

Registration number 5525360

Zauralneftegaz Limited
Financial Statements
For the year ended 31 December 2007



Company information

Directors

Simon Escott

Victor Repin (appointed 9 November 2005)

David Zaikin (appointed 9 November 2005)

Roman Niewiadomski (appointed 10 April 2008)

Robert Wilde (resigned 17 April 2008)

Secretary

Roman Niewiadomski (appointed 10 April 2008)

Robert Wilde (resigned 17 April 2008)

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Bankers

Coutts & Co

440 Strand

London

WC2R 0QS

Solicitors

Covington & Burling

265 Strand

London

WC2R 1BH

Registered Office

6 – 8 Underwood Street

London

N1 7JQ

Zauralneftegaz Limited

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Directors' report

The directors present their report and the financial statements for the year ended 31 December 2007

Statement of Directors' responsibilities

The directors are responsible for preparing the annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards 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 proper accounting records that 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 1985. 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.

So far as each of the directors is aware at the time the report is approved

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Principal activities and review of business

The company's principal activity during the year was that of oil and gas exploration carried out through its subsidiary company, incorporated in Russia, OOO Zauralneftegaz.

It is the intention of the directors that the above business of the company will continue for the foreseeable future.

Results and dividends

The loss for the year, after taxation, amounted to \$6,394,792 (2006: \$5,373,585).

The directors do not recommend the payment of a dividend for the year.

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Directors

Robert Wilde resigned as a director and Company Secretary of the Company on 17 April 2008. Roman Niewiadomski was appointed as a director and Company Secretary of the Company on 10 April 2008.

The directors did not have any interest in the share capital of the Company during the year.

As at 31 December 2007 the directors had the following interest in Baltic Oil Terminals plc, the ultimate parent company of the group:

		Ordinary shares of £0.01 each
S L Escott		4,526,500
R Wilde		50,000

Share options held by executive members of the board of directors to purchase ordinary shares have the following expiry dates and exercise prices:

	Year of grant	Exercise period	Exercise price (£)	Number 2007	Number 2006
S L Escott	2006	27 April 2006 to 26 April 2009	1.40	416,250	416,250
	2006	27 April 2006 to 26 April 2009	1.40	416,250	416,250
	2006	27 April 2006 to 26 April 2009	1.40	416,250	416,250
	2006	1 January 2009 to 31 December 2009	0.84	178,571	178,571
R Wilde	2006	1 January 2009 to 31 December 2009	0.84	116,071	116,071

Risks

The Baltic Oil Terminals plc Group of which Zauralneftegaz Limited is a subsidiary established an Audit Committee in August 2006. Now the Group has expanded, this Committee plans to perform a re-evaluation of the Group's risks during 2008 and establish financial risk management objectives and policies for the Company. However, the principal risks already identified are summarised below:

Risks Relating to Russia

Emerging markets such as Russia are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Such economies may also be subject to rapid change and the Group needs to adapt and alter itself, as needed, relatively quickly. The Russian economy has weathered difficult times since the fall of communism in 1992, with high inflation, currency fluctuation, government debt and other political issues. However, more recently the Russian economy has experienced very positive trends, with a relatively stable currency, strong domestic demand and with export of hydrocarbons, bolstered by the high oil price, enabling the Government to pay down foreign debt. Whilst current indications are that these positive trends will continue, the risk remains that they could be abruptly reversed. The Group's management has considerable experience of operating in Russia.

Currency Risk

The main thrust of the Group's activity is to build and operate oil terminal infrastructure in Russia for which Baltic will receive a tolling fee for the throughput of clients' crude and product. These construction operations are predominantly US Dollar, Rouble and Euro related. The capital raised at IPO and, in November for the drilling programme was converted at the time into US Dollars and Euros, whilst retaining some of the funds in Sterling for UK-based expenditure. The tolling fee will be linked to the US Dollar, when revenues through the new terminal commence. Until this time, no hedging is considered necessary. Foreign exchange movements refer mostly to translation of the underlying accounts into the reporting currency.

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Oil Price Risk

The Group is not currently subject to any correlation to oil price since it intends to derive most of its revenue from charging the tolling fee rather than taking ownership of hydrocarbons. However, ancillary to the core business is our oil exploration activity on five licences in Kurgan. These operations are predominantly US Dollar and Rouble related. Furthermore, should oil be discovered on these licences, any resulting economic benefit will reflect the oil price. This price surged during 2005 and has remained very high throughout 2006, relative to long term averages.

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on 30 October 2008 and signed on its behalf



Simon Escott
Director

Zauralneftegaz Limited

Independent auditors' report to the members of Zauralneftegaz Limited

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

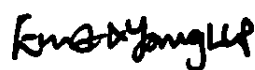
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



Ernst & Young LLP
Registered auditor
London
30 October 2008

Zauralneftegaz Limited

Profit and loss account For the year ended 31 December 2007

		year ended 31 December 2007	17 months ended 31 December 2006
	notes	\$	\$
Administrative expenses	2	(5,674,071)	(5,002,988)
Operating loss		(5,674,071)	(5,002,988)
Interest payable	4	(720,721)	(370,597)
Loss on ordinary activities before taxation		(6,394,792)	(5,373,585)
Tax on loss on ordinary activities	5	-	-
Loss on ordinary activities after taxation	13	(6,394,792)	(5,373,585)

All amounts relate to continuing operations

There were no recognised gains and losses other than those included in the profit and loss account

Zauralneftegaz Limited

Balance sheet As at 31 December 2007

	notes	2007 \$	2006 \$
Fixed assets			
Intangible fixed assets	6	-	-
Tangible fixed assets	7	-	13,110
Fixed asset investments	8	-	75,090
		-	88,200
Current assets			
Debtors	9	12,184	5,004
Cash at bank and in hand		14,610	19,976
		26,794	24,980
Creditors amounts falling due within one year	10	(5,235,765)	(446,181)
Net current liabilities		(5,208,971)	(421,201)
Total assets less current liabilities		(5,208,971)	(333,001)
Creditors amounts falling due after more than one year	11	(6,484,316)	(4,965,494)
Net liabilities		(11,693,287)	(5,298,495)
Capital and reserves			
Called up share capital	12	177	177
Share premium account	13	74,913	74,913
Profit and loss account	13	(11,768,377)	(5,373,585)
		(11,693,287)	(5,298,495)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 October 2008


Simon Escott
Director

Zauralneftegaz Limited

Cash Flow Statement For the year ended 31 December 2007

		year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Net cash flow from operating activities	14	(3,641,154)	(4,561,811)
Returns on investments and servicing of finance	15	(720,721)	(370,597)
Capital expenditure and financial investment	15	(2,313,071)	(13,110)
Cash outflow before financing		(6,674,946)	(4,945,518)
Financing	15	6,669,580	4,965,494
(Decrease)/Increase in cash in the period		(5,366)	19,976

Reconciliation of net cash flow to movement in net debt

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
(Decrease)/Increase in cash in the period	(5,366)	19,976
Cash inflow from increase in debt	(6,669,580)	(4,965,494)
Movement in net debt in the period	(6,674,946)	(4,945,518)
Net debt at 31 December 2007	(11,620,464)	(4,945,518)

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Notes to the financial statements

1. Accounting policies

Basis of preparation of financial statements

The accounts have been prepared on a going concern basis as the parent company has agreed to provide funds to enable the Company to meet its liabilities as they fall due

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The Company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

The financial statements have been presented in US\$, the functional currency of the company.

Intangible assets - Exploration and evaluation

Geological and geophysical exploration costs are charged against income as incurred. The direct costs associated with exploration wells, exploratory drilling and directly related overheads, are capitalised as intangible assets pending determination of proven reserves. These costs are excluded from depletion until commerciality is determined or impairment occurs. The cost of unsuccessful exploratory wells is expensed upon determination that the well does not justify commercial development.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose and resulting impairment loss in accordance with FRS 11 "Impairment of fixed assets".

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following basis:

Electronic equipment 33 33% straight line

Investments

Investments in subsidiaries are valued at cost less provision for impairment.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into US dollars at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

Pension costs

The company contributes to the personal pension plans of employees and the pension charge represents the amounts payable by the company in respect of the period.

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2 Operating loss

Operating loss is stated after charging

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Auditors' remuneration - audit of the financial statements	-	6,610
Differences on foreign exchange	-	7,233
Exploration and evaluation expenditure written off	465,330	2,796,228
Impairment loss (see note 6)	2,313,071	-
Impairment loss (see note 8)	75,090	-

The auditors' remuneration has been borne by Baltic Oil Terminals plc, the ultimate parent company of the group, in the year ended 31 December 2007

3. Staff costs

Staff costs for the period were as follows

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Wages and salaries	-	54,733
Social security costs	-	7,120
Other pension costs	-	6,185
	-	68,038

The average number of employees, including directors, during the period was as follows

	year ended 31 December 2007 No.	17 months ended 31 December 2006 No.
Administrative	2	1

The directors did not receive any remuneration from the company in the year ended 31 December 2007. The costs of these employees was borne by another group company.

4. Interest payable

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Interest payable to group undertakings	720,721	370,597

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5. Taxation

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Loss on ordinary activities before tax	(6,394,792)	(5,373,585)
Loss on ordinary activities before tax multiplied by the standard rate of corporation tax of 30% (2006 30%)	(1,918,438)	(1,612,076)
Effects of		
Expenses not deductible for tax purposes	716,448	-
UK tax losses carried forward	1,201,990	1,612,076
Current tax charge for the period	-	-

The company's future tax charge may be affected by the reduction in the UK Corporation Tax rate to 28% which was effective from 1 April 2008

The Company has tax losses of \$9,380,216 (2006 \$5,373,585) that are available indefinitely for offset against future taxable profits Deferred tax assets have not been recognised in respect of these losses due to uncertainty as to whether such amounts will be realised

6. Intangible fixed assets

	Exploration costs \$
Cost	
As at 1 January 2007	-
Additions	2,313,071
As at 31 December 2007	2,313,071
Accumulated depreciation	
As at 1 January 2007	-
Impairment charge	2,313,071
As at 31 December 2007	2,313,071
Net book value as at 31 December 2007	-
Net book value as at 31 December 2006	-

An impairment loss arose in 2007 of \$2,313,071 relating to costs incurred on exploration wells Although the wells had oil shows at various horizons in the hole and provided essential data to confirm the existence of hydrocarbon system, it is unlikely to be re-entered and, consequently, an impairment provision has been made against the carrying value of the asset

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7. Tangible fixed assets

	Electronic Equipment \$
Cost	
As at 1 January 2007	13,110
Transfers	(13,110)
As at 31 December 2007	-
Accumulated depreciation	
As at 1 January 2007	-
Charge for the year	-
As at 31 December 2007	-
Net book value as at 31 December 2007	-
Net book value as at 31 December 2006	13,110

8 Fixed asset investments

	Investments in subsidiaries \$
Cost	
At 1 January 2007	75,090
Impairment provision	(75,090)
At 31 December 2007	-

The following is a subsidiary undertaking of the Company

Principal subsidiaries	Country of incorporation	Principal activity	% of ordinary shares held & voting rights
OOO Zauralneftegaz	Russia	Oil and gas exploration	100

9. Debtors

	2007 \$	2006 \$
Prepayments and accrued income	12,184	5,000
Amounts owed by group undertakings	-	4
	12,184	5,004

10. Creditors – amounts falling due within one year

	2007 \$	2006 \$
Trade creditors	-	58,766
Amounts owed to group undertakings	5,150,758	-
Other creditors	-	110,000
Accruals and deferred income	85,007	277,415
	5,235,765	446,181

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11. Creditors – amounts falling due after more than one year

	2007 \$	2006 \$
Amounts due to group undertakings (including accrued interest)	6,484,316	4,965,494

12. Share capital

	2007 \$	2006 \$
Authorised, allotted, called up and fully paid		
50 Ordinary class A shares of £1 each	88.50	88 50
50 Ordinary class B shares of £1 each	88.50	88 50
	177	177

The A and B ordinary shares of £1 rank pari passu other than the A ordinary shares have an additional vote at general meeting thereby giving the A ordinary shareholder control of the company

13. Reconciliation of movements in shareholders' funds

	Share capital \$	Share premium \$	Profit and loss account \$	Total \$
At 1 January 2007	177	74,913	(5,373,585)	(5,298,495)
Loss for the year	-	-	(6,394,792)	(6,394,792)
At 31 December 2007	177	74,913	(11,768,377)	(11,693,287)

14. Net cash flow from operating activities

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Operating loss	(5,674,071)	(5,002,988)
Impairment of exploration costs	2,313,071	-
Impairment of investments	75,090	-
Increase in debtors	(7,184)	(5,000)
Decrease/(Increase) in amounts owed by group undertakings	4	(4)
(Decrease)/Increase in creditors	(348,064)	446,181
	(3,641,154)	(4,561,811)

15. Analysis of cash flows for headings netted in cash flow statement

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Interest paid	(720,721)	(370,597)

Zauralneftegaz Limited**15. Analysis of cash flows for headings netted in cash flow statement (continued)**

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Purchase of intangible fixed assets	(2,313,071)	(13,110)

	year ended 31 December 2007 \$	17 months ended 31 December 2006 \$
Long term loans due to group undertakings	6,669,580	4,965,494

16 Analysis of changes in net debt

	As at 1 January 2007	Cash flow	Other non cash changes	As at 31 December 2007
	\$	\$	\$	\$
Cash at bank and in hand	19,976	(5,366)	-	14,610
Debt:				
Debts falling due after more than one year	(4,965,494)	-	(1,518,822)	(6,484,316)
Debts falling due within one year	-	-	(5,150,758)	(5,150,758)
Net debt	(4,945,518)	(5,366)	(6,669,580)	(11,620,464)

17. Related party transactions

The following transactions occurred between the company and related parties to the company during the year ended 31 December 2007

	Amount \$	Nature of transaction
Caspian Finance Ltd	771,309	Interest payable
Baltic Oil Terminals plc	769,974	Management fees
Siberian Energy Group	870,000	Management fees

The following transactions occurred between the company and related parties to the company during the year ended 31 December 2006

	Amount \$	Nature of transaction
Baltic Oil Terminals plc	45,539	Interest payable
Caspian Finance Ltd	325,058	Interest payable
Baltic Oil Terminals plc	525,000	Management fees

The following balances were outstanding as at 31 December 2007

	Amount \$	Nature of transaction
Siberian Energy Group	85,000	Management fees
Caspian Finance Ltd	5,493,178	Loans payable
Caspian Finance Ltd	1,041,727	Accrued interest payable
Baltic Terminals Ltd	12,106	General trading balances
Baltic Oil Terminals Ltd	5,054,761	Loans payable

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17. Related party transactions (continued)

The following balances were outstanding as at 31 December 2006

	Amount \$	Nature of transaction
Caspian Finance Ltd	4,069,897	Loans payable

Baltic Oil Terminals plc is the ultimate parent of the group which holds a 50% interest in Zauralneftegaz Ltd. Caspian Finance Ltd and Baltic Terminals Ltd are subsidiaries of Baltic Oil Terminals plc. Siberian Energy Group is a 50% shareholder of Zauralneftegaz Ltd.

18. Ultimate parent undertaking

The immediate parent undertaking is Baltic Petroleum Limited.

The ultimate parent undertaking and controlling party is Baltic Oil Terminals plc, a public company incorporated in the UK. Copies of Baltic Oil Terminals plc consolidated financial statements can be obtained from the Company's website www.balticoilterminals.com.