

Company balance sheet

at 30 June 2010

| | Notes | 2010 USD '000 |
|--|-------|------------------|
| Non-current assets | | |
| Property, plant and equipment | 4 | 244 |
| Investments in subsidiaries | 5 | 311,163 |
| | | <u>311,407</u> |
| Current assets | | |
| Trade and other receivables | 6 | 481 |
| Cash and cash equivalents | | 14,345 |
| | | <u>14,826</u> |
| Total assets | | <u>326,233</u> |
| Current liabilities | | |
| Trade and other payables | 7 | 3,624 |
| Non-current liabilities | 8 | 52,210 |
| | | <u>55,834</u> |
| Total liabilities | | <u>55,834</u> |
| Net assets | | <u>270,399</u> |
| Equity | | |
| Share capital | 9,10 | 1,851 |
| Share premium | 10 | 44,530 |
| Own shares held | 10 | (5,983) |
| Currency translation reserve | 10 | 56 |
| Share option reserve | 10 | 2,028 |
| Equity element of convertible debt | 10 | 6,048 |
| Accumulated reserves | 10 | 221,869 |
| | | <u>270,399</u> |
| Total equity attributable to owners of the parent | | <u>270,399</u> |

These financial statements were approved and authorised for issue by the Board of Directors on 9 September 2010

Signed on behalf of the Board of Directors

Blaine Karst

Blaine Karst

Director

THURSDAY



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COMPANIES HOUSE

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1 Corporate information

Organisation and principal activities

The Company is a limited liability 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 at 31 December 2009, and are prepared under International Financial Reporting Standards. The following accounting policies also apply to the Company.

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.

The ability of the Company to continue as a going concern is dependent upon the success of the Vostok Energy Limited group (the "Group") as a whole. The Group is dependent upon the financial support of investors and lenders to fully finance its exploration and development programme, and to complete commissioning obligations relating to the gas plant in the western licence area. To meet a forecast working capital shortfall for the associated costs of this work the Directors have concluded that additional funding will be required.

The Directors have appointed Deutsche Bank to act as financial advisors to the Company. Deutsche Bank will assist the Company in raising the required funds through the issue of a convertible debenture for up to 50 million USD. The Directors believe that this financing will ensure that funds are available to finance the initial eastern licence area development plans and complete the start-up of the gas plant. The Directors recognize there are still construction and commissioning risks that could delay the gas plant start-up, resulting in costs exceeding current forecasts.

The Directors believe that the Company will be able to raise the required new funds in the current market conditions. These new funds combined with current funding available and the projected revenue generated from the expected sale of product from the gas plant, will enable the Group to fund ongoing operations and meet its liabilities as and when they fall due. Therefore, the Directors continue to adopt the going concern basis of accounting.

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.

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3. Taxation

| | 2010 USD '000 |
|-------------------------|------------------|
| Corporation tax payable | 1,495 |
| | <u>1,495</u> |

There has been no movement in the corporation tax payable in the year

The losses incurred in the UK are available to carry forward indefinitely for offset against future taxable profits. No deferred tax asset has been recognised in the financial statements in respect of these tax losses on the basis that there will not be sufficient taxable profits for the temporary difference to reverse in the foreseeable future.

4. 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 | 9 | – | 9 |
| Disposals | (2) | – | (2) |
| Translation differences | 13 | (2) | 11 |
| At 30 June 2010 | <u>486</u> | <u>62</u> | <u>548</u> |
| Depreciation | | | |
| At 1 January 2010 | 222 | 10 | 232 |
| Charge for the period | 51 | 9 | 60 |
| Disposals | (2) | – | (2) |
| Translation differences | 15 | (1) | 14 |
| At 30 June 2010 | <u>286</u> | <u>18</u> | <u>304</u> |
| Net book value | | | |
| At 1 January 2010 | 244 | 54 | 298 |
| At 30 June 2010 | <u>200</u> | <u>44</u> | <u>244</u> |

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5. Investments in subsidiaries

| | <i>Investment in subsidiary undertakings USD '000</i> | <i>Loans to subsidiary undertakings USD '000</i> | <i>Total USD '000</i> |
|---------------------------|---|--|---------------------------|
| Balance at 1 January 2010 | 41,806 | 222,659 | 264,465 |
| Additions | 217,102 | | 217,102 |
| Reductions | | (170,404) | (170,404) |
| Balance at 30 June 2010 | 258,908 | 52,255 | 311,163 |

Information on investments in subsidiaries can be found in the Directors' Report in the consolidated financial statements as at 31 December 2009. 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 2011.

No interest was charged on loans to subsidiaries in the period.

6 Trade and other receivables

| | <i>2010 USD '000</i> |
|-------------------|--------------------------|
| Prepayments | 68 |
| Other receivables | 413 |
| | <u>481</u> |

Prepayments are for advances on contracts for services and deposits. Other receivables are for recoverable VAT or for reimbursable costs incurred pursuant to contractual arrangements.

7. Trade and other payables

| | <i>2010 USD '000</i> |
|-----------------------------|--------------------------|
| Trade payables | 1,028 |
| Accruals and other payables | 812 |
| Current taxes payable | 1,784 |
| | <u>3,624</u> |

Corporation tax of \$1,495 is included within the current taxes payable balance above.

Notes to the financial statements

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8 Non-current liabilities

| | <i>Effective interest rate</i> | <i>2010 USD'000</i> |
|----------------------------------|------------------------------------|-------------------------|
| Amounts due in less than 5 years | | |
| EBRD convertible debt | LIBOR + 4% | 43,745 |
| | | <u>43,745</u> |
| Amounts due in more than 5 years | | |
| EBRD convertible debt | LIBOR + 4% | 8,465 |
| | | <u>8,465</u> |
| EBRD convertible debt comprises | | |
| Drawdown of the loan | | 60,000 |
| Equity element | | (6,048) |
| | | <u>53,952</u> |
| Cost of borrowing | | (1,742) |
| | | <u>(1,742)</u> |
| Net EBRD convertible debt | | <u>52,210</u> |

On 18 September 2009 the Company entered into an agreement with the EBRD to borrow up to 60 million USD prior to 18 March 2011

The debt is convertible at any time up to 18 March 2012 at the EBRD's option. Conversions done prior to 19 March 2011 are to be converted at a price of 3 0531 USD per share. From 19 March 2011 to 18 March 2012, the debt is convertible at 3 0531 USD per share plus a pro-rated amount of margin payments (4% interest) made up to the time of the conversion.

For any unconverted amounts, the debt is to be repaid in six equal semi-annual installments beginning 15 June 2013 and ending on 15 December 2015.

At 31 December 2009, 10 million USD had been drawn down of this facility. The remaining 50 million USD was drawn down by 30 June 2010. The net proceeds received from the issue of the convertible debt have been split between a debt component and an embedded equity element. The fair value of the debt component has been calculated as the present value of the contracted future cash flows using an assumed market interest rate of LIBOR plus 9%. The equity element is calculated as the difference between the principal amount and the fair value of the debt component.

The interest charged for the period is calculated by applying effective interest rates ranging from 8.2% to 11.3%, as calculated appropriately for each tranche of debt drawn down, to the liability component for the period since the convertible debt was issued.

LIBOR is the British Bankers Association London Interbank Offered Rate.

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9. Equity

Authorised and issued share capital

| | 2010 USD '000 |
|--|------------------|
| <i>Authorised</i> | |
| 250,000,000 ordinary shares of USD 0.01 each | 2,500 |

In 2009, the shareholders approved an increase in the authorized share capital of the Company from 200,000,000 to 250,000,000 shares

| | <i>Ordinary shares</i> | |
|---|------------------------|-----------------|
| | <i>Shares</i> | <i>Amount</i> |
| <i>Allotted, called up and fully paid</i> | <i>No</i> | <i>USD '000</i> |
| At 1 January and 30 June 2010 | 185,130,198 | 306,006 |

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. The formal establishment of the EBT was completed on 20 January 2009. In 2009 1,960,000 shares equal to 1% of called up share capital were issued pursuant to the EBT (2008 – nil). For presentation purposes, the shares held in the EBT are included as own shares held (see note 10 below).

10 Capital and reserves

| | <i>Share capital</i> | <i>Share premium</i> | <i>Own shares held</i> | <i>Equity component of convertible debt</i> | <i>Currency translation reserve</i> | <i>Share option reserve</i> | <i>Accumulated reserves</i> | <i>Total equity</i> |
|---|----------------------|----------------------|------------------------|---|-------------------------------------|-----------------------------|-----------------------------|---------------------|
| | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> |
| Balance at 1st January 2010 | 1,851 | 295,674 | (5,983) | 1,964 | 27 | 1,426 | (24,143) | 270,816 |
| Reduction in share premium | – | (250,000) | – | – | – | – | 250,000 | – |
| Costs related to reduction in share premium | – | (441) | – | – | – | – | – | (441) |
| Currency translation differences | – | – | – | – | 29 | – | – | 29 |
| Share option charge | – | – | – | – | – | 602 | – | 602 |
| Equity element of convertible debt | – | – | – | 4,084 | – | – | – | 4,084 |
| Share issue costs | – | (703) | – | – | – | – | – | (703) |
| Loss for the period | – | – | – | – | – | – | (3,988) | (3,988) |
| Balance at 30 June 2010 | 1,851 | 44,530 | (5,983) | 6,048 | 56 | 2,028 | 221,869 | 270,399 |

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10. Capital and reserves (continued)

On 30 June 2010 the Company reduced share premium by 250 million USD as part of the process of converting to a public liability company. This share premium reduction was credited to the P&L reserves (accumulated reserves).

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the branch operations in Russia whose functional currency is not US dollars into the Company'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 EBRD convertible debt reflecting the value of the convertible option of the debt. This recognizes that the margin interest rate of 4% on the convertible debt is less than the margin interest rate, assumed at 9%, that the Company could have borrowed debt had there been no convertible option.

11. Financial instruments

Financial instruments recognised in the balance sheet

| | <i>Loans and receivables</i> | <i>Other financial liabilities at amortised cost</i> | <i>Total</i> |
|----------------------------------|----------------------------------|--|-----------------|
| | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> |
| Period ended 30 June 2010 | | | |
| Financial assets | | | |
| Non-current investments | 52,255 | – | 52,255 |
| Trade and other receivables | 482 | – | 482 |
| Cash and cash equivalents | 14,345 | – | 14,345 |
| | <u>67,082</u> | <u>–</u> | <u>67,082</u> |
| Financial liabilities | | | |
| Trade and other payables | – | 3,624 | 3,624 |
| Short-term borrowings | – | – | – |
| Non-current borrowings | – | 52,210 | 52,210 |
| | <u>–</u> | <u>55,834</u> | <u>55,834</u> |

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 financial statements

at 30 June 2010

11. Financial instruments (continued)

Interest rate risk

The Company has financial assets and liabilities which are exposed to interest rate risk. Interest on floating rate borrowings is re-priced at intervals of less than one year. Interest on fixed rate borrowings is fixed until the maturity of the instrument.

Changes in interest rates impacting borrowings change either their fair value (fixed rate borrowings) or their future cash flows (floating rate borrowings). The Company's aim is to finance its operations through a combination of equity and debt financing.

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 liquidity management.

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.

The 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 tables set out the carrying amount, by maturity of the Company's financial instruments that are exposed to interest rate risk.

| | <i>Within 1 year</i> | <i>1-2 years</i> | <i>3-5 years</i> | <i>> 5 years</i> | <i>Total</i> |
|----------------------------------|----------------------|------------------|------------------|---------------------|-----------------|
| | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> |
| Period ended 30 June 2010 | | | | | |
| Fixed rate | | | | | |
| Non-current borrowings | - | - | - | - | - |
| Floating rate | | | | | |
| Cash and cash equivalents | 14,345 | - | - | - | 14,345 |
| Non-current borrowings | - | - | (43,745) | (8,465) | (52,210) |

A one per cent increase/decrease in interest rates on floating rate non-current borrowings would have decreased/increased loss before tax by 379 thousand USD and would impact the Company's equity by the same value.

Credit risk

Credit risk is the potential exposure of the Company to loss in the event of non-performance by a counterparty. 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 balance sheet date.

This risk arises principally from cash and cash equivalents. Management's policy is to hold all cash and cash equivalents in reputable financial institutions in the UK.

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.

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11. Financial instruments (continued)

Cash balances in the Company are usually held in US dollars, but smaller amounts may be held in British sterling and Russian rubles to meet operating and administrative expenses. The Company does not have formal arrangements to mitigate foreign exchange risks at this time however should circumstances dictate the Company may consider hedging positions to protect the value of any cash balances it holds in non-US dollar currency.

The following table demonstrates the Company's exposure to foreign currency risk based on gross amounts

| | <i>US dollar</i> | <i>Sterling</i> | <i>Canadian dollar</i> | <i>Euro</i> | <i>Russian ruble</i> | <i>Total</i> |
|----------------------------------|------------------|-----------------|----------------------------|-----------------|--------------------------|-----------------|
| | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> |
| Period ended 30 June 2010 | | | | | | |
| Intercompany advances | 52,255 | – | – | – | – | 52,255 |
| Cash and cash equivalents | 13,999 | 147 | – | – | 199 | 14,345 |
| Trade and other receivables | – | 414 | – | – | 68 | 482 |
| Trade payables | (655) | (277) | – | (4) | (92) | (1,028) |
| Accruals and other payables | (146) | (666) | – | – | – | (812) |
| Current borrowings | – | – | – | – | – | – |
| Non-current borrowings | (52,210) | – | – | – | – | (52,210) |

A ten per cent strengthening of the US dollar against the sterling would have decreased loss before tax by 38 thousand USD and impacted the Company's equity by the same value. A ten per cent strengthening of the US dollar against the Canadian dollar, euro or Russian ruble would not have had a significant impact on the loss before tax or on the Company's equity. The analysis is performed on a consistent basis with 2009 and 2008 and assumes that all other variables remain constant.

A ten per cent weakening of 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 Company's business activities may not be available.

Given the early stages of developing its oil and gas licenced area, management is continually monitoring cash requirements for the Company and evaluating potential sources to fund its operating and capital expenditures. All Company 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. To further limit liquidity risk, all significant cash and cash equivalents are deposited with banks or in liquid funds with high credit ratings assigned by international credit-rating agencies.

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11. Financial instruments (continued)

The table below summarises the maturity profile of the Company's financial liabilities at 30 June 2010 based on contractual undiscounted payments

| | <i>On demand</i> | <i>Less than 3 months</i> | <i>3 to 12 months</i> | <i>1 to 5 years</i> | <i>>5 years</i> | <i>Total</i> |
|----------------------------------|------------------|-------------------------------|---------------------------|---------------------|--------------------|-----------------|
| | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> | <i>USD '000</i> |
| Period ended 30 June 2010 | | | | | | |
| Trade payables | – | 1,028 | – | – | – | 1,028 |
| Accruals and other payables | – | 812 | – | – | – | 812 |
| Current borrowings | – | – | – | – | – | – |
| Non-current borrowings | – | – | – | 52,210 | – | 52,210 |

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 balance sheet date by discounting the estimated future cash flows at prevailing interest rates

| | <i>Book value 2010</i> | <i>Fair value 2010</i> |
|-----------------------------|----------------------------|----------------------------|
| | <i>USD '000</i> | <i>USD '000</i> |
| Intercompany advances | 52,255 | 52,255 |
| Cash and cash equivalents | 14,345 | 14,345 |
| Trade and other receivables | 482 | 482 |
| Trade payables | (1,028) | (1,028) |
| Accruals and other payables | (812) | (812) |
| Current borrowings | – | – |
| Non-current borrowings | (52,210) | (52,210) |

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 maximise shareholder value

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 period ended 30 June 2010

Notes to the financial statements

at 30 June 2010

11. Financial instruments (continued)

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

| | <i>2010</i> <i>USD'000</i> |
|-------------------------|-------------------------------|
| Non-current liabilities | 52,210 |
| Capital | 276,382 |
| Gearing ratio | 19% |

12. Related party transactions

Obligations to related parties

As at 30 June 2010 the Company had no non-current obligations to related parties as all obligations were paid out during the year.

Transactions with related parties

| | <i>Amounts owed by related parties USD'000</i> | <i>Amounts owed to related parties USD'000</i> |
|------|--|--|
| 2010 | 1,305 | 138 |

Transactions primarily relate to the provision of goods and services with New Tech Services and with companies whose Boards have common directors with the Company's Board.

The Company advances funds to its subsidiaries. There was no interest accrued on the advances in 2010. (See Note 5 that details movements and period-end balances in respect of subsidiary undertakings).

13. 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.

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

| | <i>2010</i> <i>USD'000</i> |
|----------------------|-------------------------------|
| Within one year | 352 |
| In two to five years | 367 |

14. Post balance sheet events

There have been no post balance sheet events requiring disclosure.