

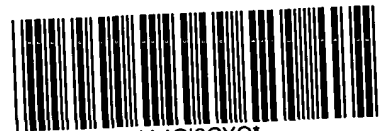
COMPANY REGISTRATION NUMBER 06961402

INTERNATIONAL PETROLEUM SERVICES LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2014

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INTERNATIONAL PETROLEUM SERVICES LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2014

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**INTERNATIONAL PETROLEUM SERVICES LIMITED
OFFICERS AND PROFESSIONAL ADVISERS
FOR THE YEAR ENDED 31 DECEMBER 2014**

The board of directors

A W Sage
A A Belogortseva (appointed 10 March 2015)

Company secretary

Clyde Secretaries Limited

Registered office

The St Botolph Building
138 Houndsditch
London
EC3A 7AR

Auditor

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

Solicitors

Clyde & Co
The St Botolph Building
138 Houndsditch
London
EC3A 7AR

INTERNATIONAL PETROLEUM SERVICES LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their report and financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITY

International Petroleum Services Limited ("the Company") is a subsidiary of International Petroleum Limited ("IPL"), a company registered in Australia and listed on the National Stock Exchange of Australia. IPL group ("the Group") undertakes exploration and evaluation and development of oil and gas assets. The Company provides management and other services to the Group.

DIRECTORS AND OFFICERS

The directors holding office during the year were as follows:

C Hopkinson	(resigned 24 February 2014)
W McAvoek	(resigned 31 March 2014)
A W Sage	
A A Belogortseva	(appointed 10 March 2015)

The company secretary in office throughout the year was Clyde Secretaries Limited.

AUDITOR

Ernst & Young LLP were appointed as the auditor to the Company on 14 February 2011 for the financial year ended 31 December 2011 and for all subsequent accounting periods until replaced.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

The directors who were in office on the date of approval of these financial statements have each confirmed that as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have also confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

FINANCIAL RISK MANAGEMENT

The Company's primary objective in relation to risk management is to ensure that risks facing the business are appropriately managed. The Board and senior management are committed to managing risks in order to both minimise uncertainty and to maximise its business opportunities.

Risk is managed as part of the wider International Petroleum Limited group through International Petroleum Limited's Audit and Risk Committee. Further information regarding the risk management program can be found in the Corporate Governance Plan, which can be viewed on the International Petroleum Limited website, www.internationalpetroleum.com.au.

INTERNATIONAL PETROLEUM SERVICES LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

GOING CONCERN

As explained in note 2(b) to the financial statements, the Company relies on financial support from the ultimate parent company, International Petroleum Limited. The directors of the Company have received a letter of support from International Petroleum Limited.

The financial statements have been prepared on a going concern basis, which assumes the Company will continue in operational existence for the foreseeable future.

The latest publicly available financial statements for International Petroleum Limited show that, as at 31 December 2014, the International Petroleum Limited group held cash and cash equivalents of US\$5,688,513. The Group's net current asset position at 31 December 2014 was US\$459,629. These financial statements included a disclaimer of opinion by the auditor. International Petroleum Limited has not filed financial statements covering any later period. The Group's shares are currently suspended from trading on the National Stock Exchange of Australia as a consequence of missed filing deadlines. Following submission of the 31 December 2014 financial statements, the Group is up-to-date with its filings and the directors are working to remove the suspension from trading.

The ability of International Petroleum Limited to pay its trade creditors, repay its borrowings and continue to provide financial support to the Company is dependent on International Petroleum Limited raising additional cash within the short term. At the date of this report, the directors are satisfied there are reasonable grounds to believe that International Petroleum Limited will be able to provide financial support to the Company by raising further funds as required.

In forming this view, the directors have considered International Petroleum Limited's current position and its funding plans which include:

- (a) negotiating agreements with certain trade creditors to extend or amend payment terms, and
- (b) the sale of certain assets.

There are a number of inherent uncertainties about the successful completion of the financing options listed above, including but not limited to:

- (a) trade creditors not agreeing to extend or amend payment terms and filing legal claims to recover the amounts owed to them, and
- (b) conditions in the oil and gas markets and the political risks associated with the countries where the Group operates, resulting in difficulties in achieving a sale of certain assets.

INTERNATIONAL PETROLEUM SERVICES LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

GOING CONCERN (CONTINUED)

On 9 May 2014, International Petroleum Limited entered into a share purchase agreement with a third party ("Buyer") for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) ("IPL Siberia") and International Petroleum Company LLC (a company incorporated in Russia) ("IPL Russia") for proceeds of US\$13million ("Russian Asset Sale"). As part of the transaction, the Buyer has the right to lodge financial claims with the Seller, not later than the second anniversary of the date of Completion of the transaction, in respect of undisclosed third party debts of IPL Siberia and IPL Russia (and their subsidiaries) as at the date of the transaction. The aggregate liability of the Seller in respect of all claims is limited to the consideration amount of US\$13 million. As at the date of these financial statements no financial claims have been lodged by the Buyer.

Should significant legitimate financial claims arise from the Russian Asset Sale, in contrast to the directors' current view, the Group would need to obtain sufficient financing to meet the claims.

In the event that the ultimate parent company, International Petroleum Limited is unable to raise additional cash in the short term or is unable to finance any claim that may arise from the Russian Asset Sale and is therefore unable to provide support to the Company, the directors of the Company will have to seek alternative sources of financing. In the event that such finance is not available, the Company will not be able to meet its obligations as they fall due.

The directors have concluded that the matters discussed above represent material uncertainties that may cast significant doubt over the Company's ability to continue as a going concern. Nevertheless, the directors, after making enquiries and considering these material uncertainties, are satisfied there are reasonable grounds to believe that the Company will continue to have adequate resources to continue in operation for the foreseeable future. For this reason, the financial statements of the Company have been prepared on a going concern basis. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company was unable to continue as a going concern.

INTERNATIONAL PETROLEUM SERVICES LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

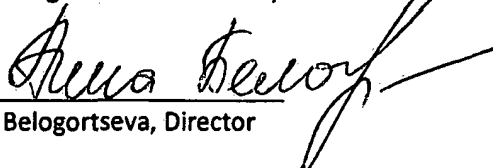
In preparing these financial statements, the directors are required to:

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

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

The directors have prepared this report in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

Approved by the Board on 27 July 2015
and signed on its behalf by


A Belogortseva, Director

27 July 2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF INTERNATIONAL PETROLEUM SERVICES LIMITED FOR THE YEAR ENDED 31 DECEMBER 2014

We were engaged to audit the financial statements of International Petroleum Services Limited for the year ended 31 December 2014 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and the related notes 1 - 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on Page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matter described in the Basis for disclaimer of opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' 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.

BASIS FOR DISCLAIMER OF OPINION

As is more fully set out in Note 2(b) to the financial statements, the Company's ability to continue as a going concern is reliant upon financial support from the ultimate parent company, International Petroleum Limited. As at the date of this report, International Petroleum Limited has limited unrestricted cash with significant short term liabilities. Its ability to provide financial support to the company is dependent on it successfully renegotiating terms with certain creditors and selling assets.

We have been unable to obtain sufficient appropriate audit evidence as to whether International Petroleum Limited can achieve the plans set out in Note 2(b) to the financial statements, and thus determine whether it is appropriate to prepare the financial statements on a going concern basis.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
INTERNATIONAL PETROLEUM SERVICES LIMITED (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014**

DISCLAIMER OF OPINION

Because of the significance of the matter described in the Basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on the financial statements.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

Notwithstanding our disclaimer of an opinion of the financial statements, 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

Arising from the limitation of our work referred to above:

- we have not received all of the information and explanations we require for our audit.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and were not entitled to take advantage of the small companies' exemption in not preparing the Strategic Report.



Nick Gomer, (*Senior Statutory Auditor*)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

30 July 2015

INTERNATIONAL PETROLEUM SERVICES LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 US\$	2013 US\$
Revenue		1,048,400	2,995,422
Cost of sales		(998,476)	(2,852,783)
GROSS PROFIT		49,924	142,639
Administrative expenses		66,148	(43,889)
OPERATING PROFIT	3	116,072	98,750
Allowance for impairment of related party receivables	10	(2,047,040)	(6,348,475)
Finance income	4	6	39
Finance costs	4	(48)	(1,034)
LOSS BEFORE TAX		(1,931,010)	(6,250,720)
Income tax expense	6	(4,964)	(12,436)
LOSS FOR THE YEAR		(1,935,974)	(6,263,156)

The notes on pages 14 to 29 form part of these financial statements.

INTERNATIONAL PETROLEUM SERVICES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 US\$	2013 US\$
Loss for the year	(1,935,974)	(6,263,156)
Total comprehensive loss for the year, net of tax	(1,935,974)	(6,263,156)
Attributable to:		
- Owners of the parent	(1,935,974)	(6,263,156)
	(1,935,974)	(6,263,156)

The notes on pages 14 to 29 form part of these financial statements.

INTERNATIONAL PETROLEUM SERVICES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Issued capital US\$	Other reserves US\$	Accumulated deficit US\$	Total equity US\$
At 1 January 2014	2	203,981	(32,440,946)	(32,236,963)
Loss for the year	-	-	(1,935,974)	(1,935,974)
Total comprehensive loss for the year	-	-	(1,935,974)	(1,935,974)
Share-based payment	-	(81,927)	-	(81,927)
Total contribution by owners	-	(81,927)	-	(81,927)
At 31 December 2014	2	122,054	(34,376,920)	(34,254,864)

	Issued capital US\$	Other reserves US\$	Accumulated deficit US\$	Total equity US\$
At 1 January 2013	2	203,981	(26,177,790)	(25,973,807)
Loss for the year	-	-	(6,263,156)	(6,263,156)
Total comprehensive income for the year			(6,263,156)	(6,263,156)
Share-based payment	-	-	-	-
Total contribution by owners	-	-	-	-
At 31 December 2013	2	203,981	(32,440,946)	(32,236,963)

The notes on pages 14 to 29 form part of these financial statements.

INTERNATIONAL PETROLEUM SERVICES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	2014 US\$	2013 US\$
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	7	4,645	11,546
Restricted cash	11	17,192	16,594
		<u>21,837</u>	<u>28,140</u>
CURRENT ASSETS			
Trade and other receivables	10	76,242	991,052
Cash and cash equivalents	11	263,982	88,632
		<u>340,224</u>	<u>1,079,684</u>
TOTAL ASSETS		<u>362,061</u>	<u>1,107,824</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	12	2	2
Reserves	13	122,054	203,981
Accumulated deficit		(34,376,920)	(32,440,946)
TOTAL EQUITY		<u>(34,254,864)</u>	<u>(32,236,963)</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	34,571,415	33,304,241
Income tax payable		45,510	40,546
		<u>34,616,925</u>	<u>33,344,787</u>
TOTAL EQUITY AND LIABILITIES		<u>362,061</u>	<u>1,107,824</u>

The notes on pages 14 to 29 form part of these financial statements.

Approved by the Board on 27 July 2015 and signed on its behalf by


A Belogortseva, Director

Company registration number 06961402

INTERNATIONAL PETROLEUM SERVICES LIMITED
STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2014

	Notes	2014 US\$	2013 US\$
OPERATING ACTIVITIES			
Loss before tax		(1,931,010)	(6,250,720)
NON-CASH ADJUSTMENTS:			
Depreciation		7,657	7,636
Allowance for impairment of related party receivables		2,047,040	6,348,475
Share based payments		(81,927)	-
Finance income		(6)	(39)
Finance costs		48	1,034
WORKING CAPITAL ADJUSTMENTS:			
Decrease in trade and other receivables		780,639	3,099,723
(Decrease)/increase in trade and other payables		(1,005,704)	1,616,702
		(183,263)	4,822,811
Interest received		6	39
Interest paid		(48)	(1,034)
NET CASH FLOW FROM OPERATING ACTIVITIES		(183,305)	4,821,816
INVESTING ACTIVITIES			
Loan advances to related parties		(1,912,869)	(8,489,481)
Payments for plant and equipment		(756)	-
NET CASH USED IN INVESTING ACTIVITIES		(1,913,625)	(8,489,481)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowing - related parties		2,272,878	3,662,861
NET CASH FLOW FROM FINANCING ACTIVITIES		2,272,878	3,662,861
Net increase/(decrease) in cash and cash equivalents		175,948	(4,804)
Cash and cash equivalents as at 1 January	11	105,226	110,030
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	11	281,174	105,226

The notes on pages 14 to 29 form part of these financial statements.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. CORPORATE INFORMATION

International Petroleum Services Limited is a limited liability company incorporated and domiciled in England and Wales. The principal activities of the Company during the year were providing services to other companies in the International Petroleum Limited group. The address of the Company's registered office is given on page 2. The nature of the operations and its principal activities are set out on page 3. The parent company, International Petroleum Limited, is a company limited by shares incorporated in Australia whose shares are listed on the National Stock Exchange of Australia.

The functional currency of the Company is US dollar ("US\$") and the financial statements are presented in US dollars.

The Company's financial statements for the year ended 31 December 2014 were authorised for issue by the board of directors on 27 July 2015 and the statement of financial position was signed on the board's behalf by A Belogortseva.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union as they apply to the financial statements for the year ended 31 December 2014.

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

b) Going concern

The financial statements have been prepared on a going concern basis, which assumes the Company will continue in operational existence for the foreseeable future.

The Company relies on financial support from the ultimate parent company, International Petroleum Limited. The directors of the Company have received a letter of support from International Petroleum Limited.

The latest publicly available financial statements for International Petroleum Limited show that, as at 31 December 2014, the International Petroleum Limited group held cash and cash equivalents of US\$5,688,513. The Group's net current asset position at 31 December 2014 was US\$459,629. These financial statements included a disclaimer of opinion by the auditor. International Petroleum Limited has not filed financial statements covering any later period. The Group's shares are currently suspended from trading on the National Stock Exchange of Australia as a consequence of missed filing deadlines. Following submission of the 31 December 2014 financial statements, the Group is up-to-date with its filings and the directors are working to remove the suspension from trading.

The ability of International Petroleum Limited to pay its trade creditors, repay its borrowings and continue to provide financial support to the Company is dependent on International Petroleum Limited raising additional cash within the short term.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Going concern (continued)

At the date of this report, the directors are satisfied there are reasonable grounds to believe that International Petroleum Limited will be able to provide financial support to the Company by raising further funds as required. In forming this view, the directors have considered International Petroleum Limited's current position and its funding plans which include:

- (a) negotiating agreements with certain trade creditors to extend or amend payment terms, and
- (b) the sale of certain assets.

There are a number of inherent uncertainties about the successful completion of the financing options listed above, including but not limited to:

- (a) trade creditors not agreeing to extend or amend payment terms and filing legal claims to recover the amounts owed to them, and
- (b) conditions in the oil and gas markets and the political risks associated with the countries where the Group operates, resulting in difficulties in achieving a sale of certain assets.

On 9 May 2014, International Petroleum Limited entered into a share purchase agreement with a third party ("Buyer") for the sale of 100% of the issued shares of IPL Siberia Limited (a company incorporated in the Cayman Islands) ("IPL Siberia") and International Petroleum Company LLC (a company incorporated in Russia) ("IPL Russia") for proceeds of US\$13million ("Russian Asset Sale"). As part of the transaction, the Buyer has the right to lodge financial claims with the Seller, not later than the second anniversary of the date of Completion of the transaction, in respect of undisclosed third party debts of IPL Siberia and IPL Russia (and their subsidiaries) as at the date of the transaction. The aggregate liability of the Seller in respect of all claims is limited to the consideration amount of US\$13 million. As at the date of these financial statements no financial claims have been lodged by the Buyer. Should significant legitimate financial claims arise from the Russian Asset Sale, in contrast to the directors' current view, the Group would need to obtain sufficient financing to meet the claims.

In the event that the ultimate parent company, International Petroleum Limited is unable to raise additional cash in the short term or is unable to finance any claim that may arise from the Russian Asset Sale and is therefore unable to provide support to the Company, the directors of the Company will have to seek alternative sources of financing. In the event that such finance is not available, the Company will not be able to meet its obligations as they fall due.

The directors have concluded that the matters discussed above represent material uncertainties that may cast significant doubt over the Company's ability to continue as a going concern. Nevertheless, the directors, after making enquiries and considering these material uncertainties, are satisfied there are reasonable ground to believe that the Company will continue to have adequate resources to continue in operation for the foreseeable future. For this reason, the financial statements of the Company have been prepared on a going concern basis. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company was unable to continue as a going concern.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Changes in accounting policies

The accounting policies adopted by the Company at 31 December 2014 have been consistently applied in all periods presented. During the year, the following standards and pronouncements have been adopted in these financial statements:

- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36
- IFRIC 21 Levies
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Meaning of 'effective IFRSs'
- IFRS 13 Fair Value Measurement - Short-term receivables and payables

The new and amended standards and interpretations had no impact on the financial position or performance of the Company.

The Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2015:

IFRS 2 Share-based Payment - Definitions of vesting conditions
IAS 24 Related Party Disclosures - Key management personnel
IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

Standards and interpretations issued but not yet effective

Standards and pronouncements issued but not yet effective at the date of preparing the financial statements are listed below.

	Effective Date
IAS 1 Disclosure Initiative - Amendments to IAS 1	1 January 2016
IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 9 Financial Instruments	1 January 2018

The impact of the adoption of the above standards has not yet been assessed by the Company.

The application of these standards will be made in the Company's financial statements when these standards and interpretations become effective and these standards are not expected to have a material impact on the Company's financial statements.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured according to the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue arising from the rendering of services is recognised by reference to the stage of completion of the service delivery obligations at the balance sheet date.

e) Expenses recognition

Expenses are recognised on the accruals basis unless otherwise stated.

f) Income tax

Current tax

The current tax expense is based on taxable results for the year. The Company's liability for current tax is calculated using tax rates enacted or substantively enacted at the statement of financial position date.

Deferred tax

Deferred tax is recognised in respect of temporary differences arising between the tax value of assets and liabilities and their carrying value in the non-statutory financial statements.

Deferred tax assets are only recognised to the extent that it is probable that future taxable results will be available against which the temporary differences can be utilised.

g) Foreign currency

Functional and presentation currency

The financial statements of the Company are recorded in the currency of the primary economic environment in which it operates (its 'functional currency'). The functional and presentational currency of the Company is US dollar.

Transactions and balances

Monetary assets and liabilities, which are held by the Company and denominated in foreign currencies at the year end, are translated into US dollars at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Property, Plant and Equipment

Items of property, plant and equipment are stated at cost of acquisition or production cost less accumulated depreciation and impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, on the following bases:

Office Equipment 33.3%

i) Financial risk management objectives and policies

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide a return for the shareholder's benefit for other stakeholders and to maintain optimal capital structure to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from the shareholder and third parties.

j) Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

k) Trade and other receivables

Trade and other receivables are recognised by the Company and carried at original invoice amount less an allowance for any uncollectible or impaired amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when they are identified as being bad. Other receivables are recognised at fair value.

l) 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 (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.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Share based payments (continued)

At each balance sheet 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 balance sheet 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.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

n) Trade and other payables

Trade and other payables are measured at fair value and are subsequently measured at amortised cost.

o) Pensions

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2014 US\$	2013 US\$
Net foreign exchange loss	15,779	43,889
Share based payment (see note 15)	(81,927)	-
Auditor's remuneration		
- Audit of the Company's financial statements:		
Ernst & Young LLP – Audit services current year	31,070	37,929
Ernst & Young LLP – Audit services previous year	5,436	39,380
	<u>36,506</u>	<u>77,309</u>
- Audit of the Group's financial statements:		
Ernst & Young LLP – Audit services current year	-	-
Ernst & Young LLP – Audit services previous year	-	51,817
	<u>-</u>	<u>51,817</u>

4. FINANCE INCOME AND COST

	2014 US\$	2013 US\$
Finance income		
Bank interest	<u>6</u>	<u>39</u>
Finance cost		
Bank interest	(48)	(1,032)
Other	-	(2)
	<u>(48)</u>	<u>(1,034)</u>

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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5. EMPLOYEES

Employee expenses

	2014	2013
	US\$	US\$
Wages and salaries (including directors)	1,265,937	1,767,956
Social security costs	187,653	247,591
Share based payments (note 15)	(81,927)	-
Pension contributions	54,799	109,882
Other benefits	42,210	78,484
	1,468,672	2,203,913

The average monthly number of employees during the year was made up as follows:

	2014	2013
	No.	No.
Management	3	5
	3	5

Directors' remuneration

	2014	2013
	US\$	US\$
Directors' fees	-	3,231
Wages and salaries	208,382	824,964
Pension contributions	20,520	82,496
Other benefits	5,498	14,855
	234,400	925,546

Remuneration of the highest paid director was US\$155,587 (2013: US\$569,258) and comprised salary, pension and other benefits.

There were no exercises of share options by a director during the year or the prior year.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

6. TAXATION

	2014 US\$	2013 US\$
<i>Current income tax:</i>		
Current income tax charge	4,964	12,436
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax expense	4,964	12,436

Reconciliation of income tax expense to loss before tax

	2014 US\$	2013 US\$
Loss before tax	(1,931,010)	(6,250,720)
Tax at the applicable income tax rate of 21.5% (2012: 23.25%)	(415,167)	(1,453,292)
Non-taxable gain	(17,614)	-
Expenses not deductible for tax purposes	440,945	1,476,088
Tax losses surrendered by other group companies	(3,200)	(10,360)
Income tax expense	4,964	12,436
Carried forward gross tax losses	-	-

The main rate of UK corporation tax reduced from 23% to 21% (effective from 1 April 2014). Also, a reduction in the rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013.

7. PROPERTY, PLANT AND EQUIPMENT

	Office equipment 2014 US\$	Office equipment 2013 US\$
Cost		
At 1 January	22,907	22,907
Additions	756	-
At 31 December	23,663	22,907
Depreciation		
At 1 January	11,361	3,725
Charge for year	7,657	7,636
At 31 December	19,018	11,361
Net book value		
At 31 December	4,645	11,546
At 1 January	11,546	19,182

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8. FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the potential exposure of the Company to loss in the event of non-performance by counterparty. The amount that best represents the maximum credit exposure of the Companies financial assets is the carrying value of the financial assets at the balance sheet date.

i) **Cash and cash equivalents**

The Company limits its exposure to credit risk by holding cash and cash equivalents in reputable financial institutions in the UK.

ii) **Trade and other receivables**

Trade and other receivables as at 31 December 2014 mainly comprise related party loans. Management does not expect any counterparty to fail to meet their obligations.

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Company manages liquidity risk by maintaining adequate cash reserves from funds obtained from its ultimate parent company and by continuously monitoring forecast and actual cash flows.

The following are the contractual maturities of financial liabilities:

	6 months or less US\$	6-12 months US\$	1-5 years US\$	Over 5 years US\$	Total US\$
Trade and other payables					
31 December 2014	34,571,415	-	-	-	34,571,415
31 December 2013	33,304,241	-	-	-	33,304,241

Interest rate risk

Intragroup loans are interest free.

INTERNATIONAL PETROLEUM SERVICES LIMITED
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8. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

The Company is exposed to currency risk on purchases and cash that are denominated in a currency other than the respective functional currency which is the US dollar. The Company's statement of financial position is mainly exposed to movements in the US dollar and Pound Sterling ("GBP") exchange rate.

Cash balances in the Company are usually held in US dollars, but smaller amounts may be held in Pounds Sterling in order to meet operating and administrative expenses. The Company has no formal arrangements to mitigate foreign exchange risks at this time.

At the balance sheet date, the Company had the following exposure to GBP foreign currency that is not designated in cash flow hedges:

	31 December 2014 US\$	31 December 2013 US\$
Financial assets		
Cash and cash equivalents – GBP	263,972	88,597
Restricted cash – GBP	17,192	16,594
Financial liabilities		
Trade and other payables - GBP	1,879,909	2,717,613

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. As at the balance sheet date, had the US dollar moved, as illustrated in the table below, with all other variables held constant, profit/loss for the year and other comprehensive income/loss would have been affected as follows:

	Profit/loss for the year higher/(lower)		Other comprehensive income/loss higher/(lower)	
	31 December 2014 US\$	31 December 2013 US\$	31 December 2014 US\$	31 December 2013 US\$
US\$ to GBP + 10%	159,875	261,242	-	-
US\$ to GBP – 10%	(159,875)	(261,242)	-	-

Fair values of financial assets and financial liabilities

The net fair value of the financial assets and liabilities approximates to their carrying values.

INTERNATIONAL PETROLEUM SERVICES LIMITED
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8. FINANCIAL INSTRUMENTS (CONTINUED)

Capital management

The Company is highly exposed to capital risk, as the Company is almost entirely funded by its parent company, International Petroleum Limited.

Therefore the Company's ability to continue as a going concern is dependent on the continued support of its ultimate parent company. Some of the Company's directors are also directors of the parent company, and the Company's directors are currently unaware of any reason why the parent Company will not continue to support the Company.

9. RELATED PARTY TRANSACTIONS

	Sales and charges to related parties US\$	Purchases from related parties US\$	Amounts owed by related parties US\$	Amounts owed to related parties US\$
<u>Parent company</u>				
For the year ended 31 December 2014	7,296	-	-	32,638,100
For the year ended 31 December 2013	1,129,322	-	-	30,314,217
<u>Other group entities</u>				
For the year ended 31 December 2014	1,041,104	-	6,996,223	51,407
For the year ended 31 December 2013	1,866,100	-	32,414,196	102,412
<u>Other related parties</u>				
For the year ended 31 December 2014	-	170,123	-	-
For the year ended 31 December 2013	-	765,049	-	807,042

The amount owed to the parent is an intercompany loan payable to the Company's parent company, International Petroleum Limited. The loan is non-interest bearing and repayable on demand.

Amounts owed to/by other group entities comprise intercompany loans payable/receivable to/from entities, over which the Company has, or is subject to, control or significant influence. All intercompany loans are non-interest bearing and repayable on demand.

Sales and charges to related parties include management service fees receivable and other recharges to the parent company International Petroleum Limited and fellow group entities, North Caspian Petroleum Limited and IPL Siberia Limited.

As at 31 December 2013, an amount of US\$807,042 was owed to African Minerals Engineering Limited in respect of the cost of office accommodation and related services. The total amount incurred and payable for the year amounted to US\$nil (2013: US\$279,825) net of applicable VAT. During the year, a waiver was granted in respect of the total amount due of \$807,042. Mr Timis is a director of African Minerals Engineering Limited and International Petroleum Limited, the parent company of International Petroleum Services Limited.

INTERNATIONAL PETROLEUM SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

9. RELATED PARTY TRANSACTIONS (CONTINUED)

An amount of US\$91,649 (2013: US\$301,260) was incurred in respect of the cost of staff seconded to the Company from African Petroleum Corporation (Services) Limited, to whom the cumulative accrued liability of US\$486,537 was paid during the year. Mr Timis and Mr Sage are directors of African Petroleum Corporation Limited and International Petroleum Limited.

The Company has not provided or benefitted from any guarantees for any related party receivables or payables. Except for the impairments and write-off disclosed in note 10, during the year the Company has not made any provision for doubtful debts or write-offs relating to amounts owed.

Key management compensation

Key management includes directors (executive and non-executive) and department heads. It excludes expenses that have been recovered via management fees as these relate to the management of other group companies.

	2014 US\$	2013 US\$
Share based payments	(81,927)	-
	<u>(81,927)</u>	<u>-</u>

10. TRADE AND OTHER RECEIVABLES

	2014 US\$	2013 US\$
Loans receivable from related parties (see note 9)	6,996,223	32,414,196
Indirect tax receivable	-	5,251
Other receivables	-	6,838
Accrued income – from related parties (i)	315,951	1,084,501
	<u>7,312,174</u>	<u>33,510,786</u>
Impairment of related party receivables	(7,235,932)	(32,519,734)
	<u>76,242</u>	<u>991,052</u>

(i) Management service fees due from group companies

The directors have determined that recovery of receivables and accrued income due from certain related parties is uncertain, so an allowance for impairment has been recognised during the year totalling US\$2,047,040 (2013: US\$6,348,475). The prospects of recovery have been assessed taking account of each debtor's financial position.

As at 31 December 2013, loan receivable and accrued income balances with fellow subsidiary, IPL Siberia Limited, totalling US\$27,194,455 were fully impaired. As a result of the agreement entered by the Group on 9 May 2014 for the sale of IPL Siberia Limited, which completed on 30 May 2014, the loan receivable from IPL Siberia was written off against its \$27,330,842 impairment provision.

There are no material differences between the fair value of trade and other receivables and their carrying value at the year end.

INTERNATIONAL PETROLEUM SERVICES LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2014

11. CASH AND CASH EQUIVALENTS

	2014 US\$	2013 US\$
Cash at bank and on hand	<u>263,982</u>	<u>88,632</u>

Cash at bank and in hand comprises cash held by the Company at bank available on demand and cash in hand. The carrying value of these assets approximates to their fair value.

For the purposes of the statement of cash flows, cash and cash equivalents includes the following at 31 December:

	2014 US\$	2013 US\$
Cash at bank and on hand	263,982	88,632
Restricted cash	<u>17,192</u>	<u>16,594</u>
	<u>281,174</u>	<u>105,226</u>

Restricted cash represents a bank deposit held as a guarantee for the Company's charge card facility.

12. SHARE CAPITAL

Authorised share capital	2014 Number	2013 Number
Ordinary share capital of £1 each	<u>100</u>	<u>100</u>

Issued share capital	2014 Number	US\$	2013 Number	US\$
Issued and fully paid				
Ordinary share capital of £1 each				
At 1 January	1	2	1	2
At 31 December	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>

INTERNATIONAL PETROLEUM SERVICES LIMITED
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13. OTHER RESERVES

	Share-based payment reserve US\$
At 1 January 2013	203,981
Share-based payments (see note 15)	-
At 31 December 2013	<u>203,981</u>
Share-based payments (see note 15)	<u>(81,927)</u>
At 31 December 2014	<u>122,054</u>

14. TRADE AND OTHER PAYABLES

	2014 US\$	2013 US\$
Payable to trade suppliers (i)	20,208	1,226,045
Accrued liabilities	1,571,629	1,571,148
Indirect tax payable	148,697	-
Loans payable to related parties (see note 9)	32,689,507	30,416,629
Other payables	141,374	90,419
	<u>34,571,415</u>	<u>33,304,241</u>

(i) The payable to trade suppliers includes US\$nil (2013: US\$807,042) owed to related parties.

There are no material differences between the fair value of trade and other payables and their carrying value at the year end.

15. SHARE BASED PAYMENTS

Shares

There were no share awards during the current year. On 27 May 2011, shareholders agreed to award Chris Hopkinson 10,000,000 performance shares in the ultimate parent company upon the following milestones being achieved:

- 2,500,000 shares awarded when the ultimate parent company achieves a share price of A\$0.50 for 30 consecutive days.
- 2,500,000 shares awarded when the ultimate parent company achieves a share price of A\$0.75 for 30 consecutive days.
- 2,500,000 shares awarded when the ultimate parent company achieves a share price of A\$1.00 for 30 consecutive days.
- 2,500,000 shares awarded when the ultimate parent company achieves a share price of A\$1.50 for 30 consecutive days.

None of the milestones were reached and therefore no performance shares have been issued.

INTERNATIONAL PETROLEUM SERVICES LIMITED
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15. SHARE BASED PAYMENTS (CONTINUED)

As a result of employee resignations during the year, all the performance shares have been cancelled and the related share based payment expense previously recognised has been reversed. A resulting share-based payment reversal of US\$66,167 (2013: US\$nil) has been recognised by the Company during the current year, being the related expense previously recognised by the Company, which was a portion of the total value allocated to group companies on an activity basis.

Share options

No options over shares in the ultimate parent company, International Petroleum Limited, were granted to employees of the Company during the year or the prior year. Options are subject to vesting conditions. The fair value of the options is recognised over the vesting period.

Following employee resignations, 18,000,000 options were forfeited or lapsed during the year, of which 6,000,000 options were unvested. A share based payment reversal of US\$15,760 (2013: US\$nil) has been recognised equal to the expense previously recognised by the Company in respect of the unvested options. This is a portion of the total value allocated between group companies on an activity basis. The following reconciles the outstanding share options granted, exercised, lapsed and forfeited during the year:

	31 December 2014		31 December 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the year	19,500,000	A\$0.25 ²	19,500,000	A\$0.25 ¹
Lapsed during the year	(12,000,000)	A\$0.25 ³	-	-
Forfeited during the year	(6,000,000)	A\$0.25 ³	-	-
Balance at the end of the year	1,500,000	A\$0.25 ⁴	19,500,000	A\$0.25 ²
Exercisable at the end of the year	1,000,000	A\$0.25 ⁴	12,166,667	A\$0.25 ²

¹ The US\$ equivalent weighted average exercise price is equal to US\$0.25

² The US\$ equivalent weighted average exercise price is equal to US\$0.22

³ The US\$ equivalent weighted average exercise price is equal to US\$0.23

⁴ The US\$ equivalent weighted average exercise price is equal to US\$0.20

The weighted average remaining contractual life of the share options outstanding at 31 December 2014 was 795 days (2013: 904 days).

16. POST BALANCE SHEET EVENTS

There have been no significant events arising after the balance sheet date.

17. ULTIMATE CONTROLLING PARTY

The ultimate and immediate controlling party is International Petroleum Limited, a company registered in Australia and listed on the National Stock Exchange of Australia. Copies of the financial statements which include the Company can be obtained from www.internationalpetroleum.com.au.