Vostok Energy Plc

(Registered No 05806076)

Annual Report and Financial Statements

31 December 2011

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Company information

Directors

Charles Jamieson (Chairman)
Yuri Samsonov (Chief Executive Officer)
Robert Cathery (Executive Director)
Blaine Karst (Finance Director)
Roger Cagle
Ronald Harris
John Orange
Mark Sadykhov
Jacob Ulrich
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Secretary

Tony Hunter

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Solicitors

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Broadwalk House
5 Appold Street
London EC2A 2HA

Executive Chairman's statement

Vostok Energy Public Limited Company (the "Company") and its subsidiaries (the "Group" or "Vostok") remain focused on adding shareholder value through increasing reserves and production The Group's work programme has been based on three principal objectives and strategies continued exploration of the hydrocarbon potential of the Bortovoy licence (the "licence") via additional seismic and exploratory drilling, appraisal of the Group's known reserves through appraisal/development drilling and re-evaluation of existing seismic and other technical data, and commercialising the gas reserves through construction of gas and oil processing facilities while increasing available production capacity through development drilling, re-entries and acid matrix and fracturing programmes on selected wells

Exploration activities

During 2011, the Group completed the testing of its first Devonian well The two initial tests on the deeper horizons within the Devonian were successful resulting in a significant increase in reserves for the eastern licence area in 2011 Subsequent testing of shallower horizons in the Devonian and Carboniferous did not result in discoveries of commercial reserves of gas or oil although the logs showed significant potential for additional reserves One possible conclusion is the horizons were damaged during the drilling process due to the use of heavier mud to control the well as significant gas kicks were encountered during drilling The Company is currently evaluating the test results and exploring alternative methods to stimulate the damaged horizons to get the results anticipated from the logs

Further Devonian prospects have been identified by our geological team based on the 3D seismic acquired during the previous years, the most recent seismic acquisition was completed in Q1 2011 Based on the success of the first Devonian well and interpretation of seismic data, the Group commenced drilling a second Devonian prospect in June 2011, 10 kilometers to the west of the first Devonian well Drilling was ongoing at year-end at a depth of over 4,000 meters and is expected to be completed in 2012 at a total anticipated target depth of 4,900 meters

Appraisal and development activities

The Group began its re-entry programme in the eastern area of the licence during 2011 to confirm that by entering old wells drilled pre 1990, they could be used as production wells to provide feedstock for a gas processing facility in the eastern licence area The re-entry was in process at year-end and completed in early 2012 confirming production rates and gas quality suitable for gas processing Additional re-entries are planned for 2012 to further prove up additional feedstock for the next gas processing facility

Commercialisation

During 2011, the Group had its first full year of continuous operations of its first gas processing facility There were the expected start-up problems but for the last four months of 2011, the gas processing facility operated consistently at full or near full capacity providing funding for ongoing operations and a basic capital programme

Financing

During December 2011 the Company completed a small financing through existing shareholders, executives and directors raising 11 6 million USD to provide additional capital to assist in financing the Group's capital programme The goal for 2012 is to raise additional funds to initiate the design and construction of the gas processing facility in the eastern area of the licence and to ensure the Group will be able to meet its liabilities as they fall due in the foreseeable future Equity and debt financing alternatives would require certain shareholder approvals and under certain conditions, bondholder approval Our current priority is to focus on an initial public offering to be completed in the second half of 2012 Although there is no certainty that any of the alternative financing strategies will be implemented successfully, the directors believe that appropriate financing will be obtained and the Group will have adequate financial resources to continue in operational existence for the foreseeable future Please refer to the basis of preparation section within Note 2 for further discussion on the Group's ability to continue as a going concern

Business review
Operations review

Production

With the initial start-up of the gas plant in November 2010, the Group was able to maintain successful commercial operations in 2011 The gas plant reached full production capacity in March and April 2011, however, problems with the sweetening unit caused the plant to produce at reduced volumes from mid-April through August 2011 From September 2011 through the end of the year the plant operations improved significantly Since September 2011 gas production has averaged approximately 47 0 MMcf per day and gas sales have averaged approximately 44 4 MMcf per day The overall average production for the year was 66 5% of gas plant capacity

Along with the gas production and the associated condensate, oil production was resumed in May 2011 During 2011, the Group produced a total of 12,615 3 MMcf of gas (2010 – 0 3 MMcf), 140 3 Mbbl of condensate (2010 – 0 2 Mbbl) and 82 9 Mbbl of oil (2010 – 2 0 Mbbl) The plan for 2012 is to maintain gas production at full or near full capacity while bringing additional wells on line to increase oil production

Drilling and re-entries

Exploration drilling

West area

No exploratory drilling was undertaken in the west area of the licence during 2011

East area

Lower Permian

No exploratory drilling was undertaken for the Lower Permian during 2011

Devonian

Nepryakhinskaya 1

The Nepryakhinskaya 1 Devonian exploration well which commenced drilling in April 2010 completed drilling at a total depth of 4,625 metres in the Lower Devonian in 2010 The well was logged using both Russian and western geophysical logging services and based upon both preliminary log analysis and high background gas shows, the well was cased to a total depth at year end 2010

The well was tested at commercial rates from selective intervals in three Devonian zones during Q1 2011 The lowest zone, the Lower Devonian D1 Koyvensky tested at a rate of 819 Mcf per day and the upper two zones, the Middle Devonian D2 Biyisky and lower Klintsovsky, combined tested at a rate of 13 7 MMcf per day However, pressure build-up analysis on the lowest zone indicated severe reservoir damage near the wellbore and not all of the pay was opened in each zone

Following completion and testing of the above intervals the drilling rig was demobilized and moved to the next proposed exploratory drilling location and a service rig was moved onto the Nepryakhinskaya drilling location during Q2 2011 following the spring thaw in order to undertake the full completion and evaluation of the well

The second phase of well completion commenced during Q3 2011 with completion and testing of an interval in the upper portion of the Klintsovsky Testing of this zone did not however produce significant quantities of hydrocarbons and the test is considered inconclusive due to suspected reservoir damage

Log analysis of the shallower zones in both the Middle and Upper Devonian and Lower Carboniferous indicated significant quantities of hydrocarbons However, completion and testing of an interval in the Middle Devonian D2 Mosolovsky and an interval considered to be a thin preserved section of the Middle Devonian D2 Vorobevsky, which are indicated to be oil bearing on logs, failed to produce gas or oil in other than trace amounts

Three additional intervals indicated to be oil bearing in the Upper Devonian carbonate sequence also failed to produce either oil or gas in other than trace amounts upon completion and testing Vostok considers that the physical treatment processes and techniques employed during completion and testing of both these three intervals and the underlying Middle Devonian intervals were inadequate to provide a full and conclusive evaluation of the zones Accordingly, the Group suspended its completion activities on the Nepryakhinskaya 1 well in November 2011 pending an evaluation of alternative completion and testing procedures

Further completion and testing of the above Middle and Upper Devonian reservoir intervals as well as overlying prospective intervals in the Lower and Middle Carboniferous may be undertaken pending the results of further reservoir evaluation and study as well as the selection of suitable formation treatment and stimulation options

Business review

Operations review

Muravlinskaya 2

A second Devonian exploration well, Muravlinskaya 2, commenced drilling during the Q2 2011 and is prognosed to be drilled to a total depth of 4,900 meters in order to fully penetrate the Lower Devonian Koyvensky interval which was proven to be hydrocarbon bearing in the Nepryakhinskaya 1 well

The Muravlinskaya 2 well, which is located some 10 kilometers to the west of the Nepryakhinskaya No 1 well, will test a second closure on the east-west trending Nepryakhinskaya structural complex

In addition to testing those stratigraphic intervals that are proved or are indicated to be hydrocarbon-bearing based upon well logs in the first well, it is indicated from seismic that the Muravlinskaya 2 well will also penetrate the uppermost portion of the Middle Devonian D2 Eifelian–Zhivetian age sequence This sequence which contains economically significant hydrocarbon bearing reservoirs regionally is interpreted to have been removed by erosion beneath a middle Frasnian regional unconformity in the Nepryakhinskaya 1 well but is interpreted to be preserved beneath the unconformity surface on the closure to be tested by the Muravlinskaya 2 well

At year end 2011 the Muravlinskaya 2 well had been to a total depth of 4,148 meters having encountered intervals of significant lost circulation whilst drilling through the preceding +/- 120 meters At this drilled depth the Muravlinskaya 2 well is interpreted to have penetrated into lowermost Upper Devonian D3 Frasnian carbonate rocks

Development drilling

As a result of successful development drilling in the Karpenskoye field during 2009, no additional development wells were required to be drilled for gas deliverability in the west area of the licence in 2010 or 2011

Well re-entries and recompletions

During 2011 the Company successfully re-completed two wells, No 7 and No 19 which had been acquired in the Karpenskoye area during 2010 Plans to recomplete the third well which had been acquired, well No 52 were postponed since the additional production was not required at that time

During Q4 2011 the Company began re-completion operations upon well No 16 in the Pavlovskoye field in the east area of the licence in order to confirm completion and flow testing results obtained during the original completion during the 1980's and to obtain fluid samples for detailed testing and analysis At year end re-completion operations on the well were in-process

Seismic activity

Conventional 2D seismic

During 2011 further seismic interpretation work and selected custom reprocessing was ongoing on the Group's extensive 2D seismic data base which was acquired in 2007 and 2008 and upon older existing 2D seismic data

3D seismic

The Company's third 3D seismic acquisition campaign which commenced late in 2010 was completed during Q1 2011 with the acquisition of 180 km2 of data This survey completed the outstanding portion of the survey acquired during 2009 - 2010 which had been curtailed due to an early spring thaw and extended the Group's 3D seismic data base in the east area of the licence to include the Kochkurovskoye field

Interpretation of this data set was ongoing at year end, however, the preliminary interpretation confirms continued prospectivity of the Devonian exploration play into the Kochkurovskoye area

Geological and geophysical evaluations

West area

No further geophysical or geological work was undertaken in the west area during 2011

Central area

The central licence area is currently indicated to be less prospective than the remaining areas of the licence and no additional geological or geophysical work was conducted on the area during 2011

East area

The east area of the licence has been the Company's main area of focus for geophysical and geological work during 2011 in support of proposed future development and exploitation of both gas and liquids

Business review

Operations review

Devonian and Carboniferous

Due to their potential magnitude and significance the emphasis of geological and geophysical work conducted during 2011 has continued to be on the potential prospective resources of the Devonian interval This work was undertaken in an effort to further identify the depositional, structural and tectonic controls that have been in play to develop seismically identified prospects, and to understand the influences that these factors have exerted upon defining the prospectivity of overlying sedimentary intervals, particularly the Carboniferous

Based upon the demonstrated economic success of the Nepryakhinskaya 1 Devonian exploration well, which was tested during Q1 2011, the Group has developed a schedule and strategy for drilling additional Devonian wells in combination with superimposed Carboniferous prospects during 2011 and beyond The first of these deep exploration wells, Muravlinskaya 2, commenced drilling during Q2 of the year is prognosed to be drilled to a total depth of 4,900 meters This well will test a second Devonian closure located approximately 10 kilometers to the west of the Nepryakhinskaya discovery and at year had achieved a drilled depth of 4,148 meters

3D seismic data acquired during the winter of 2010 -2011 was processed and interpreted by the end of Q3 and demonstrates the continuation of the prospective Devonian structural trend as far west as the Kochkurovskoye area of the eastern licence Interpretive work also confirms the close genetic association of the potentially prospective Middle to Lower Carboniferous structural trend with deeper underlying structures developed on the Devonian

Lower Permian

Additional specialised seismic re-processing work and seismic character analysis of 3D seismic data over Lower Permian prospects drilled during 2010 as well as prospects proposed for future drilling was initiated during 2011 This work is a further attempt to rationalize the results of drilling and to optimize the location of future Lower Permian exploration wells by defining those areas that have carbonate reef build ups with higher primary (depositional) porosity that can serve as hydrocarbon reservoirs

Reserves evaluation

Vostok's independent engineers, Miller and Lents, prepared a revised reserves evaluation report as of 1 August 2011 in support of the Company's initiative to secure a UK public listing Miller and Lents revised their 01 October 2010 estimate of economic recoverable 3P reserves of the Group from 714 Bcf of natural gas and 20 0 MMBbl of oil and condensate to 1,411 Bcf and 18 5 MMBbl of oil and condensate and their estimate of Proven P1 Reserves from 519 to 496 Bcf of gas and from 13 3 to 10 5 MMBbl of oil The more than doubling of the Company's 3P reserves of natural gas came as a direct result of the successful testing carried out during Q1 in Lower and Middle Devonian reservoir intervals encountered in the Nepryakhinskaya exploration well

Future developments

There is no drilling proposed for the west area during 2012 The Group will continue to focus its drilling and completion activities together with its geological and geophysical activity upon evaluating and increasing reserves and resources in the eastern area of the licence This will involve an exploration drilling programme comprising the completion of the Muravlinskaya 2 well and possibly the commencement of another Carboniferous or Devonian exploration well based upon the interpretation results of 3D seismic acquired in 2011 An additional 3D seismic programme is also planned for the eastern licence area to complete coverage over Kochkurovskoye and Pavlovskoye areas

Business review
Financial review

Review of 2011 results

The Annual Report and Financial Statements are prepared under International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") The Group uses US dollars as its presentation currency The Group revenue for 2011 was 34 185 million USD (2010 – 267 thousand USD) and the loss before taxation was 10 242 million USD (2010 – 22 379 million USD) Detailed Group financial information is set out in the audited financial statements for 2011 on pages 13-42 of this report

In 2010 the Group was predominantly in an exploration and development phase and standard key performance indicators such as growth in sales, returns on invested capital and employee retention figures are not true indicators of group performance The key performance indicators at 31 December were

	2011	2010
Proven gas reserves in billion cubic feet (1)	495 8	519 0
Proven oil reserves in millions of barrels (1)	10 5	13 3
Gas production in million cubic feet per annum (2)	12,615 3	0 3
Oil production in thousands of barrels per annum (2)	82 9	2 0
Condensate production in thousands of barrels per annum (2)	140 3	0 2
Maximum annual available production capacity of gas in million cubic feet	18,978 9	18,978 9
Revenue for the year (in millions of USD) (2)	34 2	0 3
Loss for the year (in millions of USD)	12 2	19 4

(1) Gas and oil reserves are based on the most recent independent engineer's reports The decrease in reserves resulted from re-evaluating the field structures on the licence based on drilling, testing and re-entry results and the interpretation of recently acquired 3D seismic

(2) The increase in production and revenue resulted from the gas plant maintaining commercial production throughout 2011 From September 2011 to year-end, the gas plant was in operation at full or near full capacity

Corporate events

On 13 December 2011, the Company issued 5,804,613 ordinary shares at 2 USD each

Events since the end of the year

On 27 February 2012, the issued share capital was increased by 2 589 million USD by the issue of 1,294,616 ordinary shares at 2 USD each This share issue was the second tranche of an agreed share subscription with existing shareholders, executives and directors

On 13 March 2012, 380,000 shares were issued to the employee benefit trust as compensation to key employees and the senior management of the Group The shares were approved on 22 March 2011 and vest over a three year period subject to vesting conditions being met

On 18 March 2012, the convertible option on the 60 million USD convertible loan expired (Note 22) The debt is now a term loan repayable in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015

On 3 May 2012, 9,280,000 shares were issued to the employee benefit trust as compensation to directors and senior management for past service contributions and to enable the Group to compensate key employees and senior management after the initial public offering is completed Future awards will be based on recommendations made by the Remuneration Committee based on Group and employee performance

Business review

Risk management

Financial

The Finance Director is responsible for the Company's financial risk management function and the Audit and Risk Committee provides oversight of this while ultimate approval on financial decisions remains with the Board of Directors

Operations and commercial

The main activity of the Group is the exploration, development and production of gas which has associated condensate In addition, the Group has oil production from a limited number of wells The Group currently sells all gas produced to a subsidiary of OJSC Gazprom, Gazprom Mezhregiongaz Saratov LLC The selling price as set out in the agreement is calculated at a 20% discount to the weighted average selling price for commercial and residential gas consumers in the Saratov region as determined by the Russian Tariff Service From March 2011, this price was 75 USD (2,216 rubles) per thousand cubic meters of gas Prior to this date, the price was 65 USD (1,928 rubles) per thousand cubic meters of gas The contract sets out estimated volumes to be delivered, however, the volumes can be amended based on mutual agreement and actual amounts delivered

The Group sells oil and condensate based on tenders and negotiations with selected regional customers depending on volumes purchased Although gas and oil market prices may fluctuate, as a general policy, the Group does not and does not intend to hedge gas and oil sales Under appropriate circumstances such as taking advantage of attractive prices, the Group may engage in longer term sales contracts and price hedging

The Group maintains insurance coverage on operations as required by local regulations In addition, the Group maintains internationally placed insurance coverage for their field assets, drilling and operating activities in Russia in recognition of the risks associated with expanded operations While the Group recognises the inherent political and economic risks of working in Russia, the Group has made the decision not to carry any insurance specific to these risks The Group reviews overall insurance requirements regularly to ensure a proper balance between exposure and coverage

Operating environment

Ongoing operations and those of similar companies in Russia are subject to the prevailing economic, political and regulatory uncertainties

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition These characteristics have in the past included higher than normal inflation, lack of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside Russia The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal and economic reforms

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently Management's interpretation of such legislation as applied to the transactions and activity of the Group in Russia may be challenged by the relevant regional and federal authorities Based on reviews and audits performed to date by the relevant authorities, there have been no significant tax fines or penalties incurred and management believes that as of 31 December 2011, its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained

Strategic and reputational

The Company is committed to promoting and developing high standards of corporate responsibility Responsibility for ensuring that these are followed lies with the Board of Directors and senior executive officers and staff The Company believes that by incorporating high standards into its corporate culture, the Company's risk profile is reduced

A comprehensive set of procedures and policies is maintained at both head office and the operational level to ensure effective operations The Company reviews the Group's policies and procedures on an ongoing basis including environmental policies to ensure compliance with local and international standards The Group has developed a comprehensive environmental monitoring and reporting system and when required, the Company employs independent advisors to ensure good practise is achieved

Financial risks

A review of financial risks is included in Note 26 to the Financial Statements

Directors' report

The directors of the Company present their report and financial statements for the year ended 31 December 2011

Principal activity and review of the business

The principal activities of the Group during the year were exploration, development and production of natural gas and hydrocarbon liquids The Group's operating activities during 2011 were in Russia where the Group holds a sub-soil licence for geological exploration and production of hydrocarbons

Business review

A review of the Group's business during the year, events since the end of the year and the Group's future prospects are is included in the Executive Chairman's Statement and Business Review on pages 3-8 which should be read in conjunction with this report of which they form part and in which they are incorporated by reference The review of the financial risk management objectives and policies is included under the risk management section within the Business Review on page 8 and in Note 26 to the financial statements

Board of Directors

The directors at 31 December 2011 and 2010 were and remain as given below except where noted otherwise

Charles Jamieson
Yuri Samsonov *(appointed 8 September 2011)*
Robert Cathery
Blaine Karst
Roger Cagle
Ronald Harris
John Orange
Mark Sadykhov
Jacob Ulrich
Douglas Stinemetz *(appointed 29 June 2011)*
Aric Cunningham *(resigned 17 February 2011)*
Kevin Bortz *(resigned 14 March 2011)*
Alexander Capelson *(resigned 20 April 2011)*

Dividends

The directors do not recommend a dividend for the year (2010 – nil)

Going concern

As detailed in this report, the Group has non-current borrowings that are to be repaid in 2013 (Note 22) The Group's first gas plant has been operating at full or near full capacity since September 2011 and generates sufficient cash flow to cover ongoing operational costs and a small capital program The cash flow generated would not necessarily be sufficient to cover all ongoing obligations if the Group were to experience production decreases, sale price decreases or increased costs Additionally, the cash flow generated is currently not sufficient to accumulate adequate funds to repay the non-current borrowings as they come due in 2013

The directors have appointed an independent consultant and Deutsche Bank to act as their financial advisors and are proposing to raise equity capital by way of an initial public offering of shares If the initial public offering is not successful, the directors believe that a smaller equity investment or additional debt funds can be raised in the near term to ensure the Group has adequate working capital to fund all ongoing obligations The directors also believe the non-current borrowings can be successfully re-financed based on the positive cash flow currently being generated by the Group

The financing alternatives would require shareholder approval and under certain conditions, debt holder approval and there is no certainty that any of the alternative strategies will be implemented successfully The directors have concluded that these circumstances and particularly the requirement for shareholder approval and the debt holder approval represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern Failure to complete the initial public offering or successfully implement one or more alternative strategies could result in the Group not being able to continue its operations in the current form and therefore not be able to continue as a going concern

Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group will have adequate financial resources to continue in operational existence for the foreseeable future and therefore, continue to adopt the going concern basis of accounting

Audit and Risk, Remuneration and Nomination Committees

The Board currently has an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee

The Audit and Risk Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits, appointment of external auditors and reviewing the effectiveness of internal audit activities, internal controls and risk management activities The Audit and Risk Committee meets and discusses issues throughout the year and approves the audit plan and audited financial report for submission to the Board for approval

Directors' report

The Remuneration Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration It is also responsible for the design of share incentive plans and allocation and issue of shares to employees under such plans The Remuneration Committee meets as required to discuss and determine remuneration issues and formally reports their activities and makes recommendations to the Board for approval

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement directors The Nomination Committee meets as required to discuss issues and make appropriate recommendations to the Board for approval

Charitable donations and social responsibility

The Group operations are in the Saratov region in Russia and it is one of the goals of the Group to provide support to the local community to ensure the region benefits from the Group's presence on an enduring basis During the year, the Group spent 216 thousand USD (2010 – 121 thousand USD) on sponsorships and charitable donations for local government and non-governmental agencies that support local development and industry and for agencies focusing on maintaining and improving local environmental standards

Subsidiaries

The Company had the following subsidiaries at 31 December 2011 (all are owned directly by the Company unless otherwise noted)

Active subsidiaries	*Country of incorporation*	*Effective ownership percentage*	
		2011	*2010*
Royal Atlantic Energy (Cyprus) Limited (RAECL)	Cyprus	100	100
Diall Alliance LLC – 100% subsidiary of RAECL	Russia	100	100
Vostok Energy Ltd	United States	100	100
Vostok Energy Resources Limited	United Kingdom	100	100
Vostok (Cyprus) Limited	Cyprus	100	100
Inactive subsidiaries			
Zhaikinvest LTD LLP – inactive since 2007	Kazakhstan	75	75
Vostok Energy Company, CJSC – inactive since 2009	Russia	100	100

Statement of directors' responsibilities in relation to the Group and the Company financial statements and Annual Report

The directors are responsible for preparing the Annual Report and the Group and the Company financial statements in accordance with applicable United Kingdom law and regulations Company law requires the directors to prepare Group and Company financial statements for each financial year Under that law, the directors are required to prepare Group and Company financial statements under IFRSs as adopted by the European Union

Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they 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 the Group financial statements the directors are required to

a present fairly the financial position, financial performance and cash flows of the Group,
b select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently,
c present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
d make judgements that are reasonable,
e provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance, and
f state whether the Group and the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group and the Company financial statements comply with the Companies Act

Directors' report

2006 They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement as to disclosure of information to the auditor

Each director in office at the date of this report has confirmed in accordance with Section 418(2) of the Companies Act 2006 that

- So far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and

- he has taken all reasonable steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

A resolution to re-appoint Ernst and Young as auditor will be proposed at the Company's forthcoming Annual General Meeting

By order of the Board

Tony Hunter
Secretary
25 May 2012

INDEPENDENT AUDITOR'S REPORT

to the members of Vostok Energy Plc

We have audited the financial statements of Vostok Energy Plc for the Group and parent company for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flow, the Consolidated Statement of Changes in Equity, the parent company Statement of Financial Position, the parent company Statement of Changes in Equity, the parent company Statement of Cash Flows and the related notes 1 to 31 for the Group financial statements and notes 1 to 17 for the parent company financial statements 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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, the directors are responsible for the preparation of the Annual Report and 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 group's and the parent 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 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 group's and of the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements 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 modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern The conditions described in note 2 indicate the existence of a material uncertainty which may cast significant doubt about the Group'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 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

Ernst & Young LLP

Mirco Bardella, (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 May 2012

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Revenue	3	34,185	267
Cost of sales	4	(21,807)	(4,364)
Gross margin		12,378	(4,097)
Administrative expenses	5	(13,394)	(13,252)
Other gains	7	60	—
Other losses	7	(778)	(540)
Operating Loss		(1,734)	(17,889)
Finance income	8	6	19
Finance costs	9	(8,514)	(4,509)
Loss before taxation		(10,242)	(22,379)
Income tax benefit/(expense)	13	(1,958)	2,981
Loss for the year		(12,200)	(19,398)
Other comprehensive income			
Foreign exchange movements on translation of foreign entities		(14,130)	(2,060)
Total comprehensive income		(26,330)	(21,458)

		2011 USD	2010 USD
Loss per share during the year (Note 14)			
-basic	14	0 07	0 10
-diluted	14	0 07	0 10

Vostok Energy Plc

Consolidated statement of financial position
at 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Non-current assets			
Intangible assets	15	73,500	58,140
Property, plant and equipment	16	223,545	210,433
Trade and other receivables	17	1,122	8,993
Deferred tax	13	4,676	6,828
		302,843	284,394
Current assets			
Inventories	18	87	60
Trade and other receivables	19	7,416	22,755
Cash and cash equivalents	20	9,360	18,147
		16,863	40,962
Total assets		319,706	325,356
Current liabilities			
Trade and other payables	21	11,105	10,754
Borrowings	21	1,189	1,189
		12,294	11,943
Non-current liabilities			
Borrowings	22	105,049	96,845
Provisions	23	7,951	7,922
		113,000	104,767
Total liabilities		125,294	116,710
Net assets		194,412	208,646
Equity			
Share capital	24	1,928	1,870
Share premium	24	61,970	50,569
Own shares held	24	(11,600)	(11,600)
Equity component of convertible debt	24	5,937	5,937
Currency translation reserve	24	(25,889)	(11,759)
Share option reserve	24	3,235	2,598
Accumulated reserves/(deficit)		158,831	171,031
Total equity attributable to owners of the parent		194,412	208,646

These financial statements were approved and authorised for issue by the Board of Directors

Signed on behalf of the Board of Directors

Blaine Karst,
Director
25 May 2012

Consolidated statement of changes in equity
for the year ended 31 December 2011

	Share capital USD '000	Share premium USD '000	Own shares held USD '000	Equity component of convertible debt USD '000	Currency translation reserve USD '000	Share option reserve USD '000	Accumulated reserves/ (deficit) USD '000	Total equity USD '000
Balance at 1st January 2010	1,851	295,674	(5,983)	1,964	(9,699)	1,426	(59,571)	225,662
Loss for the year	-	-	-	-	-	-	(19,398)	(19,398)
Other comprehensive income	-	-	-	-	(2,060)	-	-	(2,060)
Total comprehensive income for the year	-	-	-	-	(2,060)	-	(19,398)	(21,458)
Transactions with owners								
Reduction of share premium on the conversion to a plc	19	(244,402)	-	-	-	-	250,000	5,617
Own shares issued to the employee benefit trust	-	-	(5,617)	-	-	-	-	(5,617)
Equity element of convertible debt	-	-	-	3,973	-	-	-	3,973
Share issue costs	-	(703)	-	-	-	-	-	(703)
Share option charge	-	-	-	-	-	1,172	-	1,172
Total of transactions with owners	19	(245,105)	(5,617)	3,973	-	1,172	250,000	4,442
Balance at 31 December 2010	1,870	50,569	(11,600)	5,937	(11,759)	2,598	171,031	208,646
Loss for the year	-	-	-	-	-	-	(12,200)	(12,200)
Other comprehensive income	-	-	-	-	(14,130)	-	-	(14,130)
Total comprehensive income for the year	-	-	-	-	(14,130)	-	(12,200)	(26,330)
Transactions with owners								
Share issues	58	11,551	-	-	-	-	-	11,609
Share issue costs	-	(150)	-	-	-	-	-	(150)
Share option charge	-	-	-	-	-	637	-	637
Total of transactions with owners	58	11,401	-	-	-	637	-	12,096
Balance at 31 December 2011	1,928	61,970	(11,600)	5,937	(25,889)	3,235	158,831	194,412

Consolidated statement of cash flows
for the year ended 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Operating activities			
Loss for the year		(12,200)	(19,398)
Adjustments to reconcile loss for the year to net cash flow used from operating activities			
Tax for the year	13	1,958	(2,981)
Net finance costs	8,9	4,651	4,490
Adjustment to expected cash flows of the convertible bond	9	3,856	-
Foreign exchange losses/(gains)	7	(492)	178
Depreciation, depletion and amortisation	15,16	5,032	1,073
Share based payments	12	637	1,172
Movement in provisions		219	122
Working capital adjustments			
Decrease in trade and other receivables		15,247	4,787
Increase in inventories		(28)	(27)
Increase in trade and other payables		5,934	4,816
Net cash flow from/(used in) operating activities		24,814	(5,768)
Investing activities			
Interest received	8	6	19
Payments to acquire intangible assets		(19,078)	(21,957)
Purchase of property, plant and equipment		(20,347)	(59,228)
Decrease in other receivables		3,150	-
Net cash flow used in investing activities		(36,269)	(81,166)
Financing activities			
Net proceeds on issuance of shares		11,459	-
Costs on share capital transactions		(1,074)	(4,355)
Interest paid		(7,617)	(2,278)
Proceeds from new borrowings		-	93,364
Net cash flow from financing activities		2,768	86,731
Decrease in cash and cash equivalents		(8,687)	(203)
Net foreign exchange difference		(100)	(11)
Cash and cash equivalents at beginning of the year	20	18,147	18,361
Cash and cash equivalents at the end of the year	20	9,360	18,147

Notes to the consolidated financial statements
for the year ended 31 December 2011

1 Corporate Information

a) Organisation and principal activities

The Company is a public limited company incorporated in Great Britain The principal activities of the Company and its subsidiaries are the exploration, development, and production of hydrocarbons The Group's operating activities are in Russia, where the Group holds a sub-soil licence for geological exploration and production of hydrocarbons The registered office of the Company is Masters House, 107 Hammersmith Road, London, England, W14 0QH

The Group comprises the Company and its significant subsidiaries as set out below

Operating Entity	*Principal Activity*	*Country of Incorporation*
Vostok Energy Plc	Management and holding company	United Kingdom
Vostok Energy Resources Limited	Financing subsidiary	United Kingdom
Royal Atlantic Energy (Cyprus) Limited	Holding company	Cyprus
Vostok (Cyprus) Limited	Holding company	Cyprus
Diall Alliance LLC	Oil and gas exploration	Russia
Vostok Energy Ltd	Administrative centre	United States

b) Russian business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in Russia These risks include matters arising out of the policies of the Government, economic conditions, imposition of, or changes to, taxes and regulations and foreign exchange rate fluctuations Refer to Note 26 for more information on key risks

c) Financial risk management

The Group's long term success is exposed to the effect of fluctuations of oil and gas prices in the local markets which are influenced by international prices Refer to Note 26 for a description of other risks

2 Significant accounting policies

a) Authorisation of financial statements and statement of compliance with IFRSs

The financial statements for the Group for the year ended 31 December 2011 were authorised for issue by the board of directors on 25 May 2012 and the statement of financial position was signed on the board's behalf by Blaine Karst

The financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2011

The financial statements have been prepared on the historical cost basis The principal accounting policies adopted are set out below

b) Basis of preparation

The Group's financial statements are presented in US dollars and all values are rounded to the nearest thousand dollars (USD) except when otherwise indicated

The consolidated financial statements have been prepared on a going concern basis which assumes the Group will be able to meet its liabilities as they fall due in the foreseeable future

As detailed in this report, the Group has non-current borrowings that are to be repaid in 2013 (Note 22) The Group's first gas plant has been operating at full or near full capacity since September 2011 and given current production, generates sufficient cash flow to cover current operating costs, financing costs and a small capital program The cash flow generated would not necessarily be sufficient to cover all ongoing obligations if the Group were to experience production decreases, sale price decreases or increased costs In addition, even at full production, the cash flow being generated would not be sufficient to accumulate adequate funds to repay the non-current borrowings as they come due in 2013

The directors have appointed an independent consultant and Deutsche Bank to act as their financial advisors and are focused on raising funds through an initial public offering of shares to be completed in the second half of 2012 If the initial public offering is not successful, the directors believe that a smaller equity investment or additional debt funds can be raised in the near term to ensure the Group has adequate working capital to fund all ongoing obligations The directors also believe the non-current borrowings can be successfully re-financed based on the positive cash flow currently being generated by the Group

The financing alternatives would require shareholder approval and under certain conditions, debt holder approval and there is no certainty that any of the alternative strategies will be implemented successfully The directors have concluded that these circumstances and particularly the requirement for shareholder approval and the debt holder approval represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern Failure to complete the initial public offering or successfully implement one or more alternative financing strategies could result in the Group not being able to continue its operations in the current form and therefore not be able to continue as a going concern

2 Significant accounting policies (continued)

Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group will have adequate financial resources to continue in operational existence for the foreseeable future and therefore, continue to adopt the going concern basis of accounting

These financial statements do not include any adjustments that might arise if the going concern basis for the preparation of the financial statements was not appropriate

***c)* Changes in accounting policies**

The accounting policies adopted by the Group at 31 December 2011 have been consistently applied in all periods presented During the period, the following standards have been adopted in these financial statements

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity The adoption of the amendment did not have any impact on the financial position or performance of the Group

IAS 32 Financial Instruments Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each standard

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group

IFRS 3 Business Combinations The measurement options available for non-controlling interest (NCI) were amended Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets All other components are to be measured at their acquisition date fair value

The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011 The Group, however, adopted these as of 1 January 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3

IFRS 7 Financial Instruments — Disclosures The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context The Group reflects the revised disclosure requirements in Note 26

IAS 1 Presentation of Financial Statements The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group

IFRS 3	Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
IFRS 3	Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
IAS 1	Presentation of Financial Statements
IAS 27	Consolidated and Separate Financial Statements
IAS 34	Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group

IFRIC 13	Customer Loyalty Programmes (determining the fair value of award credits)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group

2 Significant accounting policies (continued)

Standards issued but not yet effective

Standards not yet effective for the financial statements for the year ended 31 December 2011	Effective for annual periods beginning on or after
Amendments to IFRS 7 "Financial Instruments Disclosures" – Transfers of Financial Assets	01-Jul-11
Amendments to IAS 1 "Presentation of Financial Statements" – Changes to the Presentation of Other Comprehensive Income	01-Jul-12
Amendments to IAS 12 "Income Taxes" – Deferred Taxes Recovery of Underlying Asset	01-Jan-12
IFRS 10 "Consolidated Financial Statements"	01-Jan-13
IFRS 11 "Joint Arrangements"	01-Jan-13
IFRS 12 "Disclosure of Interests in Other Entities"	01-Jan-13
IFRS 13 "Fair Value Measurement"	01-Jan-13
Amendments to IAS 19 "Employee Benefits"	01-Jan-13
Amendments to IFRS 7 "Financial Instruments Disclosures" – Offsetting Financial Assets and Financial Liabilities	01-Jan-13
IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	01-Jan-13
Amendments to IAS 32 "Financial Instruments Presentation" – Offsetting Financial Assets and Financial Liabilities	01-Jan-14
IFRS 9 "Financial Instruments"	01-Jan-15

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights, or by way of contractual agreement The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year-end as the parent company and are based on consistent accounting policies All intergroup balances and transactions, including unrealised profits arising from them, are eliminated

e) Business combinations

Business combinations are accounted for using the acquisition method of accounting The assets and liabilities of the acquiree are measured at fair value on the date of acquisition The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control was obtained Combinations of businesses under common control have been accounted for using the pooling of interests method

f) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date All differences are taken to profit or loss

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

The assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the reporting date Income and expenses are translated at weighted average exchange rates for the year The resulting exchange differences are recognised in other comprehensive income On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss

The functional currency of the Company is the US dollar while the functional currency of its Russian subsidiaries is the Russian ruble ("RUB")

g) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes The following criteria must also be met before revenue is recognised

2 Significant accounting policies (continued)

Sale of goods

Revenue associated with the sale of oil and gas is recognized when the title passes to the customer

Finance income

Revenue is recognised as interest accrues using the effective interest method The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted All other borrowing costs are recognised in profit or loss in the period in which they are incurred

i) Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the reporting date

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss,
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date

Income tax is charged or credited to other comprehensive income if it relates to items that are credited or charged to other comprehensive income Otherwise income tax is recognised in profit or loss

j) Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined by an appropriate pricing model with the assistance of an external valuer if required In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, treated as vesting as described above The movement in cumulative expense since the previous reporting date is recognised in profit or loss, with a corresponding entry in equity

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification No reduction is recognised if this difference is negative

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in profit or loss for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value treated as an expense in profit or loss

Notes to the consolidated financial statements
for the year ended 31 December 2011

2 Significant accounting policies (continued)

***k)* Intangible assets – exploration and evaluation expenditures**

The Group has adopted the successful efforts method of accounting for oil and gas assets, with regard to the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources"

Drilling, seismic and other costs

All costs incurred in technical services, seismic data, and for exploration and appraisal activities are initially capitalised as intangible assets on a well by well basis until the results of the drilling have been determined If commercial reserves have been discovered and development has been approved, the carrying values of the related intangible assets are reclassified as development and production assets If commercial reserves have not been discovered, the costs are charged to profit or loss after appraisal activities are completed

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount and in any event prior to the transfer of the carrying value to development and production assets When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the impairment will be measured, presented and disclosed in accordance with IAS 36 'Impairment of assets'

Sub-soil licences

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in profit or loss Costs incurred on the acquisition of a licence interest are initially capitalised on a licence by licence basis and are capitalised within intangible fixed assets and held un-depleted until the exploration phase on the licence is complete or commercial reserves have been discovered at which time the costs are reclassified as development and production assets

For amortization purposes, useful lives are estimated as follows

Sub-soil licences	—	25 years
Other licences	—	5 years

***l)* Property, plant and equipment**

Oil and gas assets

Oil and gas assets are stated at cost less accumulated depletion or accumulated depreciation and impairment costs Costs incurred to develop commercial reserves and bring them into production together with their related exploration and evaluation expenditures are capitalised within property, plant and equipment on a field by field basis Major facilities may be capitalised separately if they relate to more than one field or to the licence area as a whole Subsequent expenditure is capitalised only if it either enhances the economic benefits of the development/production asset or replaces part of the existing development/production asset Any costs remaining associated with the part replaced are expensed Directly attributed overheads and finance costs are capitalised where they relate to specific exploration and development activities

Motor vehicles, office equipment and furniture

Motor vehicles, office equipment and furniture are stated at cost less accumulated depreciation and impairment losses

Depletion

Depletion is provided on oil and gas properties in production, including related pipeline costs, using the unit of production method, based on proven reserves, applied to the sum of the total capitalised exploration, evaluation and development costs, together with estimated future development and decommissioning costs at current prices Depletion is provided based on the expected production profile on a field by field basis which may exceed the existing licence period It is standard industry practice in Russia to receive licence extensions providing production plans demonstrate that additional time is required to economically produce the field

Depreciation

Major oil and gas facilities that have a shorter useful life than the related production expected from the fields are depreciated on a straight-line basis over the expected useful life of the facility Depreciation is provided on motor vehicles, office equipment and furniture at rates calculated to write off the cost, less estimated residual value, evenly over its expected useful life

For depreciation purposes, useful lives are estimated as follows

Buildings, facilities	-	15-30 years
Office equipment and furniture	-	5 years
Furniture and fixtures	-	5 years
Motor vehicles and machinery	-	5 years

2 Significant accounting policies (continued)

Decommissioning and environmental restoration provision

The decommissioning and environmental restoration provision is calculated at the net present value of the total costs expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place The cost of recognizing the provision is included as part of the cost of the relevant assets within exploration and development costs or property, plant and equipment and is charged to profit or loss on a unit of production basis

***m)* Impairment of intangible assets and property, plant and equipment**

The carrying amounts for non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount Impairment losses are recognised in profit or loss

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell In assessing value in use, the estimated future cash flows are 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets

Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised

***n)* Inventories**

Inventories represent unsold natural gas and hydrocarbon liquids in storage recorded at the lower of cost or net realizable value on a first-in first-out basis Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses

***o)* Financial assets**

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments, or as available-for-sale financial assets, as appropriate The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it The embedded derivatives are separated from the host contract if it is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required

All purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset Transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place The subsequent measurement of financial assets depends on their classification, as follows

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale Such assets are carried at amortised cost using the effective interest method if the time value of money is significant Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount Where the time value of money is material, receivables are carried at amortised cost Provision is made when there is objective evidence that the Group will not be able to recover balances in full Balances are written off when the probability of recovery is assessed as being remote

2 Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less at the date acquired

***p)* Impairment of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i e the effective interest rate computed at initial recognition) The carrying amount of the asset is reduced, through the use of an allowance account The amount of the loss is recognised in profit or loss

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the company owing the obligation) that the Group will not be able to collect all of the amounts due under the original terms of the invoice The carrying amount of the receivable is reduced through use of an allowance account Impaired debts are derecognised when they are assessed as irrecoverable

***q)* Interest bearing loans and borrowings**

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance cost

***r)* Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to 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

***s)* Equity Instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

Convertible debt

Instruments where the holder has the option to redeem for cash or convert into a pre-determined quantity of equity instruments are classified as compound instruments in the balance sheet and presented partly as a liability and partly within equity

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument The difference between the proceeds of issue and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity

Transaction costs are apportioned between the liability and equity components of the convertible debt based on their relative carrying amounts at the date of issue The portion relating to the equity component is charged directly against equity

The interest expense on the liability component is calculated by applying the prevailing market interest rates for similar non-convertible debt to the instrument The difference between this amount and the interest paid is added to the carrying value of the convertible debt

***t)* Derecognition of financial assets and liabilities**

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

Notes to the consolidated financial statements

for the year ended 31 December 2011

2 Significant accounting policies (continued)

***u)* Employee benefit trust**

The Group operates an employee benefit trust ("EBT") which holds shares in the Company The Group and Company record the assets and liabilities of the EBT as their own The shares in the Company owned by the EBT are presented as a reduction in equity shareholders' funds in the consolidated and parent company balance sheet and included in a separate negative reserve described as "Own shares held"

***v)* Judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period Actual outcomes could differ from those estimates

In the process of applying the Group's accounting policies, management has made judgements that have a significant effect on the amounts recognised in the financial statements

Taxation

The Company's subsidiaries in Russia are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned

Share-based payments (Note 12)

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant Management is also required to use judgement in determining the most appropriate inputs to the valuation model including expected life of the option, volatility and dividend yield

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Fair value of acquisition

Upon acquisition, assets and liabilities, including exploration and evaluation assets, are included in the financial statements at their fair market value The actual value that will be realised from exploration and evaluation assets is inherently uncertain and reflects a wide range of factors including but not limited to geographical and geophysical factors, future costs and commodity prices, the duration of the licence and its term and the availability of financial and other resources required to progress exploration and development activities

Capitalisation of interest (Note 9)

Interest on non-current borrowings had been capitalised in accordance with the accounting policy in Note 2(h) Capitalisation of interest is based on management's judgement that the interest incurred is directly attributable to the non-current borrowings used for the acquisition and construction of qualifying assets In determining the amounts to be capitalised, management makes assumptions regarding the completion status of the assets Once the construction of a qualifying asset is determined to be substantially complete, interest is no longer capitalised but recognized as a finance cost in the statement of comprehensive income

Impairment review of intangible assets and oil and gas plant and equipment (Notes 15 and 16)

Management is required to assess the level of the Group's commercial reserves, which are utilised in determining the depletion charge for the period and assessing whether any impairment charge is required The Group utilizes independent experts and their own internal expertise to assess the commercial viability of reserves and any future capital expenditures, on a field by field basis

Sub-soil licences (Note 15)

The Group is subject to periodic reviews of its activities by governmental authorities in Russia with respect to the requirements of its sub-soil licences and seeks amendments to the licences when supported by the results of ongoing exploration and development activities The requirements under the licences are subject to interpretation and enforcement policies of the relevant authorities In management's opinion, as of 31 December 2011, there are no serious non-compliance issues that will have an adverse effect on the financial position or the operating results of the Group

Decommissioning and environmental restoration (Note 23)

The Group operates in the upstream oil industry in the Russian Federation and its activities may have an impact on the environment The enforcement of environmental regulations in the Russian Federation is evolving and the

2 Significant accounting policies (continued)

enforcement posture of government authorities is continually being reconsidered The Group periodically evaluates its obligations related thereto The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material

Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group

3 Segment information

The Group's operations comprise one class of business being gas and oil exploration, development and production and all revenues are from one geographical region, Russia Companies incorporated outside of Russia are mainly administrative centers which primarily support the operations in Russia

Revenue is from the sale of three primary products

	2011 USD '000	2010 USD '000
Gas	24,645	200
Condensate	6,120	7
Oil	3,420	60
	34,185	267

All gas sales are to one customer under a long term contract with terms reviewed annually while condensate and oil are sold to selected regional buyers based on pricing established through tenders and negotiations based on volumes purchased

4 Cost of sales

	2011 USD '000	2010 USD '000
Salaries and benefits	2,325	333
Mineral extraction tax	5,530	14
Depreciation, depletion and amortisation	4,578	891
Subsoil usage royalties	49	38
Land rental	192	70
Material and transport services	3,291	1,150
Expensed exploration and development costs	99	145
Repair and maintenance	291	195
Environmental and conservation	369	206
Heating and other operating costs	928	443
Property, transport, environmental and water utilization taxes	2,607	521
Operations and property insurance	721	204
Other costs	827	154
	21,807	4,364

The rise in total cost of sales in 2011 reflects that the Group's gas plant was operational throughout 2011 There was limited production in 2010

5 Administrative expenses

	2011 USD '000	2010 USD '000
Salaries and benefits	6,909	6,986
Professional fees	4,139	3,348
Office	1,533	1,615
Travel and training	1,100	890
Depreciation	428	182
Reversal of tax provision	(790)	—
Insurance	75	231
	13,394	13,252

Notes to the consolidated financial statements
for the year ended 31 December 2011

5 Administrative expenses (continued)

The reversal of tax provision for 2011 was for a provision set up in 2010 for possible employee tax obligations on the payments for services for non-UK employees for time spent working in the UK

6 Auditor's remuneration

	2011 USD '000	2010 USD '000
Auditor's remuneration for services included in professional fees		
Statutory audit - Company	497	152
Subsidiary audits	24	40
Other services related to taxation	28	61

The Company statutory audit expense in 2011 includes 219 thousand USD for audit services related to prior periods

7 Other gains and losses

	2011 USD '000	2010 USD '000
Exceptional operating items		
Provision against prepayments (Note 19)	437	122
Exchange loss	125	178
Sponsorships and charitable donations	216	121
Other non-operating (gains)/losses	(60)	119
	718	540

The provision against prepayments of 437 thousand USD (2010 – 122 thousand USD) is for advance payments on contracts where the services were not provided and costs are not expected to be recovered (Note 19)

The exchange (gain)/loss is the result of changes in exchange rates from the time a transaction is recorded until it is settled The majority of the loss of 125 thousand USD (2010 – 178 thousand USD) was incurred by subsidiary operations in Russia

8 Finance income

	2011 USD '000	2010 USD '000
Interest on short-term deposits	6	19

9 Finance costs

	2011 USD '000	2010 USD '000
Interest on non-current borrowings	3,042	-
Adjustments to expected cash flows of the convertible bond	3,856	-
Unwinding of discount on provisions	700	1,089
Other finance costs	916	3,420
	8,514	4,509

The Company started expensing the interest on non-current liabilities on 1 October 2011 upon the gas plant being substantially completed In 2011 interest on non-current borrowings was capitalised in the amount of 2 923 million USD (2010 – 3 509 million USD) The adjustments to expected cash flows of the convertible bond are due to revaluation of the convertible bond to reflect the change in the timing of the Company's initial public offering (Note 22) The unwinding of discount on provisions relates to the decommissioning provision (Note 23) Other finance costs relate to the commitment charge on the EBRD loan facility and finance costs incurred in association with the attempts to IPO in 2010 and 2011

10 Directors' emoluments

Included in staff costs are directors' emoluments of 1 567 million USD (2010 – 2 381 million USD) and fees payable to non-executive directors of 193 thousand USD (2010 – 66 thousand USD)

The highest paid director's emoluments was 550 thousand USD (2010 – 1 246 million USD) which includes an accrual for share based payments of 64 thousand USD (2010 – 796 thousand USD)

Notes to the consolidated financial statements
for the year ended 31 December 2011

11 Staff costs

	2011 USD '000	2010 USD '000
Wages and salaries	7,017	5,816
Share-based payment benefits	637	1,172
Social security costs	1,375	795
Rental benefits	368	383
	9,397	8,166

Total salaries and benefits for the Group includes 2 325 million USD (2010 – 333 thousand USD) recorded as cost of sales, 6 909 million USD (2010 – 6 986 million USD) included in administrative expenses and 163 thousand USD (2010 – 847 thousand USD) recorded as drilling, seismic and other costs included in intangible assets and oil and gas assets included in property, plant and equipment

The average monthly number of employees (including executive directors) for the year for the Group was as follows

	2011	2010
Operations	164	89
Head office and administration	100	76
	264	165

The Group does not have an employee retirement or pension benefit plan, however, funds are paid into the required government pension funds or social benefit programmes for all its employees as they arise

12 Share-based payments

The Company grants awards of shares to staff as reward for past service and incentive to continue to work for the Group The shares are held jointly with the employee and the EBT awarded at fair market value For senior management and key employees of the Company, certain shares were awarded at nil cost The share awards vest at specified time intervals and vesting is dependent on staff remaining in full employment with the Company for a three year period The awards are equity settled

The fair value of the share awards was estimated at the grant date using a Black Scholes simulation model, taking into account the terms and conditions upon which the awards were granted

The following table shows details of share awards outstanding during the year

	2011	2010
As at 1 January	3,800,000	2,460,000
Granted during the year	1,000,000	1,340,000
Forfeited during the year	(100,000)	-
As at 31 December	4,700,000	3,800,000
Shares vested at 31 December	3,300,000	2,820,000

The following table lists the inputs to the model ($ amounts are in USD)

	2011	2010
Award grant date	1 September	20 July
Number of awards	1,000,000	1,340,000
Award fair value at grant date	$1 52	$0 04
Share price at grant date	$1 53	$1 53
Amount payable by executive	nil	$3 05
Risk free rate	4%	6%
Dividend yield	nil	nil
Expected volatility	25 8%	29 7%
Expected life of awards	2 years	1 5 years
Weighted average remaining contractual life of share awards at the end of the year	2 67 years	0 96 years

Expected volatility is based on historic share price movements The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome Maximum term for the awards is three years For key employees the probability that not all the awards will vest due to the resignation was set at 10% (2010 – nil) No other features of options' terms were incorporated into the measurement of fair value

Notes to the consolidated financial statements

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12 Share-based payments (continued)

The following table lists liabilities arising from share-based payment transactions

	2011 USD '000	2010 USD '000
Total share-based payment reserve	3,235	2,598

The expense recognized for share-based payments in respect of employee services received during the year is 637 thousand USD (2010 – 1 172 million USD)

Share awards

In 2011, 1,000,000 shares (2010 – 1,340,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions being met, such shares vesting over a three year period from the date set in the joint ownership agreements between employees and the EBT There were no actual shares issued to the EBT in 2011 The actual shares issued to the EBT in 2010 were 1,840,000 shares

13 Tax

The tax charge for the year comprises

	2011 USD '000	2010 USD '000
Current tax – UK tax	-	(1,495)
Deferred tax	1,958	(1,486)
	1,958	(2,981)

The income tax (benefit)/expense in the statement of comprehensive income is lower than the standard rate of corporation tax in the UK of 26 5% (2010 - 28%) The differences are reconciled below

	2011 USD '000	2010 USD '000
Loss before taxation	(10,242)	(22,379)
Tax at applicable rate of tax of 26 5% (2010 – 28%)	(2,714)	(6,266)
Tax effect of		
- unrecognised tax losses	5,863	3,461
- effect of different foreign tax rates	(631)	606
- items which are not deductible for tax	713	661
- derecognition of items from prior year	-	52
- EBT transactions	(1,273)	(1,495)
Total tax (benefit)/expense reported in profit or loss	1,958	(2,981)

The main rate of corporation tax reduced to 26% from 1 April 2011 The 2012 budget on 21 March 2012 proposed that the main rate of corporation tax will reduce by 2% to 24% from 1 April 2012 The Government has announced its intention to reduce the main rate of corporation tax by 1% per year until 2014, which would take the rate to 22% from 1 April 2014 However, only the reduction in the corporation tax rate to 25% from 1 April 2012 was substantively enacted at the reporting date and as such the deferred tax balances are provided in the financial statements at 25% The Russian corporate tax rate was 20% from 1 January 2010 to 31 December 2011

As at 31 December 2011 the Group has an unrecognised deferred tax asset on tax losses which arose in the UK of 38 218 million USD (2010 — 16 386 million USD), in the US of 2 571 million USD (2010 — 1 623 million USD) and in Russia - nil (2010 - 1 994 million USD)

Deferred tax has not been provided for these losses on the basis that it is not sufficiently certain there will be adequate taxable profits arising in the future to offset against the tax losses The losses incurred in the UK are available to carry forward indefinitely for offset against future taxable profits The losses arising in the US will expire 20 years from the year incurred, the losses arising in Russia will expire 10 years from the year incurred

Deferred tax

The deferred tax included in the balance sheet is as follows

Notes to the consolidated financial statements
for the year ended 31 December 2011

13 Tax (continued)

	2011 USD '000	2010 USD '000
Deferred tax assets		
- tax losses carried forward	6,612	8,926
- current assets	211	518
- property, plant and equipment	1,036	334
Deferred tax liabilities		
- intangible assets	(3,183)	(2,950)
	4,676	6,828

The movement in the net deferred tax asset in the consolidated financial statements is as follows

	2011 USD '000	2010 USD '000
As at 1 January	6,828	5,389
(Charged)/credited to profit or loss	(1,958)	1,486
Net exchange adjustment	(194)	(47)
As at 31 December	4,676	6,828

A net deferred tax asset has been recognised on the basis that there will be sufficient taxable profits, based on the group's profit forecast, against which these temporary differences can be utilised

The deferred tax included in profit or loss is as follows

	2011 USD '000	2010 USD '000
Deferred tax assets		
- tax losses carried forward	2,014	(2,804)
- property, plant and equipment	(790)	(562)
Deferred tax liabilities		
- intangible assets	-	1,326
- other allowances	734	-
- current assets	-	554
	1,958	(1,486)

14 Loss per share

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year

	2011	2010
Loss for the purposes of basic loss per share (in USD'000)	12,200	19,398
Weighted average number of ordinary shares for the purposes of basic loss per share	187,256,453	186,143,458
Loss per share (in USD)		
Basic	0 07	0 10
Diluted	0 07	0 10

As the Group has made a loss in the period, basic and diluted loss per share are equal

Notes to the consolidated financial statements
for the year ended 31 December 2011

15 Intangible Assets

	Exploration and evaluation expenditures		
	Drilling, seismic & other costs USD '000	Sub-soil licences USD '000	Total USD '000
Cost			
Balance at 1 January 2010	23,757	17,602	41,359
Translation difference	(201)	(21)	(222)
Additions	22,397	-	22 397
At 31 December 2010	45,953	17,581	63,534
Translation difference	(3,909)	(7)	(3,916)
Additions	19,074	92	19,166
At 31 December 2011	61,118	17,666	78,784
Amortisation and impairment			
Accumulated balance at 1 January 2010	(5,109)	(17)	(5,126)
Amortisation for the year	(260)	(8)	(268)
At 31 December 2010	(5,369)	(25)	(5,394)
Amortisation for the year	(275)	(9)	(284)
Translation difference	422	(28)	394
At 31 December 2011	(5,222)	(62)	(5,284)
Net book value			
At 31 December 2010	40,584	17,556	58,140
At 31 December 2011	55,896	17,604	73,500

Amortisation is recognized in profit or loss as part of cost of sales (Note 4)

Included in sub-soil licences is the Bortovoy licence, the licence area that the Group operates located in the Saratov region of Russia The sale of the licence and the sale of major assets belonging to the Group are restricted pursuant to the convertible loan agreement and the conditional convertible bond agreement (Note 22)

In management's opinion, as at 31 December 2011 there were no serious non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group

16 Property, plant and equipment

	Oil and gas assets USD '000	Motor vehicles USD '000	Other equipment and furniture USD '000	Total USD '000
Cost				
Balance at 1 January 2010	161,089	412	597	162,098
Translation differences	(985)	(1)	(1)	(987)
Additions	55,478	65	55	55,598
Disposals	(3,747)	-	(2)	(3,749)
At 31 December 2010	211,835	476	649	212,960
Translation differences	(10,830)	(47)	(2)	(10,879)
Additions	31,067	333	48	31,448
Disposals	(3,395)	(89)	(17)	(3,501)
At 31 December 2011	228,677	673	678	230,028
Depreciation				
Accumulated balance at 1 January 2010	(969)	(184)	(294)	(1,447)
Depreciation and depletion	(870)	(87)	(126)	(1,083)
Disposals	1	-	2	3
At 31 December 2010	(1,838)	(271)	(418)	(2,527)
Depreciation and depletion	(4,546)	(137)	(135)	(4,818)
Translation differences	507	24	18	549
Disposals	269	35	9	313
At 31 December 2011	(5,608)	(349)	(526)	(6,483)
Net book value				
At 31 December 2010	209,997	205	231	210,433
At 31 December 2011	223,069	324	152	223,545

Depletion is charged to profit or loss through cost of sales (Note 4) Depreciation is charged to the profit or loss through cost of sales (Note 4) and administrative expenses (Note 5) During the year 70 thousand USD (2010 – 278 thousand USD) of depreciation was capitalized and included as additions to property plant and equipment

The sale of all or a substantial part of the assets belonging to the Group is restricted pursuant to the convertible loan agreement and the conditional convertible bond agreement (Note 22)

17 Trade and other receivables – non current

	2011 USD '000	2010 USD '000
Other receivables	-	3,043
Prepayments	1,122	5,950
	1,122	8,993

Prepayments are advance payments on contracts for capital projects relating to exploration, development and production and therefore classified as non-current assets In 2010 the other receivables were for value added taxes which are to be used as an offset against future value added tax liabilities but were not expected to be recovered within the next twelve months In 2011 all non-current other receivables became current

Notes to the consolidated financial statements

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18 Inventories

	2011 USD '000	2010 USD '000
Natural gas and hydrocarbon liquids	87	60

Inventory represents amounts of natural gas and hydrocarbon liquids held in storage pending sales to customers The major component of inventory costs expensed during the period as a part of cost of sales was 153 thousand USD (2010 — 52 thousand USD)

19 Trade and other receivables - current

	2011 USD '000	2010 USD '000
Tax receivables	2,115	20,017
Prepayments	2,180	2,222
Other	362	401
Trade receivables	2,759	115
	7,416	22,755

Tax receivables relate primarily to value added tax payments that are expected to be recovered within the next twelve months During 2011 the Group recovered 17 287 million USD of value added tax mainly from Russian operations Prepayments are advance payments for services to be rendered within the next twelve months

The amounts shown in prepayments are net of provisions as the Group does not expect to recover advance payments on the related contracts Movements in the provision were as follows

	2011 USD '000	2010 USD '000
At 1 January	894	1,004
Charge for the year	437	122
Amounts written off	(150)	(232)
Translation difference	(68)	-
At 31 December	1,113	894

No trade receivables have been pledged as security for any credit facilities

20 Cash and cash equivalents

Cash is kept on deposit with banks and earns interest at the daily deposit rates or placed in short-term deposits such as money market funds which can be redeemed upon demand At 31 December 2011 the cash and cash equivalents totalled 9 360 million USD (2010 – 18 147 million USD)

21 Current liabilities

	2011 USD '000	2010 USD '000
Trade payables	8,344	8,351
Accruals and other payables	2,761	2,403
Interest-bearing loans and borrowings	1,189	1,189
	12,294	11,943

Notes to the consolidated financial statements

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22 Non-current borrowings

	Nominal Interest Rate	2011 USD '000	2010 USD '000
Amounts due in less than 5 years			
Convertible loan issued 18 September 2009	LIBOR + 4%	54,153	51,923
Convertible bond issued 13 October 2010	10%	52,085	46,111
		106,238	98,034
Net convertible debt		106,238	98,034
Current borrowings		(1,189)	(1,189)
Non-current borrowings		105,049	96,845
Convertible loan comprises			
Drawdown of the loan		60,000	60,000
Equity element		(5,937)	(5,937)
		54,063	54,063
Cost of borrowing		(3,376)	(3,376)
Accrued interest		3,466	1,236
Net convertible loan		54,153	51,923
Convertible bond comprises			
Drawdown of the bond		50,000	50,000
Cost of borrowing		(5,313)	(5,313)
Accrued interest		7,398	1,424
Net convertible bond		52,085	46,111

Convertible loan

The convertible loan (the "loan") of 60 million USD is convertible into ordinary shares of the Company at any time up to 18 March 2012 at the loan holder's option Any conversions done prior to 19 March 2011 would have been converted at a price of 3 0531 USD per share From 19 March 2011 to 18 March 2012, the loan is convertible at 3 0531 USD per share plus a pro-rated amount of margin payments at 4% interest made up to the time of the conversion For any unconverted amounts, the loan is to be repaid in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015

The net proceeds received from the issue of the convertible loan are split between a debt component and an embedded equity element The fair value of the convertible loan component for the drawdowns taken in 2010 have been calculated as the present value of the contracted future cash flows using an effective interest rate of 7% The equity element is calculated as the difference between the principal amount and the fair value of the convertible loan

The comparative figures for the convertible loan for 2010 have been restated to reduce the equity element of the convertible loan by 111 thousand USD, the cost of borrowing has been reduced by 2 162 million USD and accrued interest has been increased by 2 273 million USD The effect is to increase the loss for the 2010 financial year by 111 thousand USD

Convertible bond

On 13 October 2010 the Company entered into a convertible bond agreement (the "bond") to borrow 50 million USD The bond is convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bond holder's option To determine the number of ordinary shares received upon conversion, the amount of the bond to be converted is divided by the share price paid by investors for ordinary shares of the Company at the time of a Qualifying Initial Public Offering (the "QIPO") as defined in the convertible bond agreement At the Company's option, the conversion of the bond can be forced if the ordinary shares of the Company trade at a value of 50% above the QIPO price for at least 20 dealing days in any period of 30 consecutive dealing days any time prior to 6 April 2013 For any unconverted amounts, the bond is to be repaid in full in one instalment on 13 April 2013

The convertible bond was draw down in full during 2010 initially bearing interest at 10% per annum The convertible bond was recognized at a net cost of 46 111 million USD, which comprises the convertible bond at a fair value of 50 million USD less borrowing costs This initially gave an effective interest rate of 16% per annum

Under terms of the convertible bond, additional interest of 10% per annum began accruing effective on 13 October 2011 as the Company did not complete its initial public offering of shares

22 Non-current borrowings (continued)

The re-measurement of the carrying amount of the liability for the change in expected cash flows due to the additional interest of 10% resulted in an income statement impact 3 856 million USD

The interest charged for the year for the convertible loan and bond is calculated by applying the effective market interest rate of the assumed market interest rate to the liability component for the period since the convertible loan or bond was drawn-down

23 Decommissioning provision

	2011 USD '000	2010 USD '000
At 1 January	7,922	9,900
Change in provision	100	588
Unwinding of discount	700	1,089
Reserve adjustment due to estimates change	(305)	(3,599)
Translation of differences	(466)	(56)
At 31 December	7,951	7,922

The provision is for decommissioning and environmental restoration costs related to the gas processing plant and related infrastructure located on the Bortovoy licence Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group

The liability becomes payable at the end of the useful life of each well and the gas plant which ranges from 20 to 30 years

Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group

24 Equity

Authorised and issued share capital

Authorised	2011 USD'000	2010 USD'000
250,000,000 ordinary shares of USD 0 01 each	2,500	2,500

Allotted, called up and fully paid	Ordinary Shares No	Share capital USD '000	Share Premium USD '000	Own shares held USD '000
At 1 January 2010	185,130,198	1,851	295,674	(5,983)
Share premium reduction 30 June 2010	-	-	(250,000)	-
Share issue 20 July 2010	1,840,000	19	5,598	(5,617)
Share issue costs	-	-	(703)	-
At 31 December 2010	186,970,198	1,870	50,569	(11,600)
Share issue 13 December 2011	5,804,613	58	11,551	-
Share issue costs	-	-	(150)	-
At 31 December 2011	192,774,811	1,928	61,970	(11,600)

Share capital and share premium

On 13 December 2011, the Company issued 5,804,613 shares to existing shareholders, executives and directors

On 30 June 2010 the Company reduced the share premium account by 250 million USD as part of the process of converting to a public liability company

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24 Equity (continued)

Own shares held

The remaining shares issued during 2010 were to the EBT and for presentation purposes included as part of own shares held The Company has approval to transfer up to 4,460,000 shares to the EBT for allocation to officers and employees of the Group In 2011 no shares were issued to the EBT (2010 — 1,840,000 shares)

Redeemable shares

At 31 December 2011 and 2010 there were 50,000 redeemable shares at 1 pound sterling each in issue The shares were issued in 2010 in connection with the conversion of the Company to a public limited company

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency are not in US Dollars into the Group's presentation currency

Share option reserve

The share option reserve relates to the fair value of the equity settled share based payments that have been expensed through profit or loss

Equity element of convertible debt

The equity element of convertible debt is the difference between the principal amount and the fair value of the loan and bond convertible debts reflecting values of the convertible option of the debt instruments

25 Operating lease obligations

Operating lease payments are mainly rentals by the Group of land, office space and equipment required for use on a temporary basis Leases are normally signed on a short term basis of one to two years with options to extend

Lease payments under operating leases recognized in the statement of comprehensive income for the year were 1 573 million USD (2010 - 1 021 million USD)

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2011 USD '000	2010 USD '000
Within one year	387	781
In two to five years	33	243
More than five years	181	191

Notes to the consolidated financial statements
for the year ended 31 December 2011

26 Financial instruments

Financial instruments recognised in the balance sheet

	Loans and receivables USD '000	Other financial liabilities at amortised cost USD '000	Total USD '000
Year ended 31 December 2011			
Financial assets			
Trade and other receivables	3,121	-	3,121
Cash and cash equivalents	9,360	-	9,360
	12,481	-	12,481
Financial liabilities			
Trade and other payables	-	8,344	8,344
Borrowings	-	106,238	106,238
	-	114,582	114,582
As at 31 December 2010			
Financial assets			
Trade and other receivables	299	-	299
Cash and cash equivalents	18,147	-	18,147
	18,446	-	18,446
Financial liabilities			
Trade and other payables	-	8,351	8,351
Borrowings	-	98,034	98,034
	-	106,385	106,385

The Group had no financial instruments held at fair value through profit and loss, held to maturity or available for sale and no derivatives used for hedging

The main financial risks faced by the Group through its normal business activities are credit risk, foreign currency risk, liquidity risk and interest rate risk

Interest rate risk

The Group has financial assets and liabilities which are exposed to interest rate risk Changes in interest rates impacting borrowings change either their fair value (fixed rate borrowings) or their future cash flows (floating rate borrowings)

Whilst fixed rate interest bearing borrowings are not exposed to cash flow interest rate risk, there is no opportunity for the Group to enjoy a reduction in borrowing costs in markets where rates are falling In addition, the fair value risk inherent in fixed rate borrowing means that the Group is exposed to unplanned costs should borrowings be restructured or repaid early as part of the liquidity management process In contrast, whilst floating rate borrowings are not exposed to changes in fair value, the Group is exposed to cash flow risk as costs increase if market rates rise

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument The other financial instruments of the Group that are not included in the tables below are non-interest bearing and are therefore not subject to interest rate risk

26 Financial instruments (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected With all other variables held constant, the Group's property, plant and equipment and profit before tax are affected through the impact on floating rate borrowings as follows

	Increase/decrease in basis points	Effect on property, plant and equipment	Effect on profit before tax
2011			
US Dollar	+100	(416)	(135)
US Dollar	-100	416	135
2010			
US Dollar	+100	(382)	-
US Dollar	-100	382	-

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment

Credit Risk

Credit risk is the potential exposure of the Group to loss in the event of non-performance by a counter-party The amount that best represents the maximum credit exposure of the Group's financial assets is the carrying value of the financial assets at the reporting date

This risk arises principally from cash and cash equivalents Management's policy is to hold cash and cash equivalents in reputable financial institutions of which 80 5% (2010 – 91 9%) of cash and cash equivalents are held in reputable financial institutions in the UK To limit exposure to credit risk on trade receivables, management's policy is to sell only to financially solid customers and use prepayments or payment upon delivery for product sales whenever possible The average credit period taken on sale of goods is less than seven days There is no allowance for estimated irrecoverable amounts from sale of goods for the year (2010 – nil)

Maximum credit risk exposure relating to financial assets is represented by carrying value as at the reporting date

Provisions for doubtful debts are recognised against prepayments based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position The movements in the provisions against prepayments are presented in the Note 19

Foreign currency risk

Fluctuations in exchange rates can have significant effects on the Group's reported profit or loss The Group's financial assets and liabilities give rise to transactional currency exposures Such exposures arise from transactions in a currency other than the Group's functional currency

The Group's primary operations are within Russia where the functional currency of the Group's subsidiaries is the Russian ruble ("RUB") The currencies giving rise to this foreign currency risk are US dollar based intra-group borrowings and payables The recent instability of the RUB to US dollar has increased the risks of significant unrealized gains and losses associated with the intra-group borrowings To mitigate this risk the Group has restructured the majority of intra-group borrowings to ruble based loans using Group companies with ruble functional currencies

Cash balances in the Group are usually held in US dollars, but smaller amounts may be held in pounds sterling or local currencies to meet operating and administrative expenses or to comply with local legislation The Group does not have formal arrangements to mitigate foreign exchange risks at this time however as circumstances dictate, the Group considers hedging positions to protect the value of any cash balances it holds in non-US dollar currency or to protect against exchange fluctuations on future non-USD denominated commitments or obligations

Notes to the consolidated financial statements
for the year ended 31 December 2011

26 Financial instruments (continued)

A ten per cent strengthening of US dollar against the following currencies would have decreased loss before tax and impact the Group's equity by the amounts shown below For a ten per cent strengthening of the US dollar against the euro there is no significant impact on loss before tax or on the Group's equity This analysis assumes that all other variables remain constant and the analysis is performed on the same basis for 2010

	Effect on loss before tax	
	2011 USD '000	2010 USD '000
Pounds sterling	140	78

A ten per cent weakening of the US dollar against the above currencies would have had an equal but opposite effect on the basis that all other variables remain constant

Liquidity risk

Liquidity risk is the risk that sources of funding for the Group's business activities may not be available

Management is continually monitoring cash requirements for the Group and evaluating potential sources to fund its operating and capital expenditures All Group entity operations are controlled through annual and monthly budget reviews to mitigate liquidity risk It is the goal of management to ensure adequate funding is available through an appropriate mix of debt and equity instruments In 2011 the Group issued new equity of 11 609 million USD (2010 – nil) In 2010 the Group arranged a convertible debt financing facility (Note 22) of 50 0 million USD The financing facility was primarily used to complete the construction of its gas processing facility and cover other development costs

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments

	On demand USD '000	Less than 3 months USD '000	3 to 12 months USD '000	1 to 5 years USD '000	>5 years USD '000	Total USD '000
Year ended 31 December 2011						
Trade and other payables	-	8,344	-	-	-	8,344
Borrowings	-	1,910	5,743	117,127	-	124,780
Year ended 31 December 2010						
Trade and other payables	-	8,351	-	-	-	8,351
Borrowings	-	1,925	5,775	126,956	-	134,656

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements Fair value has been determined as at the reporting date by discounting the estimated future cash flows at prevailing interest rates

	Book Value		Fair Value	
	2011 USD '000	2010 USD '000	2011 USD '000	2010 USD '000
Cash and cash equivalents	9,360	18,147	9,360	18,147
Trade and other receivables	3,121	299	3,121	299
Trade and other payables	(8,344)	(8,351)	(8,344)	(8,351)
Borrowings	(106,238)	(98,034)	(106,238)	(98,034)

Notes to the consolidated financial statements
for the year ended 31 December 2011

26 Fınancıal ınstruments (contınued)

Capıtal management

Capıtal ıncludes total equıty attrıbutable to the owners of the parent

The prımary objectıve of the Group's capıtal management ıs to ensure that ıt maıntaıns healthy capıtal ratıos ın order to support ıts busıness and maxımıze shareholder value The Group has no externally ımposed capıtal requırements The Group's aım ıs to finance ıts operatıons through equıty and debt financıng

The Group's objectıves when managıng capıtal are to safeguard the Group's abılıty to contınue as a goıng concern ın order to provıde returns for shareholders and benefits for other stakeholders and to maıntaın an optımal capıtal structure to reduce the cost of capıtal To maıntaın or adjust the capıtal structure, the Group may adjust the dıvıdend payment to shareholders, return capıtal to shareholders, ıssue new shares or sell assets to reduce debt No changes were made ın the objectıves, polıcıes or processes durıng the years ended 31 December 2011 and 2010

The Group monıtors capıtal usıng a gearıng ratıo, whıch ıs non-current borrowıngs dıvıded by capıtal The Group's strategy ıs to reduce ıts gearıng when the opportunıty arıses Capıtal comprıses equıty attrıbutable to the equıty holders of the parent

	2011 USD '000	2010 USD '000
Borrowıngs	106,238	98,034
Capıtal	194,412	208,646
Gearıng ratıo	55%	47%

27 Related party transactıons

Transactıons wıth related partıes

	Charges to related partıes USD '000	Purchases from related partıes USD '000	Amounts owed by related partıes USD '000	Amounts owed to related partıes USD '000
Entıtıes wıth key management personnel of the Group				
2011	29	13,332	2	2,140
2010	226	11,358	127	665

Transactıons prımarıly relate to the provısıon of goods and servıces from companıes whose Boards have common dırectors wıth the Company's Board The majorıty of purchases from related partıes durıng 2010 and 2011 were for drıllıng management servıces

Sales and purchases between related partıes are made at normal market prıces Outstandıng balances wıth entıtıes other than subsıdıarıes are unsecured, ınterest free and cash settlement ıs expected wıthın thırty days of ınvoıce The Group has not provıded or benefited from any guarantees for any related party receıvables or payables Durıng the year ended 31 December 2011, the Group has not made any provısıon for doubtful debts relatıng to amounts owed by related partıes (2010 – nıl)

Key management compensatıon

Key management ıs consıdered to comprıse all senıor executıves and dırectors of the Company ıncludıng the CEO, COO, Executıve Vıce Presıdent, Vıce Presıdent Exploratıon and Development, Vıce Presıdent of Operatıons and the Fınance Dırector

	2011 USD '000	2010 USD '000
Salarıes and other short-term employee benefits	2,442	2,523
Share-based payments	603	1,172
	3,045	3,695

The share-based payments represent the IFRS 2 charge for the perıod

Notes to the consolidated financial statements
for the year ended 31 December 2011

28 Capital commitments

Pursuant to its sub-soil licence agreement the Company continues to explore and develop the Bortovoy licence area As at 31 December 2011 there were no unfulfilled licence commitments (2010 – nil)

Prior to 31 December 2011 the Group entered into contracts relating to work on the new gas plant, drilling, work-over and seismic services as part of the normal business activity Pursuant to these contracts, there were no outstanding work commitments still to be delivered (2010 – 8 4 million USD)

29 Contingencies

Russian business operating environment

During the year ended 31 December 2011 all of the Group's business was conducted in Russia through its investment in subsidiaries operating in the oil and gas industry These operations and those of similar companies in Russia are subject to the economic, political and regulatory uncertainties prevailing in Russia

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside Russia Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product, Russia continues to develop economic reforms and improve its legal, tax and regulatory frameworks to bring it more in line with a stable market economy The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged As such, significant additional taxes, penalties and interest may be assessed It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review Under certain circumstances reviews may cover longer periods

Management believes that the Group has complied with all regulations, and paid and accrued all taxes that are applicable However, it is possible that the relevant local or national governmental authorities may attempt to revise their previous approach to such transactions and assess additional income and other taxes and duties against the Group

Decommissioning and environmental restoration costs

The Group operates in the upstream gas industry in the Russian Federation and its activities may have an impact on the environment The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered The Group periodically evaluates its obligation related thereto The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group

Sub-soil licences

The Group is subject to periodic reviews of its activities by Russian governmental authorities with respect to the requirements of its oilfield licences Management of the Group corresponds with governmental authorities to agree on remedial actions, if necessary, to resolve any findings resulting from these reviews Failure to comply with the terms of a licence could result in fines, penalties, licence limitation, suspension or revocation The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group Management believes that in practice the relevant authorities rarely suspend or restrict the licences, especially at the exploration stage, and tend to terminate licences only in the event of continuous non-compliance and the failure of the licence holder to remedy breaches The Group is attempting to comply with its licence requirements and has not received any official warnings or notifications about continuous non-compliance or any risk of suspension, restriction or termination

Notes to the consolidated financial statements
for the year ended 31 December 2011

30 Events after the reporting period

On 27 February 2012, the issued share capital was increased by 2 589 million USD by the issue of 1,294,616 ordinary shares at 2 USD each This share issue was the second tranche of an agreed share subscription with existing shareholders, executives and directors

On 13 March 2012, 380,000 shares were issued to the employee benefit trust as compensation to key employees and the senior management of the Group The shares were approved on 22 March 2011 and vest over a three year period subject to vesting conditions being met

On 18 March 2012, the convertible option on the 60 million USD convertible loan expired (Note 22) The debt is now a term loan repayable in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015

On 3 May 2012, 9,280,000 shares were issued to the employee benefit trust as compensation to directors and senior management for past service contributions and to enable the Group to compensate key employees and senior management after the initial public offering is completed Future awards will be based on recommendations made by the Remuneration Committee based on Group and employee performance

31 Foreign exchange rates

The exchange rate at the year-end was 32 1961 RUB to 1 USD (2010 – 30 4769) and the average exchange rate for the year was 29 3874 RUB to 1 USD (2010 – 30 3692) For UK operations, the exchange rate at the period end was 0 6487 £ to 1 USD (2010 – 0 6464) and the average exchange rate for the period was 0 6242 £ per 1 USD (2010 – 0 6329)

Parent company statement of financial position
at 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Non-current assets			
Property, plant and equipment	5	110	233
Investments in subsidiaries	6	349,282	345,158
		349,392	345,391
Current assets			
Trade and other receivables	7	1,744	2,185
Cash and cash equivalents		7,518	16,752
		9,262	18,937
Total assets		358,654	364,328
Current liabilities			
Trade and other payables	8	3,964	4,889
Borrowings	8	1,189	1,189
Non-current borrowings	9	105,049	96,845
Total liabilities		110,202	102,923
Net assets		248,452	261,405
Equity			
Share capital	10	1,928	1,870
Share premium	10	61,970	50,569
Own shares held	10	(11,600)	(11,600)
Currency translation reserve	10	19	45
Share option reserve	10	3,235	2,598
Equity component of convertible debt	9	5,937	5,937
Accumulated reserves/(deficit)		186,963	211,986
Total equity attributable to owners of the parent		248,452	261,405

These financial statements were approved and authorised for issue by the Board of Directors

Signed on behalf of the Board of Directors

Blaine Karst

Blaine Karst
Director
25 May 2012

Parent company statement of changes in equity

for the year ended 31 December 2011

	Share capital USD '000	Share premium USD '000	Own shares held USD '000	Equity component of convertible debt USD '000	Currency translation reserve USD '000	Share option reserve USD '000	Accumulated reserves/ (deficit) USD '000	Total equity USD '000
Balance at 1st January 2010	1,851	295,674	(5,983)	1,964	27	1,426	(24,144)	270,815
Loss for the year	-	-	-	-	-	-	(13,870)	(13,870)
Other comprehensive income	-	-	-	-	18	-	-	18
Total comprehensive income for the year	-	-	-	-	18	-	(13,870)	(13,852)
Transactions with owners								
Share issues	19	(244,402)	-	-	-	-	250,000	5,617
Own shares issued to the employee benefit trust	-	-	(5,617)	-	-	-	-	(5,617)
Equity element of convertible debt	-	-	-	3,973	-	-	-	3,973
Share issue costs	-	(703)	-	-	-	-	-	(703)
Share option charge	-	-	-	-	-	1,172	-	1,172
Total of transactions with owners	19	(245,105)	(5,617)	3,973	-	1,172	250,000	4,442
Balance at 31 December 2010	1,870	50,569	(11,600)	5,937	45	2,598	211,986	261,405
Loss for the year	-	-	-	-	-	-	(25,023)	(25,023)
Other comprehensive income	-	-	-	-	(26)	-	-	(26)
Total comprehensive income for the year	-	-	-	-	(26)	-	(25,023)	(25,049)
Transactions with owners								
Share issues	58	11,551	-	-	-	-	-	11,609
Share issue costs	-	(150)	-	-	-	-	-	(150)
Share option charge	-	-	-	-	-	637	-	637
Total of transactions with owners	58	11,401	-	-	-	637	-	12,097
Balance at 31 December 2011	1,928	61,970	(11,600)	5,937	19	3,235	186,963	248,452

Parent company statement of cash flows

for the year ended 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Operating activities			
Net cash flow used in operating activities	11	(8,747)	(5,519)
Net cash flow used in operating activities		(8,747)	(5,519)
Investing activities			
Investments in subsidiaries		(4,124)	(76,617)
Interest income on cash investments		6	5
Purchase of property, plant and equipment	5	(54)	(58)
Net cash flow used in investing activities		(4,172)	(76,670)
Financing activities			
Proceeds on issue of share capital		11,459	(4,335)
Interest payments on long term liabilities		(7,778)	(2,278)
Proceeds from convertible debt		-	93,364
Net cash flow from financing activities		3,681	86,751
Increase / (decrease) in cash and cash equivalents		(9,238)	4,562
Cash and cash equivalents at beginning of year		16,752	12,287
Effect of exchange rate changes on cash and cash equivalents		4	(97)
Cash and cash equivalents at the end of the year		7,518	16,752

Notes to the parent company financial statements

for the year ended 31 December 2011

1 Corporate information

Organisation and principal activities

The Company is a public limited company incorporated in Great Britain The principal activity of the Company is the management of investments in subsidiaries engaged in the exploration, development, and production of hydrocarbons The Company's main operating subsidiary is in Russia where the subsidiary holds a sub-soil licence for geological exploration and production of hydrocarbons To assist in management operations, the Company has a registered branch office in Moscow, Russia The registered UK office of the Company is Masters House, 107 Hammersmith Road, London, England, W14 0QH

2 Significant accounting policies

The Company's accounting policies, key accounting estimates and judgements follow those of the Group as set out in Note 2 to the consolidated financial statements The following accounting policies also apply to the Company

Authorization

The financial statements for the parent company for the year ended 31 December 2011 were authorised for issue by the board of directors on 25 May 2012 and the statement of financial position was signed on the board's behalf by Blaine Karst

Basis of preparation

The financial statements are presented in US dollars No income statement is presented by the Company as permitted by section 408(3) of the Companies Act 2006

Investments in subsidiaries

Non-current investments in subsidiaries are included in the financial statements at cost The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable If any such indication of impairment exists, the Company makes an estimate of its recoverable amount Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount

3 Taxation

As at 31 December 2011 the Company has unrecognised deferred tax assets which arose in the UK of 38 035 million USD (2010 – 16 386 million USD) Deferred tax has not been provided for these losses on the basis that it is not sufficiently certain there will be adequate taxable profits arising in the future to offset against the tax losses The losses incurred in the UK are available to carry forward indefinitely for offset against future taxable profits

4 Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company is 25 023 million USD (2010 – 13 870 million USD)

Notes to the parent company financial statements

for the year ended 31 December 2011

5 Property, plant and equipment

	Office equipment and furniture USD'000	Motor vehicles USD'000	Total USD'000
Cost			
At 1 January 2010	466	64	530
Additions	26	32	58
Disposals	(2)	-	(2)
Translation differences	-	(1)	(1)
At 31 December 2010	490	95	585
Additions	14	40	54
Disposals	(1)	(79)	(80)
Translation differences	(3)	(2)	(5)
At 31 December 2011	500	54	554
Depreciation			
Accumulated depreciation at 1 January 2010	222	10	232
Charge for the year	104	18	122
Disposals	(2)	-	(2)
At 31 December 2010	324	28	352
Charge for the year	101	20	121
Disposals	-	(26)	(26)
Translation differences	(2)	(1)	(3)
At 31 December 2011	423	21	444
Net book value			
At 31 December 2010	166	67	233
At 31 December 2011	77	33	110

6 Investments in subsidiaries

	Investment in subsidiary undertakings USD'000	Loans to subsidiary undertakings USD'000	Total USD'000
Balance at 1 January 2010	41,806	222,659	264,465
Additions	250,748	-	250,748
Disposals	-	(170,055)	(170,055)
Balance at 31 December 2010	292,554	52,604	345,158
Additions	3,084	1,040	4,124
Balance at 31 December 2011	295,638	53,644	349,282

Information on investments in subsidiaries can be found in the Directors' Report in the consolidated financial statements The investment costs relate to the acquisition and funding of exploration and development operations in Russia

All loans to subsidiaries are demand loans but are classified as long term as the Company does not expect to demand repayment of the advances in 2012

No interest was charged on loans to subsidiaries in the year (2010 – nil)
Since the publishing of the 31 December 2010 financial statements the 2010 comparative figures of the investment in subsidiary has been restated, the investment in subsidiary has been reduced by 3 071 million USD The effect is to increase the loss for the financial year 2010 by 3 071 million USD

Notes to the parent company financial statements

for the year ended 31 December 2011

7 Trade and other receivables

	2011 USD'000	2010 USD'000
Prepayments and deposits	338	325
Tax receivables	35	614
Other receivables	1,371	1,246
	1,744	2,185

Prepayments and deposits are advance payments for services to be rendered within the next twelve months Tax receivables relate primarily to value added tax payments that are expected to be recovered within the next twelve months

Other receivables are non-interest bearing and are generally on 30-90 day terms

8 Trade and other payables

	2011 USD'000	2010 USD'000
Trade payables	1,734	3,641
Accruals and other payables	2,230	1,248
Interest-bearing loans and borrowings	1,189	1,189
	5,153	6,078

9. Non-current borrowings

	Nominal interest rate	2011 USD'000	2010 USD'000
Net amounts due in less than 5 years			
Convertible loan issued 18 September 2009	LIBOR + 4%	54,153	51,923
Convertible bond issued 13 October 2010	10%	52,085	46,111
		106,238	98,034
Net convertible debt		106,238	98,034
Current borrowings		(1,189)	(1,189)
Non-current borrowings		105,049	96,845
Convertible debt comprises			
Drawdown of the loan		60,000	60,000
Equity element		(5,937)	(5,937)
		54,063	54,063
Cost of borrowing		(3,376)	(3,376)
Accrued interest		3,466	1,236
Net convertible loan		54,153	51,923
Convertible bond comprises			
Drawdown of the bond		50,000	50,000
Cost of borrowing		(5,313)	(5,313)
Accrued interest		7,398	1,424
Net convertible bond		52,085	46,111

Notes to the parent company financial statements

for the year ended 31 December 2011

9 **Non-current borrowings** (continued)

Convertible loan

The convertible loan (the "loan") of 60 million USD is convertible into ordinary shares of the Company at any time up to 18 March 2012 at the loan holder's option Any conversions done prior to 19 March 2011 would have been converted at a price of 3 0531 USD per share From 19 March 2011 to 18 March 2012, the loan is convertible at 3 0531 USD per share plus a pro-rated amount of margin payments at 4% interest made up to the time of the conversion For any unconverted amounts, the loan is to be repaid in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015

The net proceeds received from the issue of the convertible loan are split between a debt component and an embedded equity element The fair value of the convertible loan component for the drawdowns taken in 2010 have been calculated as the present value of the contracted future cash flows using an effective interest rate of 7% The equity element is calculated as the difference between the principal amount and the fair value of the convertible loan

The comparative figures for the convertible loan for 2010 have been restated to reduce the equity element of the convertible loan by 111 thousand USD, the cost of borrowing has been reduced by 2 162 million USD and accrued interest has been increased by 2 273 million USD The effect is to increase the loss for the 2010 financial year by 111 thousand USD

Convertible bond

On 13 October 2010 the Company entered into a convertible bond agreement (the "bond") to borrow 50 million USD The bond is convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bond holder's option To determine the number of ordinary shares received upon conversion, the amount of the bond to be converted is divided by the share price paid by investors for ordinary shares of the Company at the time of a Qualifying Initial Public Offering (the "QIPO") as defined in the convertible bond agreement At the Company's option, the conversion of the bond can be forced if the ordinary shares of the Company trade at a value of 50% above the QIPO price for at least 20 dealing days in any period of 30 consecutive dealing days any time prior to 6 April 2013 For any unconverted amounts, the bond is to be repaid in full in one instalment on 13 April 2013

The convertible bond was draw down in full during 2010 initially bearing interest at 10% per annum The convertible bond was recognized at a net cost of 46 111 million USD, which comprises the convertible bond at a fair value of 50 million USD less borrowing costs This initially gave an effective interest rate of 16% per annum

Under terms of the convertible bond, additional interest of 10% per annum began accruing effective on 13 October 2011 as the Company did not complete its initial public offering of shares

The re-measurement of the carrying amount of the liability for the change in expected cash flows due to the additional interest of 10% resulted in an income statement impact of 3,856 thousand USD

The interest charged for the year for the convertible loan and bond is calculated by applying the effective market interest rate of the assumed market interest rate to the liability component for the period since the convertible loan or bond was drawn-down

Notes to the parent company financial statements

for the year ended 31 December 2011

10 Equity

Authorised and issued share capital

Authorised	2011 USD'000	2010 USD'000
250,000,000 ordinary shares of USD 0 01 each	2,500	2,500

Allotted, called up and fully paid	Ordinary Shares No	Share capital USD '000	Share Premium USD '000	Own shares held USD '000
At 1 January 2010	185,130,198	1,851	295,674	(5,983)
Share premium reduction 30 June 2010	-	-	(250,000)	-
Share issue 20 July 2010	1,840,000	19	5,598	(5,617)
Share issue costs	-	-	(703)	-
At 31 December 2010	186,970,198	1,870	50,569	(11,600)
Share issue 13 December 2011	5,804,613	58	11,551	-
Share issue costs	-	-	(150)	-
At 31 December 2011	192,774,811	1,928	61,970	(11,600)

Share capital and share premium

During the year, the allotted, called up and fully paid share capital was increased by 11 609 million USD by the issue of 5,804,613 ordinary shares of 2 USD each This share issue was the first tranche of an agreed share subscription with existing shareholders, executives and directors The second tranche of shares is conditional upon the Company meeting conditions specified in the Subscription Agreement

On 30 June 2010 the Company reduced share premium by 250 million USD as part of the process of converting to a public limited company

Redeemable shares

At 31 December 2011 there were 50,000 redeemable shares at 1 pound sterling in issue The shares were issued during 2010 in connection with the conversion of the Company to a public limited company

Own shares held

The Company has approval to transfer up to 4,460,000 shares to the EBT for allocation to officers and employees of the Group In 2010, 1,840,000 shares equal to one per cent of called up share capital were issued pursuant to the EBT For presentation purposes, the shares held in the EBT are included as own shares held

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency are not in US Dollars into the Group's presentation currency

Share option reserve

The share option reserve relates to the fair value of the equity-settled share based payments that have been expensed through profit or loss

Equity element of convertible debt

The equity element of convertible debt is the difference between the principal amount and the fair value of the loan and bond convertible debts reflecting values of the convertible option of the debt instruments

Notes to the parent company financial statements

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11 Reconciliation of loss from operations to net cash used in operating activities

	2011 USD'000	2010 USD'000
Loss before taxation	(25,023)	(13,870)
Adjustments for		
Foreign exchange (gains)/losses	(367)	51
Tax for the year	-	(705)
Depreciation, depletion and amortization	95	122
Finance costs	12,420	6,491
Adjustments to expected cash flows of liability	3,981	-
Interest income on cash invested	(6)	(5)
Accrued share based payments	637	1,172
Increase in trade and other receivables	441	615
(Decrease)/increase in trade and other payables	(925)	610
Net cash flow used in operating activities	(8,747)	(5,519)

12 Share-based payments

The Company grants awards of shares to staff as reward for past service and incentive to continue to work for the Group The shares are normally held jointly with the employee and the EBT awarded at fair market value senior management and key employees of the Company at nil cost The share awards vest at specified time intervals and vesting is dependent on staff remaining in full employment with the Company for a three year period The awards are equity settled

The fair value of the share awards was estimated at the grant date using a Black Scholes simulation model, taking into account the terms and conditions upon which the awards were granted

The following table shows details of share awards outstanding during the year

	2011	2010
As at 1 January	3,800,000	2,460,000
Granted during the year	1,000,000	1,340,000
Forfeited during the year	(100,000)	-
As at 31 December	4,700,000	3,800,000
Shares vested at 31 December	3,300,000	2,820,000

The following table lists the inputs to the model ($ amounts are in USD

	2011	2010
Award grant date	1 September	20 July
Number of awards	1,000,000	1,340,000
Award fair value at grant date	$1 52	$0 04
Share price at grant date	$1 53	$1 53
Amount payable by executive	nil	$3 05
Risk free rate	4%	6%
Dividend yield	nil	nil
Expected volatility	25 8%	29 7%
Expected life of awards	2 years	1 5 years
Weighted average remaining contractual life of share awards at the end of the year	2 67 years	0 96 years

Expected volatility is based on historic share price movements The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome Maximum term for the awards is three years For key employees the probability that not all the awards will vest due to the resignation was set at 10% (2010 –0%) No other features of options' terms were incorporated into the measurement of fair value

Notes to the parent company financial statements

for the year ended 31 December 2011

12 Share-based payments (continued)

The following table lists liabilities arising from share-based payment transactions

	2011 USD '000	2010 USD '000
Total share-based payment reserve	3,235	2,598

The expense recognized for share-based payments in respect of employee services received during the year is 0 637 million USD (2010 – 1 172 million USD)

Share awards

In 2011, 1,000,000 shares (2010 – 1,340,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions being met, such shares vesting over a three year period from the date set in the joint operating agreements between employees and the EBT There were no actual shares issued to the EBT in 2011 The actual shares issued to the EBT in 2010 were 1,840,000 shares

13 Financial instruments

Financial instruments recognised in the balance sheet

	Loans and receivables USD '000	Other financial liabilities at amortised cost USD '000	Total USD '000
Year ended 31 December 2011			
Financial assets			
Non-current investments	53,644	-	53,644
Trade and other receivables	14	-	14
Cash and cash equivalents	7,518	-	7,518
	61,176	-	61,176
Financial liabilities			
Trade and other payables	-	1,734	1 734
Interest-bearing loans and borrowings	-	106,238	106,238
	-	107,972	107,972
As at 31 December 2010			
Financial assets			
Non-current investments	52,604	-	52,604
Trade and other receivables	157	-	157
Cash and cash equivalents	16,752	-	16,752
	69,513	-	69,513
Financial liabilities			
Trade and other payables	-	3,641	3,641
Interest-bearing loans and borrowings	-	98,034	98,034
	-	101,675	101,675

The Company had no financial instruments held at fair value through profit and loss, held to maturity and no derivatives used for hedging

The main financial risks faced by the Company through its normal business activities are interest rate risk, credit risk, foreign currency risk and liquidity risk

Notes to the parent company financial statements

for the year ended 31 December 2011

13 **Financial instruments** (continued)

Interest rate risk

The Company has financial assets and liabilities which are exposed to interest rate risk Changes in interest rates impacting borrowings change either their fair value (fixed rate borrowings) or their future cash flows (floating rate borrowings)

Whilst fixed rate interest bearing borrowings are not exposed to cash flow interest rate risk, there is no opportunity for the Company to enjoy a reduction in borrowing costs in markets where rates are falling In addition, the fair value risk inherent in fixed rate borrowing means that the Company is exposed to unplanned costs should borrowings be restructured or repaid early as part of the liquidity management process In contrast, whilst floating rate borrowings are not exposed to changes in fair value, the Company is exposed to cash flow risk as costs increase if market rates rise

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument The other financial instruments of the Company that are not included in the tables below are non-interest bearing and are therefore not subject to interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings as follows

	Increase/decrease in basis points	Effect on profit before tax
2011		
US Dollar	+100	(551)
US Dollar	-100	551
2010		
US Dollar	+100	(382)
US Dollar	-100	382

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment

Credit risk

Credit risk is the potential exposure of the Company to loss in the event of non-performance by a counter-party The amount that best represents the maximum credit exposure of the Company's financial assets is the carrying value of the financial assets at the reporting date

This risk arises principally from cash and cash equivalents Management's policy is to hold cash and cash equivalents in reputable financial institutions of which 99 6% (2010 – 99 4%) of cash and cash equivalents are held in reputable financial institutions in the UK

Maximum credit risk exposure relating to financial assets is represented by carrying value as at the reporting date

Foreign currency risk

Fluctuations in exchange rates can have significant effects on the Company's reported profit or loss The Company's financial assets and liabilities give rise to transactional currency exposures Such exposures arise from transactions in currencies other than the Company's functional currency

Cash balances in the Company are usually held in US dollars, but smaller amounts may be held in pounds sterling or local currencies to meet operating and administrative expenses or to comply with local legislation

The Company does not have formal arrangements to mitigate foreign exchange risks at this time however as circumstances dictate, the Group considers hedging positions to protect the value of any cash balances it holds in non-US dollar currency or to protect against exchange fluctuations on future non-USD denominated commitments or obligations

Notes to the parent company financial statements

for the year ended 31 December 2011

13 Financial instruments (continued)

The following table demonstrates the Company's exposure to foreign currency risk

	Sterling USD '000	Russian ruble USD '000	Total USD '000
Year ended 31 December 2011			
Cash and cash equivalents	114	31	145
Trade and other receivables	-	128	128
Trade and other payables	(3,300)	(32)	(3,332)
Year ended December 2010			
Cash and cash equivalents	188	97	285
Trade and other receivables	-	56	56
Trade and other payables	(1,041)	(45)	(1,086)

Such as the almost all financial assets held in the USD, a ten per cent strengthening of US dollar against the sterling, Euro or Russian ruble would not have any significant impact on loss before tax or on the Company's equity

Liquidity risk

Liquidity risk is the risk that sources of funding for the Company's business activities may not be available

Management is continually monitoring cash requirements for the Company and evaluating potential sources to fund its operating and capital expenditures All Company entity operations are controlled through annual and monthly budget reviews to mitigate liquidity risk It is the goal of management to ensure adequate funding is available through an appropriate mix of debt and equity instruments In 2010 the Group arranged a convertible debt financing facility (Note 9) of 50 0 million USD (2009 – 60 0 million USD) to complete the construction of its gas processing facility and cover other development and exploration costs

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted payments

	On demand USD '000	Less than 3 months USD '000	3 to 12 months USD '000	1 to 5 years USD '000	>5 years USD '000	Total USD '000
Year ended 31 December 2011						
Trade and other payables	-	1,734	-	-	-	1,734
Borrowings	-	1,910	5,743	117,127	-	124,780
Year ended 31 December 2010						
Trade and other payables	-	3,641	-	-	-	3,641
Borrowings	-	1,925	5,775	126,956	-	134,656

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements Fair value has been determined as at the reporting date by discounting the estimated future cash flows at prevailing interest rates

Notes to the parent company financial statements

for the year ended 31 December 2011

13 Financial instruments (continued)

	Book Value		Fair Value	
	2011 USD '000	2010 USD '000	2011 USD '000	2010 USD '000
Intercompany advances	53,644	52,604	53,644	52,604
Cash and cash equivalents	7,518	16,752	7,518	16,752
Trade and other receivables	14	157	14	157
Trade and other payables	(1,734)	(3,641)	(1,734)	(3,641)
Borrowings	(106,238)	(98,034)	(106,238)	(98,034)

Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value The Company has no externally imposed capital requirements The Company's aim is to finance its operations through equity and debt financing

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt No changes were made in the capital management objectives, policies or processes during the years ended 31 December 2011 and 2010

The Company monitors capital using a gearing ratio, which is non-current borrowings divided by capital The Company's strategy is to reduce its gearing when the opportunity arises Capital comprises equity

	2011 USD '000	2010 USD '000
Borrowings	106,238	98,034
Capital	248,452	261,405
Gearing ratio	43%	37%

14 Related party transactions

Obligations to related parties

As at 31 December 2011 the Company had no non-current obligations to related parties as all obligations were paid out during the year

Transactions with related parties

	Charges to related parties USD '000	Purchases from related parties USD '000	Amounts owed by related parties USD '000	Amounts owed to related parties USD '000
Entities with key management of the Company				
2011	29	31	-	-
2010	223	100	1	-

The Company advances funds to its subsidiaries There was no interest accrued on the advances in 2011 (2010 – nil) See Note 6 that details movements and year-end balances in respect of subsidiary undertakings

Notes to the parent company financial statements

for the year ended 31 December 2011

14 Related party transactions (continued)

Key management compensation

Key management is considered to comprise senior executives and directors of the Company including the COO, Executive Vice President, Vice President Exploration and Development and the Finance Director

	2011 USD '000	2010 USD'000
Salaries and other short-term employee benefits	2,442	2,523
Share-based payments	603	1,172
	3,045	3,695

The share-based payments represent the IFRS 2 charge for the period

15 Auditor's remuneration

	2011 USD'000	2010 USD'000
Auditor's remuneration for services included in professional fees		
Statutory audit	497	152
Other services related to taxation	11	61

The expenditure for statutory audit in 2011 includes payment of 219 thousand USD for audit services related to prior periods

16. Operating lease obligations

Operating lease payments primarily represent rentals payable by the Company for office space and equipment required for use on a temporary basis Longer term office leases will be entered into if terms are favourable but would include break clauses providing for a one to two year notice period

Lease payments under operating leases recognised in profit or loss for the year were 501 thousand USD (2010 – 342 thousand USD)

At the reporting date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2011 USD'000	2010 USD'000
Within one year	216	358
2 – 5 years	-	208

17 Events after the reporting period

On 27 February 2012, the issued share capital was increased by 2 589 million USD by the issue of 1,294,616 ordinary shares at 2 USD each This share issue was the second tranche of an agreed share subscription with existing shareholders, executives and directors

On 13 March 2012, 380,000 shares were issued to the employee benefit trust as compensation to key employees and the senior management The shares were approved on 22 March 2011 and vest over a three year period subject to vesting conditions being met

On 18 March 2012, the convertible option on the 60 million USD convertible loan expired (Note 22) The debt now became a term loan repayable in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015

On 3 May 2012, 9,280,000 shares were issued to the employee benefit trust as compensation to directors and senior management for past service contributions and to enable the Group to compensate key employees and senior management after the initial public offering is completed Future awards will be based on recommendations made by the Remuneration Committee based on Group and employee performance