Indonesia and steps are underway to transfer the local concession companies from the registered ownership of the local partner to the direct ownership of the Group, as discussed elsewhere in this report. In the meantime, progress has been made by the Group in improving the quality of the rights held by the concession companies, including moving the permits from exploration up to exploitation, upgrading the concessions in line with the new law to what are now called "IUPs", and obtaining forestry and other approvals necessary to commence production.

In March 2010, the Group started preparing the mine site for production. These initial activities included making a start on upgrading roads in the immediate area of the mine, a commencement of bulk sampling, pit preparation and stockpiling, and the opening of negotiations for both spot sales and medium-term off-take agreements for a production level that should exceed one million tonnes per annum. More recently, the Group has begun the process to secure the land, access rights and facilities necessary to implement the dedicated haul road and barging solution that will allow production to be moved to around 20 million tonnes per annum.

In June 2010, the Group signed an agreement with its local partner, PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, under which it will buy their minority 5% stake in PT Artha Nusantara Resources for US$ 19.5 million, and their 100% ownership of the three concession companies at Jambi for US$ 5 million. Completion is to happen by the end of September 2010, and total consideration will be made up of the offset of loans and advances previously made to SLS, totalling US$ 12.5 million, and an additional US$ 12 million that the Group will need to raise over the summer. The directors believe that the cost of achieving ownership of 100% of the assets and rights at the Jambi project will be fully justified by the resulting increase in the value of the project for shareholders.

The Group does not currently have any production facilities and is entirely focused on development and exploration. For this reason the directors have not monitored any other financial and non-financial key performance indicators. There was a Group loss after taxation for the year of £1,542,372 (2008: profit £376,556 after a foreign exchange gain of £2.5m). 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. The current economic conditions provide particular challenges to the Board and it is their prime responsibility to ensure that the Group remains a going concern. At the year ended 31 December 2009 the Group had cash and cash equivalents of £2.2M and no borrowings.

Towards the end of 2009 and continuing into early 2010, the Group issued new equity to existing and new investors at a higher price than previous rounds, raising in total approximately £6 million. This money was raised to fund the ongoing technical work that has produced the JORC Statement and the draft bankable feasibility study.

In June 2010, the Group signed an agreement with its local partner, PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, under which it will buy their minority 5% stake in PT Artha Nusantara Resources for US$ 19.5 million, and their 100% ownership of the three concession companies at Jambi for US$ 5 million. Completion is to happen by the end of September 2010, and total consideration will be made up of the offset of loans and advances previously made to SLS, totalling US$ 12.5 million, and an additional US$ 12 million that the Group will need to raise over the summer. An additional US$ 3 million is to be sought to fund ongoing operations. This fund raising is now underway. Such is the advanced stage and sound quality of the project that the directors are confident of being able to raise the above US$ 15 million, and indeed of being able to raise further funds as required. On this basis 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 and the newly formed Risk Committee. A full risk assessment was undertaken in 2009, involving all key managers and the Board, as well as outside consultants, and the Group has identified a list of risks, both those relevant to its current activities and those that will become relevant as mining operations commence. When reviewing the risk environment of the Group, it should not be forgotten that mineral exploration businesses are at the higher risk end of investment opportunities, and that when management succeeds in steering through to deliver sustained profitable mining operations, the returns for investors are also high. The key risks at 31 December 2009 are detailed below.

a) Liquidity Risk

The Group has various outgoings in connection with its activities and, since the Group is not yet in production, the funds to cover these outgoings come solely from investors. Should investors cease to fund the Group, clearly the Group would run out of money. Management raised funds during 2009 and ended the year with sufficient funds to take the Group well into 2010, and, as mentioned in elsewhere in this Report, further fund raising is planned. Later in 2010, the directors plan to raise additional equity and debt finance to fund the construction of infrastructure to allow the mine to move beyond output of one million tonnes per annum. Beyond that, decisions will be taken concerning the possible expansion of the mine to become one of the biggest in Indonesia, mining up to 20 million tonnes of thermal coal annually.

b) Project Technical Risk

The directors are satisfied that the exploration works now completed demonstrate that the project has a large, valuable deposit of good thermal coal, lying in an easily mined deposit. The directors are also now satisfied that the haul road and barging plan for moving the coal from the mine to export markets is technically viable and that sufficient detail has been examined to give confidence that the whole project is technically feasible.

RISK REVIEW *(continued)*

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. In that context, the challenges of operating in Indonesia are understood by investors, especially those familiar with the coal mining sector. Indonesia is one of the world's largest exporters of thermal coal. Recent changes in the law will help to clarify the regulatory environment of mining in Indonesia. The new law may take some months to settle in, but the directors believe that the end result will be a marked improvement in the operating environment for the project at Jambi.

d) 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 sterling into the appropriate currency in which the future commitment falls due; the Group does not set out to speculate on currency movements. The Group will increasingly operate in US dollars and this may mean changing the Group's relationship with sterling. However, for the time being sterling is converted to US dollars and Indonesian rupiah either for specific expenditure items or routinely to cover expecting regular expenditure in Indonesia.

e) 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. The concessions in question are blessed with coal that is amongst the lowest cost to mine in Indonesia, and therefore coal prices would need to drop a long way before it would become uneconomic to extract these deposits. Moreover, thermal coal prices have doubled in the last few years, and are set to continue at a high level because of strong underlying demand from growing Asian economies for coal-generated electricity.

DIRECTORS

The directors who served during the year were:

M J M Groat
R A M Healey
K D Irons
A Kingsley
A Irawan
B Hosking

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

Since 31 December 2009, the Group has completed and announced its JORC Statement showing that, from the exploration work done to date, the concessions over which PT Artha Nusantara Resources has contractual rights contain at least 721 million tonnes of JORC Resources, of which 482 million tonnes already falls into the JORC Reserves category. The Group has raised £3 million from an existing shareholder in March, and has embarked on a programme to get into early small scale production once the appropriate licenses are in place and the necessary funds have been raised. Infrastructure to allow expansion of the mine to a large world-class operation is at an advanced stage of planning.

In June 2010, the Group signed an agreement with its local partner, PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, under which it will buy their minority 5% stake in PT Artha Nusantara Resources for US$ 19.5 million, and their 100% ownership of the three concession companies at Jambi for US$ 5 million. Completion is to happen by the end of September 2010, and total consideration will be made up of the offset of loans and advances previously made to SLS, totalling US$ 12.5 million, and an additional US$ 12 million that the Group will need to raise over the summer. The directors believe that the cost of achieving ownership of 100% of the assets and rights at the Jambi project will be fully justified by the resulting increase in the value of the project for shareholders.

Macquarie Bank in Singapore has been engaged to find a buyer for the Group and negotiations continue. Should that auction not lead to a sale on satisfactory terms, the directors will proceed with plans to raise debt and new equity in London, perhaps including an IPO. Initial planning for this has been undertaken with appointed advisers.

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 2009 for the Group and Company was 26 days (2008: 30 days) and 15 days (2008: 15 days) respectively.

GOVERNANCE

The directors have put in place best practice arrangements for good corporate governance, broadly in line with the requirements that the London Stock Exchange would place upon the Group if the Company were to be listed. The non-executive directors operate an Audit Committee, a Remuneration Committee, and (from May 2010) a Risk Committee. These committees of the board have clear remits and meet frequently to carry out their duties by working closely with Management.

- Audit Committee
  This Committee comprises Alan Kingsley (FCA) and Brian Hosking, and Malcolm Groat (FCA) attends as Finance Director. The Committee oversees financial control and financial reporting, including meetings with the auditors several times a year.

- Remuneration Committee
  This Committee comprises Brian Hosking, who works as a head-hunter in this sector, Alan Kingsley, and Richard Healey. The Committee oversees remuneration for all Group employees whose salary exceeds £80,000 per annum. Non-executive remuneration is decided by the executive directors, Richard Healey, Malcolm Groat and Keith Irons.

- Risk Committee
  This Committee comprises Keith Irons, Alan Kingsley and Malcolm Groat. It is a new Committee, formed in 2010, responsible for considering all non-financial aspects of corporate and project risk and for ensuring that Management has the tools to manage these risks appropriately.

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 14 July 2010.

M J M Groat	**R A M Healey**
Director	Director

We have audited the Group financial statements of Nusantara Energy plc for the year ended 31 December 2009 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 6, 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/UKNP.

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 2009 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.

Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1.2 concerning the Group's ability to continue as a going concern.

As explained in note 1.2 the Group has reached agreement post year end to acquire the minority 5% shareholding in PT Artha Nusantara Resources. Completion is to happen by the end of September 2010 and requires that the Group raise US$12 million. An additional US$3 million is to be sought at the same time for working capital. Though of course there can be no certainty as to when or even if these new funds will arrive, the Directors are confident of success in this, their confidence being based on early contacts with potential investors, past successes in raising funds for this project, and the clear benefits that will are expected to accrue to the Group from the application of these new funds in the manner proposed.

Until the fund raising has taken place, there remains a material uncertainty which may cast doubt on the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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 2009.

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
9 August 2010

Nusantara Energy plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	Year to 31 December 2009 £	Year to 31 December 2008 £
OVERHEADS			
Administrative expenses		(1,982,163)	(2,237,720)
OPERATING LOSS BEFORE FINANCE	3	(1,982,163)	(2,237,720)
FINANCE COSTS			
Interest income	5	208,088	315,854
Foreign exchange gain		427,182	2,580,711
Interest expense	6	(1,500)	(34,122)
(LOSS) / PROFIT FROM CONTINUING ACTIVITIES BEFORE TAXATION		(1,348,393)	624,723
Income tax expense	8	(193,979)	(248,167)
(LOSS) / PROFIT ATTRIBUTABLE TO EQUITY OWNERS FOR THE YEAR		(1,542,372)	376,556
OTHER COMPREHENSIVE (LOSS) / INCOME			
Movement on foreign exchange		(617,296)	(176,537)
TOTAL COMPREHENSIVE (LOSS) / INCOME ATTRIBUTABLE TO EQUITY OWNERS FOR THE YEAR		(2,159,668)	200,019

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

Nusantara Energy plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2009

	Notes	At 31 December 2009 £	At 31 December 2008 £	At 31 December 2007 £
ASSETS				
NON CURRENT ASSETS				
Intangible assets	9	7,715,784	4,700,598	147,207
Property, plant and equipment	10	126,352	23,695	-
Trade and other receivables	11	2,402,784	2,647,850	1,920,309
TOTAL NON CURRENT ASSETS		10,244,920	7,372,143	2,067,516
CURRENT ASSETS				
Trade and other receivables	11	5,489,562	5,594,406	1,422,584
Cash and cash equivalents		2,163,429	4,025,074	736,136
TOTAL CURRENT ASSETS		7,652,991	9,619,480	2,158,720
TOTAL ASSETS		17,897,911	16,991,623	4,226,236
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	12	(942,528)	(1,214,598)	(802,832)
TOTAL CURRENT LIABILITIES		(942,528)	(1,214,598)	(802,832)
NET ASSETS		16,955,383	15,777,025	3,423,404
EQUITY				
Equity attributable to equity holders of Parent:				
Issued capital	13	270,640	245,604	195,090
Share premium		19,404,483	16,235,543	4,182,075
Translation reserve		(785,958)	(199,130)	(32,856)
Retained deficit		(1,927,555)	(498,765)	(914,678)
		16,961,610	15,783,252	3,429,631
Minority interest		(6,227)	(6,227)	(6,227)
TOTAL EQUITY		16,955,383	15,777,025	3,423,404

These financial statements were approved by the Board on 14 July 2010.

M J M Groat
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 2009

	Share capital	Share premium	Translation reserve	Retained losses attributable to equity holders of Parent	Minority interest	Total
	£	£	£	£	£	£
At 1 January 2008	195,090	4,182,075	(32,856)	(914,678)	(6,227)	3,423,404
Profit for the period	-	-	-	376,556	-	376,556
Movement on foreign exchange	-	-	(166,274)	(10,263)	-	(176,537)
TOTAL COMPREHENSIVE INCOME FOR YEAR	-	-	(166,274)	366,293	-	200,019
Shares issued during the year	50,514	13,280,996	-	-	-	13,331,510
Costs of raising equity	-	(1,227,528)	-	-	-	(1,227,528)
Share based payments	-	-	-	49,620	-	49,620
TOTAL TRANSACTIONS WITH EQUITY OWNERS	50,514	12,053,468	-	49,620	-	12,153,602
At 31 December 2008	245,604	16,235,543	(199,130)	(498,765)	(6,227)	15,777,025

	Share capital	Share premium	Translation reserve	Retained losses attributable to equity holders of Parent	Minority interest	Total
	£	£	£	£	£	£
At 1 January 2009	245,604	16,235,543	(199,130)	(498,765)	(6,227)	15,777,025
Loss for the period	-	-	-	(1,542,372)	-	(1,542,372)
Movement on foreign exchange	-	-	(586,828)	(30,468)	-	(617,296)
TOTAL COMPREHENSIVE INCOME FOR YEAR	-	-	(586,828)	(1,572,840)	-	(2,159,668)
Shares issued during the year	25,036	3,304,315	-	-	-	3,329,351
Costs of raising equity	-	(135,375)	-	-	-	(135,375)
Share based payments	-	-	-	144,050	-	144,050
TOTAL TRANSACTIONS WITH EQUITY OWNERS	25,036	3,168,940	-	144,050	-	3,338,026
At 31 December 2009	270,640	19,404,483	(785,958)	(1,927,555)	(6,227)	16,955,383

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 2009

	Notes	Year to 31 December 2009 £	Year to 31 December 2008 £
CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES	14	(2,659,980)	376,250
INVESTING ACTIVITIES			
Interest received		10,623	75,262
Loans advanced		724,496	(727,541)
Advances to trading partners		-	(3,927,807)
Interest paid		(1,500)	(34,122)
Purchase of exploration and evaluation assets		(3,015,186)	(4,546,246)
Purchase of property, plant and equipment		(114,074)	(30,840)
CASH FLOWS USED IN INVESTING ACTIVITIES		(2,395,641)	(9,191,294)
FINANCING ACTIVITIES			
Issue of ordinary shares		3,193,976	12,103,982
CASH FLOWS FROM FINANCING ACTIVITIES		3,193,976	12,103,982
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(1,861,645)	3,288,938
Cash and cash equivalents brought forward		4,025,074	736,136
CASH AND CASH EQUIVALENTS CARRIED FORWARD		2,163,429	4,025,074

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 2009.

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

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

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. The current economic conditions provide particular challenges to the Board and it is their prime responsibility to ensure that the Group remains a going concern. At the year ended 31 December 2009 the Group had cash and cash equivalents of £2.2M and no borrowings.

Towards the end of 2009 and continuing into early 2010, the Group issued new equity to existing and new investors at a higher price than previous rounds, raising in total approximately £6 million. This money was raised to fund the ongoing technical work that has produced the JORC Statement and the draft bankable feasibility study.

In June 2010, the Group signed an agreement with its local partner, PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, under which it will buy their minority 5% stake in PT Artha Nusantara Resources for US$ 19.5 million, and their 100% ownership of the three concession companies at Jambi for US$ 5 million. Completion is to happen by the end of September 2010, and total consideration will be made up of the offset of loans and advances previously made to SLS, totalling US$ 12.5 million, and an additional US$ 12 million that the Group will need to raise over the summer. An additional US$ 3 million is to be sought to fund ongoing operations. This fund raising is now underway. Such is the advanced stage and sound quality of the project that the directors are confident of being able to raise the above US$ 15 million, and indeed of being able to raise further funds as required. On this basis the Directors consider the Group to be a going concern for at least twelve months from the date of approval of these financial statements.

1.3 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 2009. 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

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the functional and the presentation currency of the Company.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the statement of financial position date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the statement of comprehensive income.

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.

1.6 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. ACCOUNTING POLICIES *(continued)*

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.

1.9 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. ACCOUNTING POLICIES *(continued)*

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.

1.12 Capital risk management

The Group manages its capital to ensure that all the companies within the Group will be able to continue as a going concern while maximising the return to equity holders, through optimisation of debt equity balance. The capital structure of the Group includes cash and cash equivalents and equity attributable to the equity holders of the Parent.

1. ACCOUNTING POLICIES *(continued)*

1.13 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)***

1.14 Standards and amendments to existing standards effective 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009, are of relevance to the Group:

Standard/Interpretation	**Content**	**Applicable for financial years beginning on/after**
IAS 1	Presentation of financial statements	1 January 2009
IFRS 7	Amendment: Improving disclosures about financial instruments	1 January 2009

Adoption of IAS 1, 'Presentation of financial statements'

A revised version of IAS 1 was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity; all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The adoption of this revised standard impacts only presentation aspects; therefore, it has no impact on profit or earnings per share.

Adoption of Amendment to IFRS 7, 'Improving disclosures about financial instruments'

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a three-level fair value measurement hierarchy. In addition to that, the amendment clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and secondly requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The entity has to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The adoption of the amendment results in additional disclosures but does not have an impact on profit or earnings per share.

Adoption of 'Improvements to IFRS' (issued in May 2008)

The Improvements project contains numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009. No material changes to accounting policies arose as a result of these amendments.

1. ACCOUNTING POLICIES *(continued)*

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

Standard/Interpretation	Content	Applicable for financial years beginning on/after
IFRS 3	Business combinations	1 July 2009
IFRS 9	Financial instruments: Classification and measurement	1 January 2013
IAS 24*	Related party disclosures	1 January 2011
IAS 32*	Classification of rights issues	1 February 2010
IAS 39*	Financial instruments: Recognition and measurement – Eligible hedged items	1 July 2009
IFRS 1*	First-time adoption of International Financial Reporting Standards	1 July 2009
Amendment: IFRS 1*	Additional exemptions for first-time adopters	1 January 2010
Amendment: IFRS 2*	Group cash-settled share-based payment transactions	1 January 2010
IAS 27*	Consolidated and separate financial statements	1 July 2009
IFRIC 17*	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18*	Transfers of assets from customers	1 July 2009

*Not expected to be relevant to the Group.

IFRS 3, 'Business combinations' (revised 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply the revised standard prospectively to all business combinations from 1 January 2010.

IFRS 9, 'Financial instruments: Classification and measurement'

In November 2009, the IASB issued the first part of IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 will ultimately replace IAS 39. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measures the financial assets as either at amortised cost or fair value. The new standard is mandatory for annual periods beginning on or after 1 January 2013.

1. ACCOUNTING POLICIES *(continued)*

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

'Improvements to IFRS' (issued in April 2009)

The improvements project contains numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

In 2009, the Group did not early adopt any new or amended standards and do not plan to early adopt any of the standards issued not yet effective.

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.

Loans receivable

Within loans receivable is US $5 million due from a trading partner in relation to royalties paid in advance of future royalties that are expected to become payable when the mining interests become operational. This US $5 million is interest free and repayable over five years. Repayment is dependent upon extraction and, in the judgement of the directors, treatment as a financial asset is appropriate.

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.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF UNCERTAINTY *(continued)*

Key sources of estimation uncertainty ***(continued)***

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 2009 £	Year to 31 December 2008 £
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	30,000	30,000
Services related to corporate financial transactions	-	46,875
Other services related to taxation	13,773	-
All other services	11,288	17,323
Auditors' remuneration paid to Mazars LLP:		
Audit of the Group's annual accounts	-	26,424
Other services related to taxation	4,745	9,395
All other services	-	2,300
Depreciation expense	11,417	-
Operating lease rentals	80,533	35,280

4 STAFF COSTS

	Year to 31 December 2009 £	Year to 31 December 2008 £
Staff costs for the Group, including directors' remuneration, were as follows:		
Wages and salaries	784,794	289,187
Share-based payments	144,050	49,620
Social security costs	53,599	35,826
Money purchase pension contributions	17,689	12,990
	1,000,132	387,623

Total directors' remuneration for the Group for the year is £504,280 (2008: £268,094).

The highest paid director for the year was paid £210,716 (2008: £100,333), and received defined contribution pension contributions of £6,875 (2008: £8,508). No other directors accrued pension benefits during the year (2008: 1 director).

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

	2009 No.	2008 No.
The average monthly number of employees for the Group, including directors, during the period was as follows:		
Management	14	8

5 INTEREST INCOME

	Year to 31 December 2009 £	Year to 31 December 2008 £
Unwinding of discounting on interest free loan	197,465	240,592
Bank interest	10,619	75,262
Other interest	4	-
	208,088	315,854

6 INTEREST EXPENSE

	Year to 31 December 2009 £	Year to 31 December 2008 £
Loan interest	1,318	34,103
Bank interest	182	19
	1,500	34,122

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 2009 £	Year to 31 December 2008 £
Taxation on profit on ordinary activities		
Overseas taxation	193,979	248,167
Total current tax	193,979	248,167

The tax incurred for the period is lower than the standard rate of corporation tax of 28% (2008: 28%) in the UK

	Year to 31 December 2009 £	Year to 31 December 2008 £
Profit / (loss) on ordinary activities before tax	(1,348,393)	624,723
Profit/ (loss) on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 28% (2008: 28%)	(377,550)	174,922
Effects of:		
Expenses not deductible for tax purposes	6,262	51,541
Unrecognised UK losses carried forwards	26,355	78,212
Unrecognised overseas losses carried forwards	1,526,972	358,174
Overseas withholding tax chargeable	193,979	248,167
Net fair value adjustment on loans	(45,695)	(67,366)
Currency losses / (gains)	1,136,344	(595,483)
Current charge for the period	193,979	248,167

Factors that may affect future tax charges

The Group has tax losses carried forward of £5,547,594 (2008: £1,558,522) that are available for offset against future taxable profits.

Unrecognised deferred tax assets

The Group has a deferred tax asset of £1,553,327 (2008: £436,386) 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

	Exploration and evaluation assets 2009	Exploration and evaluation assets 2008	Exploration and evaluation assets 2007
	£	£	£
Cost and net book value			
At 1 January	4,700,598	147,207	-
Additions	2,667,922	4,533,944	147,207
Currency movements	347,264	19,447	-
At 31 December	7,715,784	4,700,598	147,207

The technical feasibility and commercial viability of extracting a mineral resource are not yet demonstrable 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.

10 PROPERTY, PLANT AND EQUIPMENT

	Plant & equipment	Motor vehicles	Computers	Fixtures, fittings and office equipment	Total
	£	£	£	£	£
Cost					
At 1 January 2008	-	-	-	-	-
Additions	10,853	18,627	1,360	-	30,840
At 31 December 2008	10,853	18,627	1,360	-	30,840
Depreciation					
At 1 January 2008	-	-	-	-	-
Charged in the year	(1,839)	(4,208)	(410)	-	(6,457)
Currency movements	(196)	(449)	(43)	-	(688)
At 31 December 2008	(2,035)	(4,657)	(453)	-	(7,145)
Net book value					
At 31 December 2008	8,818	13,970	907	-	23,695
At 31 December 2007	-	-	-	-	-

10 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Plant & equipment	Motor vehicles	Computers	Fixtures, fittings and office equipment	Total
	£	£	£	£	£
Cost					
At 1 January 2009	10,853	18,627	1,360	-	30,840
Additions	-	14,769	3,834	104,993	123,596
Currency movements	802	1,376	101	-	2,279
At 31 December 2009	11,655	34,772	5,295	104,993	156,715
Depreciation					
At 1 January 2009	(2,035)	(4,657)	(453)	-	(7,145)
Charged in the year	-	(2,649)	(828)	(7,940)	(11,417)
Depreciation capitalised	(2,914)	(6,668)	(730)	-	(10,312)
Currency movements	(150)	(566)	(104)	(669)	(1,489)
At 31 December 2009	(5,099)	(14,450)	(2,115)	(8,609)	(30,363)
Net book value					
At 31 December 2009	6,556	20,232	3,180	96,384	126,352
At 31 December 2008	8,818	13,970	907	-	23,695

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 2009 £	At 31 December 2008 £	At 31 December 2007 £
Non current			
Other receivables	2,402,784	2,647,850	1,920,309
	2,402,784	2,647,850	1,920,309
Current			
Other receivables	4,906,525	5,207,730	1,302,957
Prepayments and accrued income	583,037	386,676	119,627
	5,489,562	5,594,406	1,422,584

Non current

The other receivables represents a US$ 5 million loan, after a fair value adjustment, due from PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, in relation to royalties paid in advance of future royalties that are expected to become receivable when the mining interests become operational. This loan is interest free and repayable over five years. Repayment is dependent upon extraction, and in the judgement of the directors, treatment as a financial asset is appropriate.

Under the agreement signed in June 2010 between the Group and SLS, this advance will be applied as the purchase consideration to be paid by the Group to buy the three concession companies at Jambi from SLS. That transaction is to be completed by the end of September 2010.

Current

The other receivables include a US $7.5m advance made to PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc. This money was originally advanced to SLS in late 2007 and early 2008 to acquire further mineral concessions in Indonesia. A promising mineral concession was identified in Sumatra, but in the end it was decided not to proceed.

Under the agreement signed in June 2010 between the Group and SLS, this advance will be applied as part of the purchase consideration to be paid by the Group to buy out the 5% minority interest in PT Artha Nusantara Resources. That transaction is to be completed by the end of September 2010.

12 TRADE AND OTHER PAYABLES

	At 31 December 2009 £	At 31 December 2008 £	At 31 December 2007 £
Current			
Trade payables	99,375	739,932	114,187
Other payables	642,273	288,759	594,567
Accruals and deferred income	200,880	185,907	94,078
	942,528	1,214,598	802,832

Included in other payables is £473,159 (2008: £285,602, 2007: Nil) due in relation to overseas taxation. The above listed payables 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 2009 £	At 31 December 2008 £	At 31 December 2007 £
Authorised			
400,000,000 Ordinary shares of 0.1p each	400,000	400,000	400,000
Allotted, called up and fully paid			
270,640,295 (2008: 245,603,671, 2007: 195,090,000) Ordinary shares of 0.1p each	270,640	245,604	195,090

During the year the Company issued 25,036,624 ordinary shares of 0.1p for a total consideration of £3,329,351 excluding share issue costs, and including a share premium of £3,304,315.

The Company has granted warrants to subscribe for shares as follows:

	Exercise price (p)	At 1 January 2009	Granted in year	Exercised in year	At 31 December 2009
Warrants granted 28 February 2008	5p	200,000	-	(200,000)	-
Warrants granted 20 August 2008	25p	2,200,000	-	-	2,200,000
		2,400,000	-	(200,000)	2,200,000

The warrants granted in August 2008 expire on 31 August 2011. These warrants were exercisable immediately upon grant and so were exercisable at 31 December 2009.

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

	At 31 December 2009 £	At 31 December 2008 £
Operating loss	(1,982,163)	(2,237,720)
Depreciation charged	11,417	-
Exchange rate (loss) / gain	(190,114)	2,404,174
Increase in receivables	(374,586)	(244,015)
(Decrease) / increase in payables	(272,070)	411,766
Unwinding of discounting on interest free loan	197,465	240,592
Share-based payments	144,050	49,620
Income taxes paid	(193,979)	(248,167)
Net cash (used in) / generated from operating activities	(2,659,980)	376,250

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 2009. The main assumptions used to arrive at the value per option are detailed in the table below:

Grant date	Stock price (pence)	Exercise price (pence)	Volatility	Expiry period (years from issue)	Interest rate
28 February 2008	25	5	95%	3	4.25%
20 August 2008	25	25	95%	3	4.25%

The total statement of comprehensive income charge relating to the equity settled share warrants for 2009 appears in column D below. The share warrants granted in February 2008 have now all been exercised and so the outstanding balance of the share based payment due to be recognised over the remainder of the original vesting period has been recognised in the statement of comprehensive income in 2009.

Grant date	A Number of options granted to date	B Value per option (pence)	C=A*B Income statement charge over vesting period (£)	D Income statement charge 2009 (£)
28 February 2008	200,000	16	44,000	31,258
20 August 2008	2,200,000	5	330,000	112,792
	2,400,000		374,000	144,050

The warrants granted in August 2008 expire on 31 August 2011. These warrants were exercisable at 31 December 2009.

16 OPERATING LEASE COMMITMENTS

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

	Land and Buildings 2009 £	Land and Buildings 2008 £
Expiry date:		
Not later than one year	63,214	8,820
Between one and three years	69,803	-

17 RELATED PARTY TRANSACTIONS

During the year, fees of £59,623 (2008: £311,467) were paid to PT Sinar Anugerah Sukses, a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, for professional and administrative services.

During the year, fees of £159,540 (2008: Nil) were paid for consulting services provided by Mr M Groat to Med Mining and Minerals Ltd, a company of which he is a director, whilst fees of £36,000 (2008: £36,000) were paid for consulting services provided by Mr K Irons to Southington Ltd, a company of which he is a director.

During the year, fees of £41,000 (2008: £11,750) were also paid to Meyer Hosking, a company of which Mr B Hosking is a director, in relation to recruitment services, and fees of £144,295 (2008: £112,822) were paid to Bath Travel, a company of which Mr R Healey was appointed Chairman during 2009, in relation to air travel costs.

18 ULTIMATE CONTROLLING PARTY

As at 31 December 2009 there is considered to be no ultimate controlling party.

19 POST BALANCE SHEET EVENTS

Since 31 December 2009, the Group has completed and announced its JORC Statement showing that, from the exploration work done to date, the concessions over which PT Artha Nusantara Resources has contractual rights contain at least 721 million tonnes of JORC Resources, of which 482 million tonnes already falls into the JORC Reserves category. The Group has raised £3 million from an existing shareholder in March, and has embarked on a programme to get into early small scale production once the appropriate licenses are in place and the necessary fund raising has been completed. Infrastructure to allow expansion of the mine to a large world-class operation is at an advanced stage of planning.

In June 2010, the Group signed an agreement with its local partner, PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, under which it will buy their minority 5% stake in PT Artha Nusantara Resources for US$ 19.5 million, and their 100% ownership of the three concession companies at Jambi for US$ 5 million. Completion is to happen by the end of September 2010, and total consideration will be made up of the offset of loans and advances previously made to SLS, totalling US$ 12.5 million, and an additional US$ 12 million that the Group will need to raise over the summer. The directors believe that the cost of achieving ownership of 100% of the assets and rights at the Jambi project will be fully justified by the resulting increase in the value of the project for shareholders.

Macquarie Bank in Singapore has been engaged to find a buyer for the Group and negotiations continue. Should that auction not lead to a sale on satisfactory terms, the directors will proceed with plans to raise debt and new equity in London, perhaps including an IPO. Initial planning for this has been undertaken with appointed advisers.

20 FINANCIAL INSTRUMENTS

	At 31 December 2009 £	At 31 December 2008 £	At 31 December 2007 £
Categories of financial instruments			
Financial Assets			
Loans and receivables	7,309,309	7,855,580	3,223,266
Cash and cash equivalents	2,163,429	4,025,074	736,136
	9,472,738	11,880,654	3,959,402
Financial Liabilities			
At amortised cost – falling due within one year	469,639	928,996	802,832

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.

20 FINANCIAL INSTRUMENTS *(continued)*

(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 sterling as the closing rate, are as follows:

	US $ £'000s	IDR £'000s
Financial Assets		
Loans and receivables	3,289	2
Cash and cash equivalents	3	3
	3,292	5
Financial Liabilities		
Trade and other payables	151	483

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 +/- 30% change in the sterling/US dollar and a +/- 45% sterling/Indonesian rupiah exchange rate for the period ended 31 December 2009. These percentages have been based on the approximate average market volatility in exchange rates in the previous 18 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 18 month provide a reasonable estimation of possible future fluctuations in exchange rates.

20 FINANCIAL INSTRUMENTS *(continued)*

(b) Foreign Currency Risk *(continued)*

If sterling had weakened / strengthened against the US dollar by 30% the following impact would have resulted – net result for the year up by £929,000, down by £929,000 respectively, and equity up by £929,000, down by £929,000 respectively.

If sterling had weakened / strengthened against the Indonesian rupiah by 45% the following impact would have resulted – net result for the year down by £216,000, up by £216,000 respectively, and equity down by £216,000, up by £216,000 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 no debt outstanding. 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 £10,055,775 (2008: £12,267,330, 2007:£4,079,029).

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.

We have audited the Parent Company financial statements of Nusantara Energy plc for the year ended 31 December 2009 which comprise the Parent Company balance sheet 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 5, 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/UKNP.

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 2009;
- 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.

Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1.2 concerning the Comany's ability to continue as a going concern.

As explained in note 1.2 the Company has reached agreement post year end to acquire the minority 5% shareholding in PT Artha Nusantara Resources. Completion is to happen by the end of September 2010 and requires that the Company raise US$12 million. An additional US$3 million is to be sought at the same time for working capital. Though of course there can be no certainty as to when or even if these new funds will arrive, the Directors are confident of success in this, their confidence being based on early contacts with potential investors, past successes in raising funds for this project, and the clear benefits that will are expected to accrue to the Company from the application of these new funds in the manner proposed.

Until the fund raising has taken place, there remains a material uncertainty which may cast doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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 2009

Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
9 August 2010

Nusantara Energy plc
COMPANY BALANCE SHEET
At 31 December 2009

	Notes	At 31 December 2009 £	At 31 December 2008 £
FIXED ASSETS			
Fixed asset investments	5	276,090	118,312
CURRENT ASSETS			
Debtors: amounts falling due after more than one year	6	2,533,217	2,533,217
Debtors: amounts falling due within one year	6	14,486,976	10,053,173
Cash at bank		2,157,656	3,647,388
TOTAL CURRENT ASSETS		19,177,849	16,233,788
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	7	(310,620)	(368,012)
NET CURRENT ASSETS		18,867,229	15,865,766
TOTAL ASSETS LESS CURRENT LIABILITIES		19,143,319	15,984,078
CAPITAL AND RESERVES			
Called up share capital	8	270,640	245,604
Share premium account	9	19,404,483	16,235,543
Profit and loss account	9	(531,804)	(497,069)
SHAREHOLDERS' FUNDS	10	19,143,319	15,984,078

The financial statements were approved by the Board on 14 July 2010.

M J M Groat
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 2009 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 2009.

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 Group does not currently have any production assets and is in a development phase in which it is reliant on external sources of funds. The current economic conditions provide particular challenges to the Board and it is their prime responsibility to ensure that the Company remains a going concern. At the year ended 31 December 2009 the Company had cash and cash equivalents of £2.2M and no borrowings.

Towards the end of 2009 and continuing into early 2010, the Company issued new equity to existing and new investors at a higher price than previous rounds, raising in total approximately £6 million. This money was raised to fund the ongoing technical work that has produced the JORC Statement and the draft bankable feasibility study.

In June 2010, the Company signed an agreement with its local partner, PT Sukses Lancar Sentosa (SLS), a company ultimately controlled by A Irawan, a director of Nusantara Energy plc, under which the Company will buy their minority 5% stake in PT Artha Nusantara Resources for US$ 19.5 million. Completion is to happen by the end of September 2010, and total consideration will be made up of the offset of loans and advances previously made to SLS, totalling US$ 7.5 million, and an additional US$ 12 million that the Company will need to raise over the summer. An additional US$ 1 million is to be sought to fund ongoing operations. This fund raising is now underway. Such is the advanced stage and sound quality of the project that the directors are confident of being able to raise the above US$ 15 million, and indeed of being able to raise further funds as required. On this basis the Directors consider the Company to be a going concern for at least twelve months from the date of approval of these financial statements.

1.3 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. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 2009 £	Year to 31 December 2008 £
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
Services related to corporate financial transactions	-	46,875
All other services	-	17,323
Auditors' remuneration paid to Mazars LLP:		
Audit of the Company's annual accounts	-	26,424
Other services related to taxation	4,745	9,395
All other services	-	2,300

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 period ended 31 December 2009 was £178,785 (2008: £512,739).

4 STAFF COSTS

	Year to 31 December 2009 £	Year to 31 December 2008 £
Staff costs, including directors' remuneration, were as follows:		
Wages and salaries	598,309	330,151
Share based payments	144,050	49,620
Social security costs	52,542	35,826
Money purchase pension contributions	17,689	12,990
	812,590	427,587

Total directors' remuneration for the Company for the year is £382,084 (2008: £268,094).

The highest paid director for the year was paid £166,000 (2008: £100,333), and received defined contribution pension contributions of £6,875 (2008: £8,508). No other directors accrued pension benefits during the year (2008: 1 director).

	2009 No.	2008 No.
The average monthly number of employees for the Company, including directors, during the period was as follows:		
Management	10	7

5 FIXED ASSET INVESTMENTS

	Shares in Group undertakings
Cost	
At 1 January 2009	118,312
Additions	157,778
At 31 December 2009	276,090

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	**Business**	**Country of Incorporation**	**Holding**	Cost at 31 December 2009 £
PT Artha Nusantara Resources	Mining	Indonesia	95%	118,312
PT Artha Nusantara Mining	Mining	Indonesia	100%	157,778

6	**DEBTORS**	At 31 December 2009 £	At 31 December 2008 £
	Due after more than one year		
	Amounts owed by Group undertakings	2,533,217	2,533,217
	Due within one year		
	Amounts owed by Group undertakings	14,420,663	10,009,081
	Other debtors	50,594	27,673
	Prepayments and accrued income	15,719	16,419
		14,486,976	10,053,173

7	**CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**	At 31 December 2009 £	At 31 December 2008 £
	Trade creditors	58,304	202,491
	Other creditors	169,114	2,831
	Accruals and deferred income	83,202	162,690
		310,620	368,012

8 SHARE CAPITAL

	At 31 December 2009 £	At 31 December 2008 £
Authorised		
400,000,000 Ordinary shares of 0.1p each	400,000	400,000
Allotted, called up and fully paid		
270,640,295 (2008: 245,603,671) Ordinary shares of 0.1p each	270,640	245,604

During the year the Company issued 25,036,624 ordinary shares of 0.1p for a total consideration of £3,304,315.

The Company has granted warrants to subscribe for shares as follows:

	Exercise price (p)	At 1 January 2009	Granted in year	Exercised in year	At 31 December 2009
Warrants granted 28 February 2008	5p	200,000	-	(200,000)	-
Warrants granted 20 August 2008	25p	2,200,000	-	-	2,200,000
		2,400,000	-	-	2,200,000

The warrants granted in August 2008 expire on 31 August 2011. These warrants were exercisable at 31 December 2009.

9 RESERVES

	Share premium account £	Profit and loss account £
At 1 January 2009	16,235,543	(497,069)
Loss for the year	-	(178,785)
Premium on shares raised during the year	3,304,315	-
Costs of raising equity	(135,375)	-
Share based payment	-	144,050
At 31 December 2009	19,404,483	(531,804)

10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Shareholders' funds £
At 1 January 2009	15,984,078
Loss for the year	(178,785)
Shares issued during the period	25,036
Share premium on shares issued (net of expenses)	3,168,940
Share based payment	144,050
At 31 December 2009	19,143,319

11 SHARE BASED PAYMENTS

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

12 OPERATING LEASE COMMITMENTS

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

	Land and Buildings 2009 £	Land and Buildings 2008 £
Expiry date:		
Not later than one year	8,820	8,820

13 RELATED PARTY TRANSACTIONS

During the year, fees of £159,540 (2008: Nil) were paid for consulting services provided by Mr M Groat to Med Mining and Minerals Ltd, a company of which he is a director, whilst fees of £36,000 (2008: £36,000) were paid for consulting services provided by Mr K Irons to Southington Ltd, a company of which he is a director.

During the year, fees of £41,000 (2008: £11,750) were also paid to Meyer Hosking, a company of which Mr B Hosking is a director, in relation to recruitment services, and fees of £144,295 (2008: £112,822) were paid to Bath Travel, a company of which Mr R Healey was appointed Chairman during 2009, in relation to air travel costs.

14 POST BALANCE SHEET EVENTS

Post balance sheet events are discussed in the Directors' report on page 8.