

Nusantara Energy Limited

ANNUAL REPORT

for the year ended

31 December 2014

Nusantara Energy Limited

COMPANY INFORMATION

Directors

M Higgins
C Putt
T Childs

Secretary

B J Stuart

Company registration number

06156525

Registered office

5 Fleet Place
London
EC4M 7RD

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

Nusantara Energy Limited

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Nusantara Energy Limited

STRATEGIC REPORT

For the period ended 31 December 2014

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 was a public but unlisted limited company incorporated and domiciled in England. In December 2013 shareholders voted to re-register the company as a private limited company and this became effective on 14 January 2014.

CHAIRMAN'S STATEMENT

In November 2013 a restructuring proposal was circulated to all shareholders to undertake the transfer of the Company assets to a Luxembourg company. The resolution was passed but the restructuring had not been formally completed and remains on hold pending clarification of the issues referred to below.

BUSINESS AND FINANCIAL REVIEW

As advised in the 2013 annual report, during that year a new ministerial law was introduced in Indonesia that effectively accelerates the divestment requirement of shares in foreign owned IUP companies, including the Company's Indonesian subsidiaries. Historically, shares in IUP companies held by foreigners had to be sold down so local entities held 51% of the shares by year 10. This process starts in year 5 and ramps up to 51% by year 10. As a result of the new ministerial law any transfer of the shares in the IUP company accelerates the divestment rule. However, it is still unclear how this new law will be implemented and whether it will affect the restructuring referred to above.

As noted above, the Company approved a restructuring in 2013 that allowed for a share consolidation and approved the transfer of the IUP companies to a new Luxembourg entity. Full details on the restructuring can be found in the restructuring memorandum that was circulated at the time. In summary, the proposal was that the Company's subsidiaries should be held by a Luxembourg company which is held by shareholders in the same proportion as they hold shares in the Company at that time.

The Company continues to face several macroeconomic challenges such as:

- *The potential introduction of a ban on low quality coal imports into China.* The initiative would aim to reduce the environmental side effects, such as air pollution, water shortages and contamination from the use of low rank, high ash and high sulphur coal. If introduced correctly, this should have a positive impact on the Company given the low ash and low sulphur nature of the Jambi coal. The Jambi coal also benefits from not needing to be washed. It is our view that if the ban is introduced wisely it will be supportive to Nusantara in the long run as the Jambi coal should become increasingly attractive for end user blending purposes. No decision has yet been made on this topic.
- *A potential increase in the royalty on coal exports to 10%.* The planned increase in the royalty has been indefinitely postponed due to the persistent coal market downturn. Currently Jambi coal is subject to a 5% royalty. Should the increase occur, this will significantly impact the economics of the Jambi mine.
- *Price of coal.* This continues to remain the major issue facing the Company with coal prices falling by c20% in 2014. With no abatement in 2015, coal has declined by a further 10% over the course of the year. Analysts continue to revise down their coal price forecasts in light of continued uncertainty around future supply and demand dynamics, especially from China. At the moment thermal coal remains in a position of oversupply with no indications of price support from analysts for the next two years.

Nusantara Energy Limited

STRATEGIC REPORT *(continued)*

For the period ended 31 December 2014

BUSINESS AND FINANCIAL REVIEW *(continued)*

- *Slower growth in China.* The transfer of power in China following the 2013 elections has led to a focused rebalancing of the economy towards consumption and away from exports. This has dented current growth plans and has put pressure on the Chinese economy. The opaque nature of lending and the potential hangover from the credit stimulus of 2008 and 2009 makes it increasingly difficult to gauge what the future may look like for the Chinese economy.
- *Indonesia macroeconomic environment.* Local government policy towards mining companies remains challenging in light of the Indonesian elections, which took place in 2014. It is unclear what impact this could have on the Company and Indonesia remains a challenging environment from a regulatory and political perspective for foreign companies. The issues remain broadly similar to those faced by the Company in the past. The markets were supportive of the winner, although what view the new government actually takes on foreign investors is less than clear.

As is evident from the above, the economics of the Jambi asset are highly dependent on a number of macroeconomic issues.

The Company would have liked to report a more positive update on the goal of moving towards production but unfortunately the current coal price has prevented the Company from doing so.

The Company continues to believe in the demand fundamentals of the Jambi coal and that the coal price should start to strengthen in the medium to long term, although does not expect prices to return to levels seen in 2010 and 2011. Despite the challenging environment, the Company remains positive on the longer term fundamentals of the asset and believes in its economic viability.

During 2014 the forestry permits or Izin Pinjam Pakai (“IPP”) licenses for PT Anugerah Jambi Coalindo (“AJC”) and PT Bakti Sarolangun Sejahtera (“BSS”) were received by the Company. In addition to the IPPs, the Company has also received clean and clear certificates, stating that the Company’s IUP permits are up to date and have been reviewed by the central authorities in Jakarta.

Since the beginning of 2014 the Company has put in place a revolving credit facility with Ianto Finance Limited for up to \$35m, the proceeds of this loan have been used to fund working capital and acquire land to support mining and mining services should the company be able to start operations.

It is not currently expected that early stage coal production will start without a material change to the macro environment and settlement of local issues. However, the Company continues to further refine its business model so that it is ready to take advantage of a move in coal prices should this materialise. Although with current coal prices as low as they are, this continues to make forecasting the start of production increasingly difficult.

The legal case against the former Chief Financial Officer (“CFO”) and Chief Executive Officer (“CEO”) was concluded in October 2015.



M Higgins
Director

Nusantara Energy Limited

DIRECTORS' REPORT

For the period ended 31 December 2014

The directors present their report together with the audited financial statements of the Group for the year ended 31 December 2014.

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 is currently in a development phase and does not have any production assets. At the year ended 31 December 2014 the Group had cash and cash equivalents of US\$1.9m.

The Company is reliant on its major shareholder to provide continued financial support with its current operations. During 2014 and 2015 borrowings have been put in place for up to \$35m from Ianto Finance Limited for further investment and to continue to support the operations of the Group. These borrowings mature in June 2016. The directors consider the Group to be a going concern for at least twelve months from the date of approval of these financial statements as Ianto has agreed in principle to underwrite a rights issue to be called at a time that the Board shall approve.

RISK REVIEW

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

Specific, identified key risks at 31 December 2014 include:

a) Liquidity Risk

The Group has various outgoings in connection with its activities but is not yet in production and, therefore, relies on funding from investors. Should investors cease to fund the Group, it will run out of money. However this remains a key risk to the business in the future.

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. The economic viability of the project is, of course, dependant on 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, as Indonesia 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.

Nusantara Energy Limited

DIRECTORS' REPORT *(continued)*

For the period ended 31 December 2014

RISK REVIEW *(continued)*

d) Permitting Risk

The permitting process in Indonesia is quite complex and rigidly applied. This is exacerbated 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.

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 operates in US dollars.

f) Commodity Price Risk

The Group has economic interests in coal mining concessions and is therefore exposed to price fluctuations in the market for Indonesian thermal coal. Coal prices have been increasingly volatile in recent years and fell approximately 20% over the course of 2014. Nevertheless, the directors believe the project should still be financially viable in the medium to long term, since strong underlying demand from growing Asian economies for coal-generated electricity should help to stabilise Indonesian thermal coal prices over time.

DIRECTORS

The directors who served during the year were:

M Higgins
C Putt
T Childs

Nusantara Energy Limited

DIRECTORS' REPORT *(continued)*

For the period ended 31 December 2014

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) as adopted by the European Union.

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.

Nusantara Energy Limited

DIRECTORS' REPORT *(continued)*

For the period ended 31 December 2014

POST BALANCE SHEET EVENTS

Over the course of 2014 and 2015, the Company has put in place borrowings of up to \$35m from Ianto Finance Limited for further investment and to continue to support the operations of the Company. The borrowings have a coupon of 25% per annum and mature in June 2016.

Consultants are advising on an ongoing basis to improve the operations of the Company and to enable the start of production when coal prices permit.

GOVERNANCE

Following the AGM in December 2013, the board was restructured with Chris Putt and Tim Childs joining, broadly around the same time Heather Lawrence, Antony Butler and Neil McLoughlin left the board.

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 25 April 2016.



M Higgins
Director

Nusantara Energy Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NUSANTARA ENERGY LIMITED

We have audited the Group financial statements of Nusantara Energy Limited for the year ended 31 December 2014 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 7, 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 Financial Reporting Council's (FRC) website at www.frc.org.uk/auditscopeukprivate.

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 2014 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.

Nusantara Energy Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NUSANTARA ENERGY LIMITED *(continued)*

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 Limited for the year ended 31 December 2014.



Christopher Smith
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
27 April 2016

Nusantara Energy Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	<i>Notes</i>	Year to 31 December 2014 US\$	Year to 31 December 2013 US\$
OVERHEADS			
Administrative expenses		(3,777,301)	(2,461,185)
		<hr/>	<hr/>
OPERATING LOSS BEFORE FINANCE COSTS	3	(3,777,301)	(2,461,185)
FINANCE COSTS			
Interest income	5	24,317	9,797
Foreign exchange (loss) / gain		186,367	(117,355)
Interest expense	6	(3,554,551)	(2)
		<hr/>	<hr/>
LOSS FROM CONTINUING ACTIVITIES BEFORE TAXATION		(7,121,168)	(2,568,745)
Income tax expense	8	(92,166)	(44,848)
		<hr/>	<hr/>
LOSS ATTRIBUTABLE TO EQUITY OWNERS FOR THE YEAR		(7,213,334)	(2,613,593)
		<hr/>	<hr/>
OTHER COMPREHENSIVE LOSS			
Items that will be subsequently reclassified to Profit or Loss:			
Movement on foreign exchange		-	(402,408)
		<hr/>	<hr/>
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO EQUITY OWNERS FOR THE YEAR		(7,213,334)	(3,016,001)
		<hr/> <hr/>	<hr/> <hr/>

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

Nusantara Energy Limited
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2014

	<i>Notes</i>	At 31 December 2014 US\$	At 31 December 2013 US\$	At 31 December 2012 US\$
<u>ASSETS</u>				
NON CURRENT ASSETS				
Intangible assets	9	37,819,831	37,085,583	32,814,418
Property, plant and equipment	10	14,092	34,502	55,900
Trade and other receivables	11	401,929	574,289	517,063
		-----	-----	-----
TOTAL NON CURRENT ASSETS		38,235,852	37,694,374	33,387,381
CURRENT ASSETS				
Trade and other receivables	11	23,185,200	128,549	586,079
Cash and cash equivalents		1,916,033	4,591,660	8,859,005
		-----	-----	-----
TOTAL CURRENT ASSETS		25,101,233	4,720,209	9,445,084
		-----	-----	-----
TOTAL ASSETS		63,337,085	42,414,583	42,832,465
		=====	=====	=====
<u>LIABILITIES</u>				
CURRENT LIABILITIES				
Trade and other payables	12	(30,634,565)	(2,513,545)	(1,703,568)
		-----	-----	-----
NON CURRENT LIABILITIES				
Provisions	12	(54,013)	(39,197)	(24,913)
		-----	-----	-----
NET ASSETS		32,648,507	39,861,841	41,103,984
		=====	=====	=====
<u>EQUITY</u>				
Equity attributable to equity holders of Parent:				
Issued capital	13	3,415,669	3,415,669	3,333,835
Share premium	13	1,692,024	76,278,009	74,585,985
Other reserves		74,585,985	-	-
Translation reserve		(3,858,888)	(3,858,888)	(3,456,480)
Retained deficit		(43,186,283)	(35,972,949)	(33,359,356)
		-----	-----	-----
TOTAL EQUITY		32,648,507	39,861,841	41,103,984
		=====	=====	=====

Nusantara Energy Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*continued*)

At 31 December 2014

These above financial statements were approved by the Board on 15 April 2016.



M Higgins
Director
Company Registration No. 06156525

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

Nusantara Energy Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	Share capital	Share premium	Translation reserve	Retained losses attributable to equity holders of Parent	Total
At 1 January 2013	US\$ 3,333,835	US\$ 74,585,985	US\$ (3,456,480)	US\$ (33,359,356)	US\$ 41,103,984
Loss for the year	-	-	-	(2,613,593)	(2,613,593)
Movement on foreign exchange	-	-	(402,408)	-	(402,408)
TOTAL COMPREHENSIVE INCOME FOR YEAR	-	-	(402,408)	(2,613,593)	(3,016,001)
Shares issued during the year	81,834	1,692,024	-	-	1,773,858
TOTAL TRANSACTIONS WITH EQUITY OWNERS	81,834	1,692,024	-	-	1,773,858
At 31 December 2013	3,415,669	76,278,009	(3,858,888)	(35,972,949)	39,861,841

Nusantara Energy Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2014

	Share capital	Share premium	Other reserves	Translation reserve	Retained losses attributable to equity holders of Parent	Total
At 1 January 2014	US\$ 3,415,669	US\$ 76,278,009	US\$ -	US\$ (3,858,888)	US\$ (35,972,949)	US\$ 39,861,841
Loss for the year	-	-	-	-	(7,213,334)	(7,213,334)
Movement on foreign exchange	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR YEAR	-	-	-	-	(7,213,334)	(7,213,334)
Reduction of share premium and transfer to "other reserves"	-	(74,585,985)	74,585,985	-	-	-
TOTAL TRANSACTIONS WITH EQUITY OWNERS	-	-	-	-	-	-
At 31 December 2014	3,415,669	1,692,024	74,585,985	(3,858,888)	(43,186,283)	32,648,507

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

Nusantara Energy Limited
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2014

	<i>Notes</i>	Year to 31 December 2014 US\$	Year to 31 December 2013 US\$
CASH FLOWS FROM OPERATING ACTIVITIES	14	(3,650,510)	(1,776,333)
INVESTING ACTIVITIES			
Interest received		24,317	9,797
Interest paid		(3,554,551)	(2)
Prepayment of assets		(22,804,587)	-
Purchase of exploration and evaluation assets		(744,748)	(4,232,665)
Purchase of mining software		-	(42,000)
		-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		(27,079,569)	(4,264,870)
		-----	-----
FINANCING ACTIVITIES			
Issue of ordinary shares		-	1,773,858
Issue (repayment) of loan notes		28,054,452	-
		-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		28,054,452	1,773,858
		-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(2,675,627)	(4,267,345)
Cash and cash equivalents brought forward		4,591,660	8,859,005
		-----	-----
CASH AND CASH EQUIVALENTS CARRIED FORWARD		1,916,033	4,591,660
		=====	=====

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

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 2014.

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 2014 the Group had cash and cash equivalents of US\$1.9m.

The Company has put in place borrowings of up to \$35m from Ianto Finance Limited during 2014 and 2015 for further investment and to continue to support the operations of the Group. The loans have a 25% coupon compounding annually and mature in June 2016.

In view of the ongoing support from its major shareholder, and the fact that the Group has sufficient funds to continue its operations for the foreseeable future, the directors consider the Group to be a going concern for at least twelve months from the date of approval of these financial statements as Ianto has agreed in principle to underwrite a rights issue to be called at a time that the Board shall approve.

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 2014. 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.

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

1 ACCOUNTING POLICIES *(continued)*

1.4 Foreign currencies

The consolidated financial statements are presented in US dollars. It is anticipated that US dollars will be the trading currency of the Group once production commences

In December 2013, the Board passed a resolution to redenominate the share capital to US dollars and to change the functional currency of the Parent Company from sterling to US dollars. Also, on 1 January 2013, the functional currency of PT Anugerah Jambi Coalindo (AJC), PT Bakti Sarolangun Sejahtera (BSS) and PT Sinar Anugerah Sukses (SAS), three of the Group subsidiaries, was changed from Indonesian rupiah to US dollars.

Prior year numbers for the Parent Company have been converted from sterling to US dollars at the prevailing exchange rates. Prior year numbers for the Indonesian group subsidiaries have been converted from Indonesian rupiah to US dollars 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 Parent and Group subsidiaries, AJC, BSS and SAS, the Group have changed from sterling and Indonesian rupiah, respectively, 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.

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.

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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. 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.

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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.

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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.

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.
- "Other reserves" represents a distributable reserve arising as a result of the reduction of the Company's share premium account in January 2014.
- "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

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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.

Nusantara Energy Limited

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2014

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 2015 or later periods, but the Group has not early adopted them:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 (effective 1 January 2015)

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.