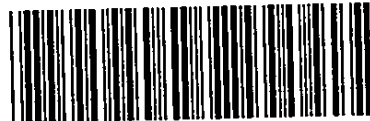


**VIRGINIA INDONESIA CO CBM LIMITED**  
**DIRECTORS' REPORT**  
**AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**REGISTERED OFFICE**  
Eni House  
10 Ebury Bridge Road  
London SW1W 8PZ  
ENGLAND

**REGISTERED NUMBER 07079220**

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**VIRGINIA INDONESIA CO. CBM LIMITED**

**DIRECTORS AND REGISTERED OFFICE**

**BOARD OF DIRECTORS**

J Bartlett  
J Blythe  
L Bonali  
W Lin  
A Martin  
P Hemmens  
C V Russo  
O Chacon

**SECRETARY AND REGISTERED OFFICE**

F Dal Bello  
Eni House  
10 Ebury Bridge Road  
London SW1W 8PZ

**STATUTORY AUDITORS**

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

**REGISTERED IN ENGLAND NO 7079220**

## **VIRGINIA INDONESIA CO. CBM LIMITED**

### **DIRECTORS' REPORT**

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The directors present their report and audited financial statements of the company for the year ended 31 December 2012

#### **Principal activities**

The company's principal activity is petroleum exploration and it holds a 75.0% participating interest in the Production Sharing Contract (PSC) in respect of the Sanga Sanga CBM block in Indonesia

The company was incorporated on 17 November 2009 and is a 50/50 joint venture between BP Exploration Operating Company Limited and Eni Lاسmo plc whose ultimate parent companies are BP Plc and Eni S.p.A respectively

#### **Results and dividends**

The company's Statement of Comprehensive Income is set out on page 5. The loss for the year amounted to 2012 \$1,865,409 (2011 restated \$1,586,837). No dividend was paid during 2012 (2011 nil)

#### **Business review and future company development**

During 2012 the Company continued to explore and appraise the Coal Bed Methane (CBM) potential in the Sanga Sanga CBM PSC in Kalimantan, Indonesia. By the end of 2012 two of the three multiwell pilots were in operation and producing gas and three of the exploration wells had been drilled and designed to test. The first of these exploration wells Mutiara 205 is performing well and producing gas at good rates. In addition to the two completed oil and gas wells the CBM project team will drill three multi well pilots consisting of four wells each in the core identified areas and another nine wells in other areas to test the extent of the sweet spots. This program is expected to be completed by the end of 2013 after which a decision will be made on the next phase of the appraisal.

#### **Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks set out in the notes to the financial statements. The company has adopted the most stringent standards, for the evaluation and management of industrial and environmental risks.

#### **Branches outside the UK**

The company is registered as a permanent establishment in Indonesia.

#### **Directors**

The present directors of the company are listed on page 1 and have held office throughout the year, aside from

L Ciarrocchi resigned as a director on 12 October 2012

L Bonali was appointed as director on 12 October 2012

M Talamonti resigned as director on 10 April 2012

O Chacon was appointed as director on 10 April 2012

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

#### **Going concern**

The directors have considered the going concern basis for preparation of these financial statements and concluded it to be appropriate on the basis that the company is dependent on the financial support from its shareholders, Eni Lاسmo plc and BP Exploration Operating Company Limited, who have confirmed to carry on providing their financial support to the company for the foreseeable future being not less than twelve months from the date of the signing these financial statements.

#### **Financial instruments**

Details on the use of financial instruments and financial risk management are included in the relevant notes in the financial statements.

## **VIRGINIA INDONESIA CO CBM LIMITED**

### **DIRECTORS' REPORT**

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#### **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

#### **Provision of information to auditor**

The directors, as at the date of this report, have confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the company's auditor in connection with preparing their report) of which the company's auditor are unaware, and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

#### **Auditors**

In January 2013, KPMG LLP resigned as auditors of the company in accordance with section 516 of the Companies Act 2006 and Ernst & Young LLP were appointed in their place in relation to the financial year ended 31 December 2012

Pursuant to Section 487 of the Companies Act 2006, Ernst & Young LLP will be deemed to be reappointed and will therefore continue in office

By order of the Board

  
E Dal Bello

Company Secretary

18 September 2013

## INDEPENDENT AUDITOR'S REPORT

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGINIA INDONESIA CO. CBM LIMITED

We have audited the financial statements of Virginia Indonesia Co CBM Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Policies and the related notes 1 to 16. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

*Ernst & Young LLP*

William Testa (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

20 September 2013

**VIRGINIA INDONESIA CO. CBM LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	Restated 2011 \$	2012 \$
Other service costs and expenses	3	(1,583,540)	(1,858,178)
<b>Operating loss</b>		<b>(1,583,540)</b>	<b>(1,858,178)</b>
Interest receivable and similar income	4	25	28
Interest payable and similar charges	5	(3,322)	(7,259)
<b>Operating loss before taxation</b>		<b>(1,586,837)</b>	<b>(1,865,409)</b>
Taxation	6	-	-
<b>Loss for the year</b>		<b>(1,586,837)</b>	<b>(1,865,409)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss</b>		<b>(1,586,837)</b>	<b>(1,865,409)</b>

All results are from continuing operations and total comprehensive loss for the year is attributable to the equity holders

## VIRGINIA INDONESIA CO. CBM LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share Capital	Retained Deficit	Shareholders' Equity
	\$	\$	\$
As at 1 January 2011	631,640	(1,445,556)	(813,916)
Net loss for the year (restated, see note 12)	-	(1,586,837)	(1,586,837)
As at 1 January 2012 (restated)	631,640	(3,032,393)	(2,400,753)
Net loss for the year	-	(1,865,409)	(1,865,409)
As at 31 December 2012	631,640	(4,897,802)	(4,266,162)


**VIRGINIA INDONESIA CO. CBM LIMITED (Registered number: 7079220)**

**BALANCE SHEET  
AS AT 31 DECEMBER 2012**

	Notes	Restated 31 December 2011 \$	31 December 2012 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	13,182	12,188
Trade and other receivables	9	408,195	874,411
Inventories	8	383,890	575,211
<b>Total current assets</b>		<b>805,267</b>	<b>1,461,810</b>
<b>Non-current assets</b>			
Trade and other receivables	9	362,883	717,336
Intangible assets	7	4,187,101	7,696,958
<b>Total non-current assets</b>		<b>4,549,984</b>	<b>8,414,294</b>
<b>Total Assets</b>		<b>5,355,251</b>	<b>9,876,104</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	11	7,656,690	13,922,512
<b>Total current liabilities</b>		<b>7,656,690</b>	<b>13,922,512</b>
<b>Non-current liabilities</b>			
Provisions	12	99,314	219,754
<b>Total non-current liabilities</b>		<b>99,314</b>	<b>219,754</b>
<b>Total Liabilities</b>		<b>7,756,004</b>	<b>14,142,266</b>
<b>Shareholders' equity</b>			
Share capital	13	631,640	631,640
Retained deficit	14	(3,032,393)	(4,897,802)
<b>Total shareholders' equity</b>		<b>(2,400,753)</b>	<b>(4,266,162)</b>
<b>Total liabilities and shareholders' equity</b>		<b>5,355,251</b>	<b>9,876,104</b>

The financial statements from page 5 to page 19 were approved by the Board on 18 September 2013

On behalf of the Board



P Hemmens  
Director



**VIRGINIA INDONESIA CO. CBM LIMITED**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2012**

		Restated 2011	2012
	Notes	\$	\$
<b>Cash flow generated from operating activities</b>			
Net loss		(1,586,837)	(1,865,409)
<b>Adjustments for</b>			
Interest receivable and other similar income	4	(25)	(28)
Interest payable and other similar charges	5	3,322	7,259
<b>Changes in working capital</b>			
Increase in trade and other receivables	9	(545,225)	(820,669)
Increase in inventories		(140,616)	(191,321)
Increase in trade and other payables	11	4,518,203	6,265,822
<b>Cash flow generated from operations</b>		2,248,822	3,395,654
Interest receivable and other similar income	4	25	28
Interest payable and other similar charges	5	(548)	(608)
<b>Net cash flow generated from operating activities</b>		2,248,299	3,395,074
<b>Cash flows from investing activities</b>			
Exploration and appraisal costs	7	(2,248,822)	(3,396,068)
<b>Net cash flow used in investing activities</b>		(2,248,822)	(3,396,068)
<b>Net decrease in cash and cash equivalents</b>	10	(523)	(994)
<b>Cash and cash equivalents at beginning of the year</b>		13,705	13,182
<b>Cash and cash equivalents at end of the year</b>	10	13,182	12,188

## VIRGINIA INDONESIA CO. CBM LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

A summary of the principal accounting policies which have been applied throughout the year is set out below

#### General information

The company is a limited liability company incorporated and domiciled in the UK

#### Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 as applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The company made a loss of \$1,865,409 (2011 restated \$1,586,837) during the year and has net liabilities of \$4,266,162 (2011 restated \$2,400,753). The directors have considered the going concern basis for preparation of these financial statements and concluded it to be appropriate on the basis that the company is dependent on the financial support from its shareholders, Eni Lasmo plc and BP Exploration Operating Company Limited, who have confirmed to carry on providing their financial support to the company for the foreseeable future being not less than twelve months from the date of the signing these financial statements.

#### Adoption of new and revised standards

The following standards, amendments and interpretations to existing standards, issued by the International Accounting Standards Board (IASB) and endorsed by the EU, are effective for the first time in the current year but are either not relevant or have no material impact on these financial statements.

Amendments to IFRS 7, 'Financial Instruments Disclosures' – these amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets.

The following standards, amendments and interpretations to existing standards relevant to the company are not yet effective and have not been early adopted by the company in these financial statements:

- IAS 1, 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2013, amended to change the grouping of items presented in Other Comprehensive Income, and
- IAS 19 'Employee Benefits', effective for annual periods beginning on or after 1 January 2013, the revised standard includes a number of amendments. For example, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. Also there are new requirements to disclose quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.
- IAS 27, 'Separate Financial Statements', effective for annual periods beginning on or after 1 January 2013 - amendments triggered by IFRS 10 and IFRS 12 to the portion that addresses the accounting for consolidated financial statements,
- IAS 28, 'Investments in Associates and Joint Ventures', effective for the periods beginning on or after 1 January 2013. IAS 28 sets out the requirements for the application of the equity method of accounting for investments in associates and joint ventures,
- IFRS 11 'Joint Arrangements', effective for annual accounting periods beginning on or after 1 January 2013. IFRS 11 overhauls the accounting for joint ventures (now called joint arrangements), in particular, the transition from equity method to proportionate consolidation for investments in jointly controlled entities (referred to as joint operations under IFRS 11),
- IFRS 12 'Disclosure of Interests in Other Entities', effective for annual accounting periods beginning on or after 1 January 2013. IFRS 12 requires extensive disclosures enabling users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on financial statements, and
- IFRS 13 'Fair Value Measurement', effective for annual accounting periods beginning on or after 1 January 2013. IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.
- Amendments to IAS 12, IFRS 1, IFRS 7 and improvements to IFRSs 2009-2011, effective for the periods beginning on or after 1 January 2013.

## **VIRGINIA INDONESIA CO CBM LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **Adoption of new and revised Standards (continued)**

The following standards and interpretations have been issued by the IASB, but have not been endorsed by the EU for their application to become mandatory

IFRS 9 'Financial Instruments', effective for annual accounting periods beginning on or after 1 January 2015  
IFRS 9 amends the classification and measurement of financial instruments

#### **Foreign currencies**

The functional and reporting currency of the company is US Dollar The year end exchange rate to GBP Sterling is 0.61854 (2011 0.64557)

Transactions denominated in a foreign currency are converted to US Dollars at rates ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies have been translated at the rates ruling at the balance sheet date The resulting exchange gains or losses are recognised in the Statement of Comprehensive Income unless related to a specific project when the gain or loss is capitalised

#### **Cash and cash equivalents**

Cash and cash equivalents include the company's current bank accounts and short-term deposits with an original maturity of three months or less

#### **Inventories**

Inventories consist of petroleum, condensate, liquid petroleum gas and materials Inventories are stated at the lower of cost and net realisable value and represent the company's share of inventories belonging to the consortia of which it is a member Cost is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses Net realisable value is determined by reference to prices existing at the balance sheet date

#### **Taxation**

The tax expense for the period comprises current and deferred tax Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity In this case the tax is also recognised in other comprehensive income or directly in equity, respectively

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities

#### **Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due, according to the original terms The amount of the provision is recognised in the Statement of Comprehensive Income

## **VIRGINIA INDONESIA CO. CBM LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **Trade payables**

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

#### **Intangible assets – exploration and appraisal costs**

Exploration costs represent the company's share of expenditure by consortia on the exploration of oil and natural gas up to the date of any decision to exploit various finds

Where no decision has been made by the balance sheet date to exploit a find, the costs are accounted for in accordance with the successful efforts method. The cost of drilling exploratory wells is carried forward as an intangible asset if in the opinion of the directors there is a reasonable prospect of development of the related fields commencing within three years of commencement of drilling. Costs of exploratory dry holes are written off at the time that the wells are determined to be dry and all licence fees, geological and geophysical expenses are written off as incurred.

Where a decision has been made to exploit a find, the exploration costs are carried forward. In the year after a decision has been made to exploit a find but before field development programme approval has been granted, any pre-development costs that are incurred are also capitalised and carried forward. When field development programme approval is granted, the exploration and pre-development costs of that field are reclassified as tangible assets.

Exploration wells that are being drilled at the year end are included in fixed assets as exploration and appraisal costs until the results of the drilling are determined.

All costs not directly attributable to the exploration activities are expensed immediately to the profit and loss account.

#### **Intangible assets - acquisition of mineral rights**

Costs associated with the acquisition of mineral rights are capitalised in connection with the assets acquired (such as exploratory potential, probable and possible reserves and proved reserves). When the acquisition is related to a set of exploratory potential and reserves, the cost is allocated to the different assets acquired on the basis of the value of the relevant discounted cash flows. Expenditure for the exploratory potential, represented by the costs for the acquisition of the exploration permits and for the extension of existing permits, is recognised under "Intangible Assets" and is amortized on a straight-line basis over the year of the exploration as contractually established. Any costs incurred prior to obtaining the legal rights to explore are expensed immediately to the Statement of Comprehensive Income. If the exploration is abandoned, the residual expenditure is charged to the Statement of Comprehensive Income. Acquisition costs for proved reserves and for possible and probable reserves are recognised in the statement of financial position as assets. Costs associated with proved reserves for fields in production are amortized on a UoP basis, as detailed in the section "Development", considering both developed and undeveloped reserves. Expenditures associated with possible and probable reserves are not amortized until classified as proved reserves, in case of a negative result, the costs are charged to the statement of income.

#### **Joint ventures**

A joint venture is a contractual arrangement whereby the company and other parties undertake an economic activity that is subject to joint control.

The company participates in an unincorporated joint venture which involves the joint control of assets used in the company's oil and gas exploration and producing activities. Interests in jointly controlled assets are recognised by including the company's share of assets, liabilities, income and expenses on a line-by-line basis. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. In addition, where the company acts as operator to the joint venture, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint venture are included in the company's balance sheet.

## **VIRGINIA INDONESIA CO. CBM LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **Probable reserves**

Probable reserves are additional reserves that are less likely to be recovered than proved reserves but more certain to be recovered than Possible Reserves. These reserves are estimated to have equal to or more than 50% chance of being technically and economically producible.

#### **Possible reserves**

Possible reserves are additional reserves which analysis and geoscience and engineering data suggest are less likely to be recovered than Probable Reserves. These reserves are estimated to have a significant but equal to or less than 10% chance of being technically and economically producible.

#### **Impairment of assets**

At the end of each reporting year, the company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, future net cash flows for each field are calculated by utilising the company's estimate of proved reserves at year end, together with the company's estimates of future oil prices, future capital and operating costs and future decommissioning costs, required for recovering these remaining proved reserves. These estimated future cash flows are then discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

At the end of each reporting year, an assessment is made to determine whether there is any indication that an impairment loss recognised in prior years may no longer exist or has decreased. Where such an indication exists, an impairment loss is reversed to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **Financial instruments**

The company classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### **(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

#### **Related party transactions**

The company has complied with the requirements of International Accounting Standard ("IAS") 24 – Related party transactions in these financial statements. Transactions with related parties are disclosed in each relevant note.

#### **Provisions**

Provisions are recognised when (i) there is a current obligation (legal or constructive), as a result of a past event, (ii) it is probable that the settlement of that obligation will result in an outflow of resources embodying economic benefits, and (iii) the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to third parties at that time.

## VIRGINIA INDONESIA CO. CBM LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### Decommissioning provision

The estimated cost of dismantling the production and related facilities and site restoration at the end of the economic life of each field is recognised in full at the commencement of oil and gas production as a decommissioning provision. The amount recognised is the present value of the estimated future decommissioning cost, and an offsetting entry to intangible assets is also recognised. The increase in the provision with the passage of time (unwinding of discount) is recognised as interest expense. Changes to the present value of the estimated future decommissioning cost are accounted for as adjustments to the provision and intangible assets.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to third parties at that time.

#### Use of accounting estimates, judgements and assumptions

The company's Financial Statements are prepared in accordance with IFRS. These require the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Estimates made are based on complex or subjective judgements, past experience and other assumptions deemed reasonable in consideration of the information available at the time. The accounting policies and areas that require the most significant judgements and estimates to be used in the preparation of the Financial Statements are in relation to the accounting for oil and natural gas activities, specifically in the determination of proved and proved developed reserves, impairment of fixed assets, intangible assets and goodwill, asset retirement obligations, business combinations, pensions and other post-retirement benefits, and recognition of environmental liabilities. Although the company uses its best estimates and judgements, actual results could differ from the estimates and assumptions used. A summary of significant estimates follows.

##### a) Oil and gas activities

Engineering estimates of the company's oil and gas reserves are inherently uncertain. Although there are authoritative guidelines regarding the engineering criteria that must be met before estimated oil and gas reserves can be designated as "proved", the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Oil and natural gas reserves have a direct impact on certain amounts reported in the Financial Statements. Estimated proved reserves are used in determining depreciation and depletion expenses and impairment expense.

##### b) Impairment of assets

The company assesses its intangible assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets are not recoverable. Such indicators include changes in the company's business plans, changes in commodity prices leading to unprofitable performance and, for oil and gas properties, significant downward revisions of estimated reserve quantities.

Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation and technology improvements on operating expenses, production profiles and the outlook for global or regional market supply and demand conditions for crude oil, natural gas, commodity chemicals and refined products, and the discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

##### c) Decommissioning provisions

Obligations to remove property, plant and equipment and restore land or seabed require significant estimates in calculating the amount of the obligation and determining the amount required to be recorded at present value in the financial statements. Estimating future decommissioning provisions is complex. It requires management to make estimates and judgements with respect to removal obligations that will come to term many years into the future and contracts and regulations are often unclear as to what constitutes removal. In addition, the ultimate financial impact of environmental laws and regulations is not always clearly known as asset removal technologies and costs constantly evolve, as well as political, environmental, safety and public expectations.

The subjectivity of these estimates is also increased by the accounting method used that requires entities to record the fair value of a liability for decommissioning obligations in the period when it is incurred (typically, at the time, the asset is installed at the production location).

The recognised decommissioning provisions are based on future decommissioning cost estimates and incorporate many assumptions such as expected recoverable quantities of crude oil and natural gas, abandonment time, future inflation rates and the risk-free rate of interest adjusted for the company's credit costs.

# **VIRGINIA INDONESIA CO. CBM LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. Parent undertakings**

The company is a 50/50 joint venture parent undertaking between BP Exploration Operating Company Limited and Eni Lasmo plc

The ultimate parent undertaking for Eni Lasmo plc is Eni S.p.A., a company incorporated in Italy, whose address is Eni S.p.A. – Exploration & Production Division is Via Emilia 1, 20097, San Donato Milanese, PO Box 12069, (20100) Milano. The ultimate parent undertaking for BP Exploration Operating Company Limited is BP plc, a company incorporated in UK, with registered address at 1 St James's Square, London, SW1Y 4PD.

### **2. Directors' remuneration**

The directors, being the management of the company, received no remuneration in respect of their services to the company during the year (2011: nil). There were no loans between the directors and the company during the year (2011: nil).

### **3. Operating loss**

Operating loss is stated after charging the following amounts

	Year ended 31 December 2011	Year ended 31 December 2012
	\$	\$
Other service and field operating costs	1,498,603	1,611,743
Auditor's remuneration – audit of the company's financial statements	22,461	19,816

### **4. Interest receivable and similar income**

	Year ended 31 December 2011	Year ended 31 December 2012
	\$	\$
Interest on bank accounts	25	28

### **5. Interest payable and similar charges**

	Restated year ended 31 December 2011	Year ended 31 December 2012
	\$	\$
Unwinding of discount (note 12)	2,774	6,651
Bank charges	548	608
	3,322	7,259

**VIRGINIA INDONESIA CO. CBM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**6 Taxation**

	Restated year ended 31 December 2011	Year ended 31 December 2012
	\$	\$
The charge for the year comprises		
Current tax at 24.5% (2011: 26.5%)		
UK corporation tax on profits for the year	-	-

The tax assessed for the year is lower than the standard rate of corporation tax applicable to oil and gas exploration and production companies in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	Restated year ended 31 December 2011	Year ended 31 December 2012
	\$	\$
Loss before taxation	(1,586,837)	(1,865,409)
Taxation on loss before tax at 24.5% (2011: 26.5%)	(420,512)	(457,025)
Expenditure not allowable for tax	420,512	457,025
Total taxation	-	-

The company has not yet commenced to trade for UK tax purposes.

**Deferred tax**

The deferred corporation tax asset calculated at the rate of 23% (2011: 25%) which was not recognised in the financial statements amounted to:

	Unprovided amount 2011	Unprovided amount 2012
	\$	\$
Movement in unrecognised temporary differences	1,779,932	2,846,147

In the year ended 31 December 2012, the directors consider that it was unlikely that there would be suitable taxable profits from which the future reversal of the underlying timing differences could be deducted, therefore the deferred tax asset was not recognised.



**VIRGINIA INDONESIA CO CBM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**7. Intangible assets**

**Exploration and appraisal costs**

	Restated 31 December 2011	31 December 2012
	\$	\$
<b>Cost</b>		
Opening balance	1,841,739	4,187,101
Additions during the year	2,248,822	3,396,068
Provision for decommissioning (note 12)	96,540	113,789
<b>At 31 December</b>	<b>4,187,101</b>	<b>7,696,958</b>
<b>Amounts written off</b>		
Opening balance	-	-
Charge for year	-	-
<b>At 31 December</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>	<b>4,187,101</b>	<b>7,696,958</b>

The Intangible assets relate to the company's oil and gas exploration interest in Indonesia

**8 Inventories**

	31 December 2011	31 December 2012
	\$	\$
<b>Materials</b>	<b>383,890</b>	<b>575,211</b>

**9 Trade and other receivables**

	31 December 2011	31 December 2012
	\$	\$
<b>Current</b>		
Amounts owed by joint venture partners – third party	121,050	163,323
Prepayments	277,767	638,983
Other receivables – third party	9,378	72,105
	<b>408,195</b>	<b>874,411</b>
<b>Non-current</b>		
Other receivables – third party	362,883	717,336

The company has not experienced material non-performance by any counterparty. As of 31 December 2012 the company had no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amount of the trade and other receivables.

The carrying amount of the company's trade and other receivables are denominated in US Dollars. The company believes that the carrying amounts are a reasonable approximation to the fair value.

**VIRGINIA INDONESIA CO CBM LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**10 Cash and cash equivalents**

	<u>31 December 2011</u>	<u>31 December 2012</u>
	\$	\$
Cash at bank	<u>13,182</u>	<u>12,188</u>

**11 Trade and other payables**

	<u>31 December 2011</u>	<u>31 December 2012</u>
	\$	\$
Other creditors – third party	55,995	18,019
Accruals	135,062	94,754
<b>Related party – parent companies</b>		
Eni Lasmo plc	3,113,038	6,107,697
BP Exploration Operating Company Limited	3,113,038	6,107,697
<b>Related party – affiliate companies</b>		
Eni UK Limited	-	328,805
<b>Joint venture partners</b>	<u>1,239,557</u>	<u>1,265,540</u>
	<u>7,656,690</u>	<u>13,922,512</u>

The payables to related parties arise mainly from financing received and purchase of services, and are due on demand. The payables are unsecured and bear no interest. The carrying amount of the above liabilities approximates to their fair value.

**12 Provisions**

	<u>Decommissioning Provisions</u>
	\$
As 1 January 2011	-
Provided in the year	96,540
Unwinding of discount	<u>2,774</u>
At 1 January 2012 restated	99,314
Provided in the year	113,789
Unwinding of discount	<u>6,651</u>
<b>At 31 December 2012</b>	<u><b>219,754</b></u>

A provision of \$219,754 (2011 - \$99,314) has been recognised for decommissioning costs relating to the oil and gas field in which the company is a participant. The provision has been estimated using existing technology, existing life of field estimates, current decommissioning cost estimates and discounted using the directors' assessment of an appropriate risk adjusted discount rate of 4.448% (2011 - 5.053%). The estimated date of decommissioning the field is 2039.

The adjustments have been made retrospectively in these financial statements to recognise the decommissioning liability and the related unwinding of discount with the prior year balances being restated accordingly. Had this restatement not been made, the intangible assets and provisions would have been lower by \$96,540 and the loss for the year ended 31 December 2011 would have been reduced by \$2,774.

# **VIRGINIA INDONESIA CO CBM LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **13. Share capital**

	<u>31 December 2011</u>	<u>31 December 2012</u>
	\$	\$
<b>Authorised, allotted and fully paid</b>		
631,640 ordinary shares of \$1 each	<u>631,640</u>	<u>631,640</u>

The company's objective when managing capital is to safeguard the company's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to its shareholder.

The company regularly reviews its capital structure on the basis of its expected capital requirements in order to achieve the defined strategic objectives and manages its capital accordingly.

### **14. Retained deficit**

	<u>Restated 31 December 2011</u>	<u>31 December 2012</u>
	\$	\$
At 1 January	1,445,556	3,032,393
Loss for the year	1,586,837	1,865,409
<b>At 31 December</b>	<u>3,032,393</u>	<u>4,897,802</u>

### **15 Commitments**

The company's share of capital commitments in relation to the joint venture entered into by the company as at 31 December 2012 amounted to \$3,111,860 (2011: \$3,244,865). The capital commitments are mainly for the drilling and operating activities.

### **16 Market risk**

Market risks include foreign exchange rate risk, liquidity risk and operation risk.

#### **Foreign exchange rate risk**

Exchange rate risk derives from the fact that the company's operations are conducted in currencies other than the US Dollar (in particular the Euro and GBP) and by the time lag existing between the recording of costs denominated in currencies other than the functional currency and the actual time of the relevant monetary transaction (transaction exchange rate risk). The transaction exchange rate risk arising from payables, receivables and accruals in currencies denominated in currencies other than the functional currency, is not considered to be material due to the fact that these will be realised within 30 days. Generally speaking, an appreciation of the US Dollar versus the GBP has a positive impact on the company's results of operations, and vice-versa. Effective management of exchange rate risk is performed by the parent companies at their respective Group level. At the balance sheet date the company does not hold any derivative instruments designed to manage exchange rate risk. Foreign exchange rate as at 31 December 2012: 1 USD = GBP 0.61854 (2011: 1 USD = GBP 0.64557).

#### **Liquidity Risk**

Liquidity risk is the risk that suitable sources of funding for the company's business activities may not be available. The company is financed by the parent companies who have confirmed their intention to continue providing the financing to the company as and when required. The company believes funding from parent companies is sufficient to meet currently foreseeable cash requirements.

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

**VIRGINIA INDONESIA CO CBM LIMITED****NOTES TO THE FINANCIAL STATEMENTS****16 Market risk (continued)**

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

<b>As at 31st December 2012</b>	<b><u>Less than one year</u></b>
	<b>\$</b>
<b>Trade and other payables</b>	<b>13,827,757</b>

<b>As at 31st December 2011</b>	<b><u>Less than one year</u></b>
	<b>\$</b>
<b>Trade and other payables</b>	<b>7,521,628</b>

**Operation Risk**

The company's activities present industrial and environmental risks and are therefore subject to extensive government regulations concerning environmental protection and industrial security.

The broad scope of these activities involves a wide range of operational risks such as those of explosion, fire or leakage of toxic products, and production of non biodegradable waste.

All these events could possibly damage or even destroy wells as well as related equipment and other property, cause injury or even death to persons or cause environmental damage. In addition, since exploration and production activities may take place on sites that are ecologically sensitive, each site requires a specific approach to minimise the impact on the related ecosystem, biodiversity and human health.