

GCM Global Energy Plc

FINANCIAL STATEMENTS

for the year ended
31 December 2012



Company Registration No 6382557

GCM Global Energy Plc

COMPANY INFORMATION

DIRECTORS

M Kalyuzhny
R Dubrovskaya
A A Zhuchenko

SECRETARY

McGuire Woods LLP

REGISTERED OFFICE

Second Floor
11 Pilgrim Street
London
EC4V 6RN

AUDITOR

Baker Tilly UK Audit LLP
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

GCM Global Energy Plc

DIRECTORS' REPORT

The Directors present their report and the financial statements of the Company and the Group for the year ended 31 December 2012. In this report GCM Global Energy plc and its subsidiaries are referred to as "the Group" or "GCM".

PRINCIPAL ACTIVITIES

The Group's principal activities during the year were oil and gas exploration, production of crude oil and natural gas and coal mining. The Group's activities are carried out internationally with the focus being on Azerbaijan, Russia, Kazakhstan and other former CIS countries.

RESULTS AND DIVIDENDS

The Group's profit after taxation for the year amounted to \$23.9m (2011: \$110.6m). The EBITDA for the year, excluding the results of discontinued operations, was \$250.3m (2011: \$221.9m) and the Group generated \$145.8m of net cash flow from its operating activities (2011: \$121.4m).

The Directors are unable to recommend the payment of a dividend.

OPERATING HIGHLIGHTS

GCM made good strategic and operational progress in 2012 represented by an increase in EBITDA and net cash flow from operating activities as indicated in the Results and Dividends section. Total oil reserves increased to 156MMbbl and coal reserves to 498m tonnes.

In May 2012, via an intermediate holding company Trovidor Enterprises Limited, GCM Global Energy Plc acquired a 50% equity shareholding (and voting rights) in JSC CaspiNefit, a joint venture incorporated in the Republic of Kazakhstan. Its key focus areas include the activities connected with procurement, exploration, development, production, processing and export of raw hydrocarbons. The main operating oil-and-gas activities of CaspiNefit are carried out in the Airankol Field, located in the Zhylyoysky District of the Atyrau Oblast.

The Group has continued to develop its relationships with leading international financial institutions, including BNP Paribas and Deutsche Bank. In November 2012 the Group started the refinancing of the existing facility through syndication which was successfully closed in April 2013. It also structured with BNP Paribas an oil commodity instrument ("cap and collar"), which expires on 31 December 2013, in order to manage the Group's exposure to oil price movements. The contract is for a nominal number of barrels totalling 1,384,500 over the period up to 31 December 2013 which fixed the sales price when it moved above \$120 or below \$90 per barrel.

The Board continues to monitor the performance of the Group with the Comprehensive Income Statement and production related Key Performance Indicators ("KPI") and regularly reviews these KPIs at Board Meetings. The Board also receives monthly management information, weekly production reports and cash position statements across the Group's international accounts. A reduction in Net Profit was mainly due to the impairment of two oil fields in Azerbaijan. In 2012 GCM recorded a significant increase in production as a result of the acquisition of JSC CaspiNefit. This acquisition also had a positive impact on the operating costs per barrel due to a more efficient production profile in Kazakhstan.

KEY PERFORMANCE INDICATORS

KPI	2012	2011
Production (average bopd)	16,903	13,673
Proven Reserves (Mboe)	102.1	77.1
Proven and Probable Reserves (Mboe)	156.3	127.2
Proven coal reserves (Mtonnes)	403	305
Revenue from continuing operations (US\$ '000s)	509,980	520,328
Net profit after tax (US\$ '000s)	23.9	110.6
Operating costs average per boe (US\$/bbl)	25.35	28.7

GCM Global Energy Plc

DIRECTORS' REPORT

FUTURE DEVELOPMENTS

The Group remains focused on the energy sector with the goal to become an integrated energy business with assets across all sectors including coal mining and oil and gas in order to provide a competitive shareholder return

FINANCIAL INSTRUMENTS

The Group elected to participate in a hedging arrangement with BNP Paribas to bring security to the Group's revenue from oil sales. The contract was effective from November 2012 and expires on 31 December 2013 and it is a 'cap and collar' option with GCM buying a put option at US\$90/bbl and selling a call option at US\$120/bbl. The total volume under the hedge was 3,250 bbls/day. GCM viewed this hedging agreement as prudent risk management, due to continuing volatility in the energy markets over the last 5 years.

RISK MANAGEMENT

Risk management is central to how the Group runs its business and is fundamental to value creation and delivery of substantial returns to shareholders. It is an integral part of the business model and is a Board level responsibility. GCM approach to risk management aims to identify key risks as early as possible and to either reduce or remove those risks.

Macroeconomic environment	2012 was characterised by uncertainty driven by a mixed set of economic indicators and geo-political circumstances around the globe. In the Euro-zone, the fiscal crisis continued and a double-dip recession threatened the UK and other major European economies. Economic growth began to slow moderately in China, which impacted a fragile global economy. A slow and steady economic recovery commenced in the US. However, global economic uncertainty was compounded by geo-political unrest around the world during the year.
Commodity price risk	Brent crude started the year at \$102.7/bbl and decreased approximately 11% in the first six months of 2012, reaching a low of \$90/bbl. The oil price recovered over the course of the second half of 2012 to \$109.9/bbl. While the drop in oil price in the first half was driven by doubt around economic growth, in the second half the recovery in price was motivated by heightened political risk in key producing countries. Overall, global oil demand grew marginally in 2012 from 88.7 million barrels a day to 89.8 million barrels a day. A complex combination of abnormally high levels of global economic and geo-political uncertainty is making the difficult job of forecasting oil demand and pricing even harder. At present, oil demand growth is expected to be slow in 2013, while oil price forecasts are currently very divergent. Given the instability with Brent Crude prices through the course of 2012, GCM elected to hedge approximately 25% of its total production. Please see the 'Financial Instruments' section above for further details.
Interest rate and liquidity risk	GCM Global Energy has various creditors providing liquidity and financing to the group. Where possible, GCM endeavours to limit its exposure to interest rate risk through structuring credit facilities using a fixed interest rate, or using interest rate derivatives to hedge exposure and gain visibility on financing costs going forward.

GCM Global Energy Plc

DIRECTORS' REPORT

Foreign Exchange risk	The GCM Group has ongoing operations in a number of geographic regions. As a result, the group is exposed to movements in various currencies which can impact the underlying costs and revenues. The Group seeks to mitigate these risks by monitoring the regional economic situation and maintaining currency reserves as necessary.
Political Risk	Business operations in Azerbaijan, Russia and Kazakhstan carry certain elements of risk relating to unexpected changes in regulatory and legal climates which could significantly impact GCM's business. As a mitigating factor, GCM continues to nurture, develop and grow its relationships with senior government officials and business leaders in the regions where it conducts its operations.
Environmental risk	The Group understands its responsibility to maintain and manage its obligations to minimize environmental impact. GCM is committed to working with local governments and other agencies to ensure safe procedures and operations in order to remain in good standing in all communities in which the Group operates.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to Corporate Social Responsibility and has implemented a number of policies across the following areas:

- Equal opportunities across the Group,
- Health and Safety, and
- Environmental impact and recovery

CHARITABLE CONTRIBUTIONS

During the year, the Group made donations to non-UK charitable organisations totalling \$90,000 (2011 \$224,000).

EVENTS SINCE THE END OF THE YEAR

A new Reserve Based Lending syndicated facility for \$100m was successfully closed on 18 April 2013. The syndication included BNP Paribas, Deutsche Bank, Amsterdam Trade Bank N.V. and the Federated Project and Trade Finance Core Fund. The facility matures on 31 December 2016.

BRANCHES OF THE BUSINESS

The Company has a representative office in Moscow which is engaged in marketing and business development activities.

GCM Global Energy Plc

DIRECTORS' REPORT

DIRECTORS

The following directors have held office since 1 January 2012

M Kalyuzhny
R Dubrovskaya
A A Zhuchenko

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company has agreed that it shall to the maximum extent permitted by law, but subject to any limitation imposed by law and in particular sections 232 and 234 of the Companies Act 2006, indemnify the directors against all liabilities, costs and expenses (including any legal and other reasonable professional costs and expenses) incurred by them directly arising from or in connection with the execution and discharge of their duties as directors of the Company

CREDITORS' PAYMENT POLICY

It is Group policy to agree and communicate clearly the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to these based on the timely receipt of an accurate invoice. At 31 December 2012, there were 65 days (2011: 68 days) purchases outstanding in trade payables.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors have 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 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.

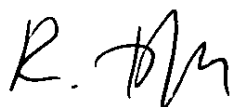
GOING CONCERN

The directors have considered the appropriateness of the going concern basis in the preparation of these financial statements and are satisfied that the company and the group are going concerns. The statement headed "Going Concern" on page 17 sets out certain factors considered by the directors in making this assessment.

AUDITOR

Baker Tilly UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

On behalf of the Board



R Dubrovskaya
Director

19 July 2013

GCM Global Energy Plc

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 group and company financial statements for each financial year. The directors have elected under company law to prepare group and company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU")

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

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 group and the company and of the profit or loss of the group for that period

In preparing the group and company financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and accounting estimates that are reasonable and prudent,
- c state whether they have been prepared in accordance with IFRSs adopted by the EU,
- d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GCM GLOBAL ENERGY PLC

We have audited the group and parent company financial statements ("the financial statements") on pages 9 to 55. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As more fully explained 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 audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion:

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

Emphases of matters: uncertainties regarding production sharing agreements and bank borrowings

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 30 to the financial statements concerning the breach of oil production targets in three of the group's production sharing agreements and the pledge of the shares in a subsidiary and bank loan covenant breach.

Three group companies were not able to achieve the daily production level minimums as required under the provisions of the Agreements on the Rehabilitation, Exploration, Development and Production Sharing ("PSAs"). Failure to perform such obligation is a material breach of the PSAs and gives the State Oil Company the right to terminate the PSAs. The group has previously been successful in agreeing extensions in relation to the PSAs, but there is no certainty that extensions will be agreed. If the agreements were terminated, the beneficial ownership of the relevant oil field assets would pass to the State Oil Company and the group would lose the right to produce oil from the relevant fields. The aggregate net book value of the relevant oil field assets in the consolidated statement of financial position at 31 December 2012 was \$296.9m.

The shares in OAO Krasnoyarsk Kraiugol ("KKU"), a group company, are pledged to a bank as security in respect of loans made by that bank to a company ("the borrower") which is related to the group. If the borrower defaults on the loans, the bank would be entitled to enforce the pledge. If the pledge was enforced, the group would cease to have beneficial ownership of KKU. Subsequent to the year end, KKU has breached financial covenants under separate loan agreements with the same bank and as a result these loans are currently repayable on demand. The directors of KKU have been in discussions with the bank and they are confident that the breach will be rectified and future covenant terms will be amended but there is no certainty that such an agreement will be reached. The net assets attributable to KKU in the consolidated statement of financial position at 31 December 2012 were \$42.4m.

The ultimate outcome of these matters cannot presently be determined and the financial statements do not include any adjustments that would be necessary if the PSAs were to be terminated and/or the bank enforced its rights under the share pledge or breach of covenant.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GCM GLOBAL ENERGY PLC

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

Baker Tilly UK Audit LLP

RICHARD COATES (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

25 Farringdon Street

London EC4A 4AB

19 July 2013

GCM Global Energy Plc
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	<i>Notes</i>	2012 \$'000	Restated 2011 \$'000
Revenue	5	509,980	520,328
Profit on disposal of subsidiary	38	-	31,616
Share of results of joint ventures	15	61,894	-
Interest and other income	8	16,996	7,844
		<u>588,870</u>	<u>559,788</u>
Production costs		(84,647)	(83,956)
Production and similar taxes		(33,690)	(33,166)
Employee costs	7	(78,462)	(75,660)
Distribution expenses		(123,709)	(123,081)
Administration expenses		(16,431)	(21,349)
Depreciation, depletion and amortisation		(77,790)	(80,477)
(Impairment) / net reversal of impairment of assets	29	(76,014)	38,399
Loss on commodity price derivative	22	(307)	(40)
Loss on foreign exchange		(1,308)	(547)
		<u>(492,358)</u>	<u>(379,877)</u>
Profit before interest and taxation		<u>96,512</u>	<u>179,911</u>
Finance costs	9	(77,051)	(68,424)
Profit before taxation		<u>19,461</u>	<u>111,487</u>
Taxation	10	4,423	(3,533)
Profit for the year from continuing operations		<u>23,884</u>	<u>107,954</u>
Profit for the year from discontinued operations	36	-	2,642
Total profit for the year		<u>23,884</u>	<u>110,596</u>
Other comprehensive income			
Currency translation differences		2,173	(4,323)
Total comprehensive income for the year		<u>26,057</u>	<u>106,273</u>

GCM Global Energy Plc

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	2012 \$'000	Restated 2011 \$'000
Profit for the year attributable to:		
<i>Owners of the parent</i>		
From continuing operations	33,751	76,959
From discontinued operations	-	2,642
	<u>33,751</u>	<u>79,601</u>
 <i>Non-controlling interests</i>		
From continuing operations	(9,867)	30,995
From discontinued operations	-	-
	<u>(9,867)</u>	<u>30,995</u>
Total profit for the year	<u>23,884</u>	<u>110,596</u>
 Total comprehensive income for the year attributable to		
Owners of the parent	35,924	75,776
Non-controlling interest	(9,867)	30,497
Total comprehensive income for the year	<u>26,057</u>	<u>106,273</u>

The notes and accounting policies on pages 17 to 55 form an integral part of these consolidated financial statements

GCM Global Energy Plc
STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

Company registration number 6382557

	<i>Notes</i>	Group 2012 \$'000	Restated Group 2011 \$'000	Restated Group 2010 \$'000	Company 2012 \$'000	Company 2011 \$'000
ASSETS						
Non-current assets						
Intangible assets	11	44,146	34,642	641	-	-
Property, plant and equipment	12	793,791	846,102	749,339	301	533
Investment in subsidiaries	14	-	-	-	90,647	88,623
Investment in joint venture	15	55,917	12	-	-	-
Loans and other receivables	13	25,476	3,538	4,655	11,066	-
Total non-current assets		919,330	884,294	754,635	102,014	89,156
Current assets						
Inventories	16	34,977	27,317	22,861	-	-
Trade and other receivables	17	131,150	130,063	60,090	645	1,703
Income tax prepayments		559	623	549	-	-
Cash and cash equivalents	18	19,839	27,837	18,806	431	9,839
Total current assets		186,525	185,840	102,306	1,076	11,542
Non-current assets classified as held for sale	36	-	-	40,690	-	-
TOTAL ASSETS		1,105,855	1,070,134	897,631	103,090	100,698
LIABILITIES						
Current liabilities						
Trade and other payables	19	96,394	102,627	165,870	753	11,346
Financial liabilities	20	596,789	123,903	71,362	-	-
Current tax liabilities		-	7	840	-	-
Fair value of derivatives	22	386	40	-	-	-
Total current liabilities		693,569	226,577	238,072	753	11,346
Non-current liabilities						
Financial liabilities	20	383,355	828,153	728,171	-	-
Provisions	21	20,073	16,359	13,246	-	-
Deferred tax liabilities	24	11,679	17,049	8,624	-	-
Fair value of derivatives	22	-	461	889	-	-
Total non-current liabilities		415,107	862,022	750,930	-	-
Liabilities associated with non-current assets held for sale	36	-	-	41,165	-	-
TOTAL LIABILITIES		1,108,676	1,088,599	1,030,167	753	11,346
NET (LIABILITIES) / ASSETS		(2,821)	(18,465)	(132,536)	102,337	89,352

GCM Global Energy Plc
STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

Company registration number 6382557

	<i>Notes</i>	Group 2012 \$'000	Restated Group 2011 \$'000	Restated Group 2010 \$'000	Company 2012 \$'000	Company 2011 \$'000
EQUITY						
Equity attributable to owners of the parent						
Called up share capital	25	29,312	29,312	29,312	29,312	29,312
Contributed capital		88,611	88,611	88,611	88,611	88,611
Translation reserve		(2,092)	(4,265)	(440)	-	-
Retained deficit		(32,415)	(63,337)	(142,938)	(15,586)	(28,571)
Total equity attributable to owners of the parent		83,416	50,321	(25,455)	102,337	89,352
Non-controlling interests		(86,237)	(68,786)	(107,081)	-	-
TOTAL EQUITY		(2,821)	(18,465)	(132,536)	102,337	89,352

The financial statements on pages 9 to 55 were approved by the board of directors and authorised for issue on 19 July 2013 and are signed on its behalf by



R Dubrovskaya, Director

The notes and accounting policies on pages 17 to 55 form an integral part of these consolidated financial statements

GCM Global Energy Plc
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

GROUP	Attributable to the equity owners of the parent					Non-	Total
	Share capital \$'000	Contributed capital \$'000	Translation reserve \$'000	Retained deficit \$'000	Total \$'000	controlling interest \$'000	
AT 1 JANUARY 2011 RESTATED	29,312	88,611	(440)	(142,938)	(25,455)	(107,081)	(132,536)
Profit for the year	-	-	-	79,601	79,601	30,995	110,596
<i>Other comprehensive income</i>							
Currency translation adjustments	-	-	(3,825)	-	(3,825)	(498)	(4,323)
Total comprehensive income for the year	-	-	(3,825)	79,601	75,776	30,497	106,273
<i>Transactions with owners</i>							
Non-controlling interest on acquisition (note 38)	-	-	-	-	-	7,798	7,798
Total transactions with owners in their capacity as owners	-	-	-	-	-	7,798	7,798
AT 31 DECEMBER 2011 RESTATED	29,312	88,611	(4,265)	(63,337)	50,321	(68,786)	(18,465)
Profit/(loss) for the year	-	-	-	33,751	33,751	(9,867)	23,884
<i>Other comprehensive income</i>							
Currency translation adjustments	-	-	2,173	-	2,173	-	2,173
Total comprehensive income for the year	-	-	2,173	33,751	35,924	(9,867)	26,057
<i>Transactions with owners</i>							
Acquisition of non-controlling interest share (Note 38)	-	-	-	(2,829)	(2,829)	(6,990)	(9,819)
Non-controlling interest dividends	-	-	-	-	-	(594)	(594)
Total transactions with owners in their capacity as owners	-	-	-	(2,829)	(2,829)	(7,584)	(10,413)
AT 31 DECEMBER 2012	29,312	88,611	(2,092)	(32,415)	83,416	(86,237)	(2,821)

The notes and accounting policies on pages 17 to 55 form an integral part of these consolidated financial statements

GCM Global Energy Plc
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

COMPANY	Share capital \$'000	Contributed capital \$'000	Retained deficit \$'000	Total \$'000
AT 1 JANUARY 2011	29,312	88,611	(27,761)	90,162
Loss for the year	-	-	(810)	(810)
Total comprehensive income for the year	-	-	(810)	(810)
Total transactions with the owners in their capacity as owners	-	-	-	-
AT 31 DECEMBER 2011	29,312	88,611	(28,571)	89,352
Profit for the year	-	-	12,985	12,985
Total comprehensive income for the year	-	-	12,985	12,985
Total transactions with the owners in their capacity as owners	-	-	-	-
AT 31 DECEMBER 2012	29,312	88,611	(15,586)	102,337

The notes and accounting policies on pages 17 to 55 form an integral part of these consolidated financial statements

GCM Global Energy Plc
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	<i>Notes</i>	2012 \$'000	Restated 2011 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27	148,023	127,167
Income taxes paid		(2,179)	(5,788)
Net cash flow from operating activities		<u>145,844</u>	<u>121,379</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries including NCI, net of cash acquired		(10,170)	(30,203)
Proceeds of subsidiary disposals, net of cash transferred		10,000	28,075
Purchase of property, plant and equipment		(112,169)	(89,333)
Proceeds from disposal of property, plant and equipment		1,649	30
Purchase of intangible assets		(100)	(34,273)
Interest received		272	566
Dividends received from joint venture		5,989	-
Net cash used in investing activities		<u>(104,529)</u>	<u>(125,138)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings (net of repayments)		5,520	119,478
Dividends paid to non-controlling interest		(597)	-
Interest paid		(54,236)	(106,688)
Net cash (used in)/from financing activities		<u>(49,313)</u>	<u>12,790</u>
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		<u>(7,998)</u>	<u>9,031</u>
OPENING CASH AND CASH EQUIVALENTS		<u>27,837</u>	<u>18,806</u>
Effect of foreign exchange rate changes		-	-
CLOSING CASH AND CASH EQUIVALENTS	18	<u><u>19,839</u></u>	<u><u>27,837</u></u>

The notes and accounting policies on pages 17 to 55 form an integral part of these consolidated financial statements

GCM Global Energy Plc
COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	<i>Notes</i>	2012 \$'000	2011 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated (absorbed by)/from operations	27	(1,250)	4,928
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired		963	(1,009)
Purchase of property, plant and equipment		(37)	(180)
Proceeds from disposal of property, plant and equipment		17	30
Loans granted		(15,000)	-
Dividends from subsidiaries		5,899	5,191
Net cash (used in)/from investing activities		(8,158)	4,032
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Net cash flow from financing activities		-	-
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		(9,408)	8,960
OPENING CASH AND CASH EQUIVALENTS		9,839	879
CLOSING CASH AND CASH EQUIVALENTS	18	431	9,839

The notes and accounting policies on pages 17 to 55 form an integral part of these consolidated financial statements

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1 GENERAL INFORMATION

GCM Global Energy Plc ("the Company"), its subsidiaries and share of the joint ventures ("the Group") undertakes oil, gas exploration and production and coal mining. The group principally operates in Russia, Azerbaijan and Kazakhstan.

The company is a privately owned public limited company, incorporated and domiciled in the UK. The company's registered office is 2nd Floor, 11 Pilgrim Street, London, EC4V 6RN.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

BASIS OF ACCOUNTING

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). The financial statements have been prepared on a historical cost basis except for the revaluation of financial instruments.

As explained in note 33, the Group has early adopted certain IFRSs for the preparation of these financial statements. In accordance with the requirements of IFRS, comparative results have been restated where applicable.

GOING CONCERN

The directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. This has been determined by a review of forecast cash flows and expected trading performance for a period of at least 12 months from the date of approval of these financial statements and careful consideration of the contingent liabilities and commitments disclosed in note 30.

The group is primarily financed through bank and related party borrowings and there are a number of key measures in place that will allow the directors to manage the business and provide adequate liquidity. These are as follows:

- The ability to negotiate increased bank facilities with the existing third party provider of finance,
- The ability to borrow from other providers of funds, mainly private financial institutions,
- Significant control and flexibility over the group's development plans and their timing that will allow it, if necessary, to conserve capital by delaying or eliminating capital expenditure, and
- The flexibility to restructure the terms of the existing related party loan facilities.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit for the Group. Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are recognised in profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. When the fair value of identifiable net assets acquired exceeds the cost of the business combination, the excess (negative goodwill) is recognised directly in the Statement of Comprehensive Income. However, where subsidiaries or interests in joint ventures are acquired from companies under common control, negative goodwill arising on such acquisitions (net of any goodwill on other such transactions) is credited directly to equity as contributed capital.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those of the Group.

All intra-Group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting for joint arrangements

A joint arrangement is a contractual arrangement which gives two or more parties joint control. A joint arrangement is either a joint venture or a joint operation.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The group combines its share of assets, liabilities, revenue and expenses of joint arrangements with its own, after making appropriate adjustments to eliminate transactions between the group and the joint arrangement.

Investments in joint ventures are recognised in the financial statements using the equity method of accounting unless they fall to be classified as held for sale. They are initially carried at cost. The Group's share of post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition movements in other comprehensive income are recognised directly in other comprehensive income. The carrying value of the investment (including goodwill) is tested for impairment when there is objective evidence of impairment. Losses in excess of the Group's interest in those joint ventures are not recognised unless the Group has incurred obligations or made payments on behalf of the joint ventures.

Where a group company transacts with a joint venture of the Group, unrealised gains are eliminated to the extent of the Group's interest in the relevant associate or joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment. Where necessary, adjustments are made to the financial statements of joint ventures to bring the accounting policies used into line with those used by the Group.

FOREIGN CURRENCY TRANSLATION

The presentational currency is the US\$ as this is the currency which mainly influences the sales price of the goods and services being delivered and the costs incurred in delivering them. The exchange rate between Sterling and the US\$ at 31 December 2012 was 1.6153 (2011: 1.5453), the official exchange rate between Azerbaijan Manat and the US\$ at 31 December 2012 was 0.7850 (2011: 0.7865), the official exchange rate between the Russian Rouble and the US\$ at 31 December 2012 was 30.3727 (2011: 32.1961), the exchange rate between the Kazakhstan Tenge and the US\$ at 31 December 2012 was 150.3759.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions are recorded in the functional currency of each reporting entity. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the profit or loss for the period, except for exchange differences on non-monetary assets and liabilities, where the changes in fair value are recognised in other comprehensive income. Other non-monetary assets and liabilities are kept at the rate of exchange prevailing on the date the transaction was recorded.

On consolidation, the assets and liabilities reported in functional currencies other than the US\$ are retranslated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences are recognised as other comprehensive income and in the Group's translation reserve.

Such translation differences are recognised as income or expenses in the period in which the operation is disposed.

EXPLORATION AND EVALUATION EXPENDITURE

The Group adopts the successful efforts method of accounting for exploration and evaluation expenditure.

(a) PRE-LICENCE EXPENDITURE

Any expenditure incurred relating to exploration and evaluation or similar activities prior to obtaining a field exploration or development licence (or similar rights) are expensed as incurred.

(b) LICENCE COSTS

The cost of acquiring an exploration/development licence (or similar rights) are capitalised and classified as an intangible asset. Incidental costs relating to the acquisition of the licence are capitalised as part of the cost of acquisition.

(c) OTHER EXPENDITURE

Geological and geophysical costs and the cost of drilling exploratory wells that find proven reserves are capitalised as intangibles. The costs of drilling exploratory wells that do not find proven reserves are expensed to profit or loss. All capitalised costs are subject to a commercial, technological and management review each year to confirm the continued intention to develop and extract value from the discovery. When this is no longer the case, the capitalised costs are written off to profit or loss.

When proven reserves have been identified and development has been approved, the capitalised exploration and evaluation costs are tested for impairment and then transferred to oil and gas properties or coal mining assets as appropriate within property, plant and equipment.

Intangible exploration and evaluation assets are not subject to amortisation.

Property, plant and equipment that are consumed in developing an intangible exploration and evaluation asset are subject to depreciation over their useful economic lives. The depreciation amount reflecting that consumption will be capitalised as part of the cost of developing the intangible exploration and evaluation asset.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment also includes land and buildings, plant, equipment, vehicles and office equipment. Property, plant and equipment is recorded at cost which includes expenditure that is directly attributable to the acquisition of the items and depreciated over its useful economic life.

STRIPPING COSTS

Stripping costs incurred before starting surface coal mining in a new deposit are capitalised in property, plant and equipment and depreciated during the useful life of the deposit. Stripping costs incurred after commencement of surface coal mining are classified into cost of coal produced during the reporting period.

DEPRECIATION

Oil and gas properties and mining assets are depreciated on a unit-of-production basis over the estimated reserves. For those assets whose useful life is shorter than the lifetime of the related field a straight-line method is applied.

Land is not depreciated. Buildings and operating base facilities are depreciated on a straight-line basis over their estimated useful lives ranging from five to fifty-five years.

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of four to twenty years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognised in profit or loss.

MAJOR MAINTENANCE AND REPAIRS

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other maintenance costs are expensed as incurred.

GOODWILL

Goodwill on the acquisition of subsidiaries and joint ventures is separately disclosed. Goodwill on the acquisition of associates is included in the investment in associates.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Impairment exists when the carrying value of the asset or group of assets exceeds its recoverable amount. The recoverable amount is estimated as the higher of its value in use and net realisable value. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill is allocated to cash generating units (which are normally the relevant oil fields) for the purpose of impairment testing

On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

OTHER INTANGIBLE ASSETS

Other intangible assets include software and licences other than exploratory and development licences. Other intangibles are measured initially at purchase cost and amortised on a straight-line basis over their estimated useful lives.

IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY PLANT AND EQUIPMENT

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated. Where the effect of the time value of money is material, the provision is based on the present value of future outflows, discounted at the pre-tax discount rate that reflects the risks specific to the liability.

Asset retirement obligations

A provision is made for asset retirement obligations and a corresponding amount equivalent to the provision is recognised as part of the cost of the related property, plant and equipment (or as part of intangible assets in the case of exploration and evaluation expenditure). The amount recognised is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the asset retirement obligation is included as a finance cost.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVENTORIES

Inventories, consisting primarily of oil and coal together with stock, materials and supplies used in production operations, are stated at the lower of cost or net realisable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Group has become a party to the contractual provisions of the instrument.

Financial assets

Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Group with maturities of less than three months.

Bank overdrafts are presented within current liabilities.

Investments

Investments held by the parent company in subsidiaries are recorded at cost at the reporting date. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in profit or loss in the period they occur.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank and other borrowings

Interest-bearing bank and other loans and bank overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in profit or loss over the term of the instrument at the effective rate of interest.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade payables

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

Equity instruments

Equity instruments issued by the Company are recorded at fair value on initial recognition net of transaction costs

Derivative financial instruments

The Group's activities expose it primarily to commodity price risk and interest rate risk. The Group uses oil price hedging arrangements and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes. The use of any financial derivatives is approved by the board of directors.

Instruments quoted in an active market are measured at their current bid price. For instruments that are not quoted in an active market, the fair value is estimated using a valuation technique. Techniques that are used by the Group include comparisons to recent market transactions or reference to other instruments which are substantially the same, discounted cash flow analysis and option pricing models. Inputs to such techniques rely on market inputs where such information is readily available. Where such information is not available entity-specific inputs are used.

None of the derivative financial instruments used by the Group qualify for hedge accounting and any changes in their fair value are recognised in profit or loss as they arise.

BORROWING COSTS

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

LEASES

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

REVENUE RECOGNITION

Revenue from the sale of crude oil is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business net of discount, custom duties and sale taxes

Revenues from sales of coal are recognised at the point of transfer of risks, when the coal is delivered to the buyer, the buyer accepts the coal and the Group is reasonably certain that the respective accounts receivable will be received

Revenue derived from the provision of services is recognised in the period during which such services were provided. Where a contract is not fully completed at the year end, revenue is recognised according to the percentage of the project completed during the year

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

CURRENT AND DEFERRED INCOME TAX

The tax expense represents the sum of the current tax expense and deferred tax expense

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit that is reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is provided on temporary differences arising on acquisition that are categorised as Business Combinations

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt within equity

In certain jurisdictions in which the Group operates under production sharing agreements with the local State oil company, the responsibility for the payment of tax rests with the State oil company

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and presented separately in the Statement of Financial Position from other assets and liabilities.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset (or disposal group) is available for immediate sale in its present condition, management are committed to the sale and expect the asset (or disposal group) to qualify for recognition as a completed sale within one year from the date of classification.

IFRS'S ISSUED BUT NOT YET EFFECTIVE

The following relevant standards and interpretations were in issue at the reporting date but are not yet effective. Management do not anticipate that these will have a significant impact on the financial statements.

IFRS 7 (amended)	'Financial Instruments: Disclosures' The amendments to IFRS 7 are effective for annual periods beginning from 1 January 2013 and cover an offsetting of Financial Assets and Financial Liabilities. The two main categories of disclosures required by IFRS 7 are information about the significance of financial instruments and information about the nature and extent of risks arising from financial instruments.
IFRS 9	'Financial Instruments' (effective for annual periods beginning on or after 1 January 2015). The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. It also results in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.*
IFRS 13	'Fair Value Measurement' (effective for annual periods beginning on or after 1 January 2013). The new standard provides guidance on measurement of fair value for financial reporting purposes where IFRSs require or permit fair value measurements or disclosures about fair value measurements.
IAS 1 (amended)	'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 July 2012 and early adoption is permitted). The amendment requires that an entity presents separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted.

*Not yet endorsed by the EU

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

COMMITMENTS AND CONTINGENCIES

The Directors review the facts and circumstances associated with all material potential known liabilities as at the balance sheet date to assess the likelihood of an actual liability arising on the group and to quantify any potential liability. Details of commitments and contingent liabilities are in note 30

IMPAIRMENT

The Directors consider the facts and circumstances surrounding its exploration and evaluation expenditure, property, plant and equipment and intangible assets to determine whether there is any indication of impairment

In assessing the recoverable amount of a cash-generating unit an estimate of the unit's value in use must be made. Value in use is based on the cash flows expected to be generated by the projected oil, gas and coal production profiles up to the earlier of the expected dates of cessation of production or the expected licence termination date of each producing field

As each producing field has specific characteristics and economic circumstances, the cash flows of the fields are computed using appropriate individual economic models and key assumptions agreed by management. These cash flows are then discounted to their present value using an appropriate discount rate

Estimates of oil production volumes have regard to reports issued by third party reservoir engineers

Other key assumptions used in the value in use calculations are as follows

	2012	2011
Long term oil prices (net world oil price US\$/Bbl)	\$86-102	\$86-106
Discount rate for oil and gas fair value in use calculation	8%	8%
Discount rate for coal fair value in use calculation	18%	15.6%

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

CARRYING VALUE OF OIL, GAS AND COAL ASSETS

Oil and gas properties and coal assets are depreciated using the unit-of-production ('UOP') method over proven developed and undeveloped mineral reserves. The calculation of the UOP rate of amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include

- Changes in proven reserves,
- the effect on proven reserves of differences between actual commodity prices and commodity price assumptions,
- unforeseen operational issues

The carrying value of oil, gas and coal assets is a significant area of management estimation and judgement.

SITE RESTORATION AND ASSET RETIREMENT OBLIGATIONS

The Directors review the provisions at each reporting date, and adjust them to reflect the current best estimate in accordance with IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of an obligation. Considerable judgement is required in forecasting the future obligations. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amount of provisions are regularly reviewed and adjusted to take account of such change.

4 FINANCIAL RISK FACTORS

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group has in place risk management policies that seek to limit the adverse effects of commodity price risk and interest rate risk.

LIQUIDITY RISK

In order to manage liquidity risk it is the Group's policy to maintain committed facilities to ensure sufficient available surplus cash resources.

The Group closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis through the use of cash flow forecasts to ensure that it has sufficient funds to meet the obligations of the Group as they fall due.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4 FINANCIAL RISK FACTORS (continued)

Maturity Analysis

The table below analyses the Group's financial liabilities into maturity groupings based on amounts outstanding at the balance sheet date up to the contractual maturity date

Group 2012					
	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Trade and other payables	92,193	-	-	-	92,193
Borrowings	419,495	177,294	364,813	18,542	980,144
Total	<u>511,688</u>	<u>177,294</u>	<u>364,813</u>	<u>18,542</u>	<u>1,072,337</u>
Group 2011 (restated)					
	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Trade and other payables	94,062	3,873	514	-	98,449
Borrowings	75,461	48,442	504,521	323,632	952,056
Total	<u>169,523</u>	<u>52,315</u>	<u>505,035</u>	<u>323,632</u>	<u>1,050,505</u>
Company 2012					
	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Trade and other payables	604	-	-	-	604
Total	<u>604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>604</u>
Company 2011					
	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Trade and other payables	11,111	-	-	-	11,111
Total	<u>11,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,111</u>

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4 FINANCIAL RISK FACTORS (continued)

FOREIGN CURRENCY RISK

The Group operates in several markets across the world and is exposed to foreign exchange risk arising from currency exposures, in particular with respect to the Azerbaijani Manat ('AZN'), the Russian Ruble ('RUR') and the Kazakhstan Tenge ('KZT')

The sensitivity to foreign exchange rates relates only to assets and liabilities denominated in a currency other than US\$. Management have considered the historic volatility in exchange rates and applied judgement in determining a reasonably possible change in exchange rates. The impact of reasonably possible changes in foreign exchange rates on profit or loss and on equity, based on the assumptions set out below are as follows

	2012 \$'000	Restated 2011 \$'000
<i>Impact on equity</i>		
10% increase in AZN fx rate against US\$	(958)	(1,958)
10% decrease in AZN fx rate against US\$	958	1,958
10% increase in RUR fx rate against US\$	4,241	6,989
10% decrease in RUR fx rate against US\$	(4,241)	(6,989)
10% increase in KZT fx rate against US\$	(3,717)	-
10% decrease in KZT fx rate against US\$	3,717	-
<i>Impact on profit or loss</i>		
10% increase in RUR fx rate against US\$	(1,585)	(1,314)
10% decrease in RUR fx rate against US\$	1,585	1,314
10% increase in KZT fx rate against US\$	(3,717)	-
10% decrease in KZT fx rate against US\$	3,717	-

There would be a minimal impact on profit or loss of a 10% change in the AZN exchange rate, so it has not been quantified above

CREDIT RISK

Credit risk predominantly arises from loans and other receivables, trade receivables and cash and cash equivalents

The Group's credit risk associated with crude oil and refined oil products and coal activities is with counterparties in related oil and coal industries. There is no formal rating for many of the Group's customers in Russia. The Group only trades with reputable and recognised third parties. Management performs various evaluations of its customers before transacting and regularly monitors exposures and concentrations of credit risk in order to manage it. The Group does not hold collateral as security in respect of any trade receivable.

The Group's maximum exposure to credit risk, gross of any collateral held, relating to its financial assets is equivalent to their carrying value as disclosed below. All financial assets have a fair value which is not materially different from their carrying value.

GCM Global Energy Plc
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

4 FINANCIAL RISK FACTORS (continued)

	Group 2012 \$'000	Restated Group 2011 \$'000	Company 2012 \$'000	Company 2011 \$'000
<i>Maximum exposure to credit risk</i>				
Trade and other receivables	102,899	111,632	18	22
Trade and other loan receivables from related parties	17,057	6,002	11,066	-
Cash and cash equivalents	19,839	27,837	431	9,839
	<u>139,795</u>	<u>145,471</u>	<u>11,515</u>	<u>9,861</u>

The Group or the Company does not have any trade and other receivables that are past due at the reporting date but have not been provided for impairment

The provision for credit losses of balances receivable from customers is based on a review of balances determined to be impaired at the reporting date. In determining whether amounts due are impaired, management considered quantitative factors such as the period of time past due as well as qualitative factors including changes in business environment and changes to the credit worthiness of counterparties.

Provision for credit losses by class is as follows

	Group 2012 \$'000	Restated Group 2011 \$'000	Company 2012 \$'000	Company 2011 \$'000
Impairment of trade and other receivables	409	1,016	-	-
Impairment of related party receivables	13,383	2,883	-	-
Provision for credit losses	<u>13,792</u>	<u>3,899</u>	<u>-</u>	<u>-</u>

INTEREST RATE RISK

The Group holds a derivative financial instrument to manage interest rate risk on floating rate bank borrowings. Details of this instrument can be found in note 22.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings and interest rate swaps.

GCM Global Energy Plc
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

4 FINANCIAL RISK FACTORS (continued)

	Effect on profit and equity 2012 \$'000	Restated Effect on profit and equity 2011 \$'000
Increase/(decrease) in interest rates		
0.5% increase	(117)	(235)
0.5% decrease	117	235

The Group's interest rate exposure arises mainly from its interest bearing borrowings. The Group has mostly fixed rate loans payable to reduce exposure to interest rate cash flow risk.

The Group regularly reviews its funding arrangements to ensure they are competitive with the marketplace.

The table below shows the Group's non-derivative financial assets and liabilities split by those bearing fixed and floating rates and those that are non-interest bearing.

ASSETS

Group

2012	Fixed rate \$'000	Floating rate \$'000	Non-interest bearing \$'000	Total \$'000
Trade and other receivables	-	-	102,899	102,899
Trade receivable from related parties	-	-	17,057	17,057
Cash and cash equivalents	-	-	19,839	19,839
	-	-	139,795	139,795
2011 Restated	Fixed rate \$'000	Floating rate \$'000	Non-interest bearing \$'000	Total \$'000
Trade and other receivables	-	-	111,632	111,632
Other loans receivable from related parties	6,002	-	-	6,002
Cash and cash equivalents	1,038	-	26,799	27,837
	7,040	-	138,431	145,471

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4 FINANCIAL RISK FACTORS (continued)

Company

2012	Fixed rate \$'000	Floating rate \$'000	Non-interest bearing \$'000	Total \$'000
Trade and other receivables	-	-	18	18
Other loans receivable from related parties	-	-	11,066	11,066
Cash and cash equivalents	-	-	431	431
	<u>-</u>	<u>-</u>	<u>11,515</u>	<u>11,515</u>
2011	Fixed rate \$'000	Floating rate \$'000	Non-interest Bearing \$'000	Total \$'000
Trade and other receivables	-	-	22	22
Cash and cash equivalents	-	-	9,839	9,839
	<u>-</u>	<u>-</u>	<u>9,861</u>	<u>9,861</u>

LIABILITIES

Group

2012	Fixed rate \$'000	Floating rate \$'000	Non-interest Bearing \$'000	Total \$'000
Trade and other payables	-	-	92,193	92,193
Borrowings	956,667	23,477	-	980,144
	<u>956,667</u>	<u>23,477</u>	<u>92,193</u>	<u>1,072,337</u>
2011 Restated	Fixed rate \$'000	Floating rate \$'000	Non-interest bearing \$'000	Total \$'000
Trade and other payables	-	-	98,449	98,449
Borrowings	905,093	46,962	-	952,055
	<u>905,093</u>	<u>46,962</u>	<u>98,449</u>	<u>1,050,504</u>

No interest was charged on trade and other payables during 2012 or 2011

In 2012, the Company's trade and other payables were \$604,000 (2011 \$11,111,000) and were non-interest bearing

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4 FINANCIAL RISK FACTORS (continued)

CAPITAL MANAGEMENT

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade in the foreseeable future. The Group also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital.

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, contributed capital, translation reserve, retained earnings and net debt as noted below.

Net debt includes short and long-term borrowings net of cash and cash equivalents.

	2012 \$'000	Restated 2011 \$'000
Total debt	980,114	952,055
Less cash and cash equivalents	(19,839)	(27,837)
Net debt	960,275	924,218
Total equity	(2,821)	(18,465)

The Group does not have any externally imposed capital requirements.

COMMODITY PRICE RISK

Commodity price risk is the risk that market prices for commodities will move adversely thereby potentially reducing expected margins.

A significant period of lower oil or coal prices would lead to a review for impairment of the Group's oil, gas and coal properties. Such a review could result in a charge for impairment that could have a significant effect on the Group's results as well as requiring the Group to make changes to its capital expenditure plans.

Given the strong linkage in world energy markets to the US\$, there is a significant impact on oil and gas prices. A weakening of the US\$ against other currencies would therefore be expected to increase the US\$ price of oil and gas.

The Group entered into an oil price instrument as detailed in note 22.

The table below summarises the impact on profit before tax for changes in commodity prices.

	Effect on profit and equity 2012 \$'000	Restated Effect on profit and equity 2011 \$'000
Increase/(decrease) in crude oil prices		
10% increase	45,914	35,383
10% decrease	(45,914)	(35,383)

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

5 REVENUE

Revenue for the year was derived from the following activities

	2012 \$'000	Restated 2011 \$'000
Sale of oil and gas	342,085	353,835
Revenue from coal sales	155,391	157,805
Other revenue	12,504	8,688
	<u>509,980</u>	<u>520,328</u>

6 PROFIT/(LOSS) BEFORE TAXATION

	2012 \$'000	Restated 2011 \$'000
The following items have been charged in arriving at profit/(loss) before taxation		
Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services		
Audit services		
- Statutory audit of parent and consolidated accounts	307	249
- Auditing of the accounts of subsidiaries of the Group pursuant to legislation (including that of countries and territories outside Great Britain)	664	671
- Other audit services supplied pursuant to such legislation	420	480
Taxation services	82	95
Operating lease rentals - land and buildings	4,209	3,754
	<u>5,682</u>	<u>5,149</u>

7 EMPLOYEE COSTS

The table below sets out details of the Group's employment costs, including key management and Directors

	2012 \$'000	2011 \$'000
Wages and salaries	64,128	61,114
Social security costs	11,273	11,886
Pension costs - defined contribution plans	3,061	2,660
	<u>78,462</u>	<u>75,660</u>

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

	2012	2011
Technical and operations	4,708	4,764
Sales and marketing	15	28
Management and administration	466	376
	<u>5,189</u>	<u>5,168</u>

GCM Global Energy Plc
NOTES TO THE FINANCIAL STATEMENTS
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7	EMPLOYEE COSTS (continued)		
	KEY MANAGEMENT	2012 \$'000	2011 \$'000
	The table below sets out details of the emoluments of the Group's key management including Directors		
	Short term benefits	2,311	2,230
	Post employment benefits	68	67
		<u>2,379</u>	<u>2,297</u>
	DIRECTORS' EMOLUMENTS		
	The table below sets out details of the emoluments of the Company's Directors	2012 \$'000	2011 \$'000
	Directors' emoluments in respect of qualifying services	913	967
	Company contributions to personal pension schemes	68	67
		<u>981</u>	<u>1,034</u>
	The emoluments of the highest paid Director were as follows		
	Emoluments in respect of qualifying services	334	356
	Company contributions to personal pension schemes	24	24
		<u>358</u>	<u>380</u>
	There are 3 directors in defined contribution personal pension schemes (2011 3)		
8	INTEREST AND OTHER INCOME		
		2012 \$'000	Restated 2011 \$'000
	Interest on bank deposits	-	2
	Other interest	343	1,259
	Rental income	500	338
	Other income	16,153	6,245
		<u>16,996</u>	<u>7,844</u>

The amount of other income in 2011 includes an amount of \$5,096,200 being the Group's share of commission in connection with the liquidation of a former Group company and a gain on a "bargain" purchase of \$992,000 of Razrez Sayano-Partizansky OOO (note 38)

The amount of other income in 2012 includes an amount of \$15,000,000 being a non-refundable prepayment related to a non-realised sale-purchase offer from a potential buyer

GCM Global Energy Plc
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

9 FINANCE COSTS

	2012	Restated 2011
	\$'000	\$'000
Interest on bank loans and overdrafts	10,763	7,730
Interest on other loans	65,075	59,281
Unwinding of discount in respect of provisions (see note 21)	1,327	1,147
Losses arising from financial instruments held at fair value through profit and loss (see note 22)	(114)	266
	<u>77,051</u>	<u>68,424</u>

10 TAXATION

	2012	Restated 2011
	\$'000	\$'000
Analysis of (credit) / charge for the year		
Current tax – overseas	1,691	3,596
Tax on remitted earnings	169	583
Deferred tax credit (see note 24)	(6,283)	(646)
Tax (credit) / charge for the year	<u>(4,423)</u>	<u>3,533</u>
The tax for the year is less than the statutory rate of corporation tax in the UK. The differences are explained below	2012	Restated 2011
	\$'000	\$'000
Profit before tax	19,461	111,487
Profit before tax multiplied by the standard UK Corporation tax rate of 24.5% (2011: 26.5%)	4,767	29,544
Effects of		
Expenses not deductible for tax purposes	437	223
Deferred tax asset not recognised	(2,680)	1,384
Overseas losses unrelieved	9,471	4,020
Profits arising in production sharing agreements	(1,694)	(22,686)
Profit on sale of subsidiary	-	(8,378)
Tax on remitted earnings	169	583
Difference in overseas tax rates	271	(1,157)
Joint venture profits	(15,164)	-
Total taxation (credit) / charge	<u>(4,423)</u>	<u>3,533</u>

GCM Global Energy Plc
NOTES TO THE FINANCIAL STATEMENTS
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11 INTANGIBLE ASSETS

Group	Exploration and evaluation assets \$'000	Software \$'000	Goodwill \$'000	Total \$'000
COST				
At 1 January 2011 restated	-	1,984	5,192	7,176
Additions	33,929	351	-	34,280
Acquired through business combinations (see note 38)	-	21	-	21
Disposal of subsidiaries	-	(5)	-	(5)
Exchange differences	(126)	-	-	(126)
At 1 January 2012 restated	33,803	2,351	5,192	41,346
Additions	10,617	100	-	10,717
Exchange differences	(1,047)	-	-	(1,047)
At 31 December 2012	43,373	2,451	5,192	51,016
AMORTISATION				
At 1 January 2011	-	1,343	5,192	6,535
Charge for the year	-	175	-	175
Exchange differences	-	(6)	-	(6)
At 1 January 2012	-	1,512	5,192	6,704
Charge for the year	-	158	-	158
Exchange differences	-	8	-	8
At 31 December 2012	-	1,678	5,192	6,870
NET BOOK VALUE				
At 31 December 2012	43,373	773	-	44,146
At 31 December 2011 - restated	33,803	839	-	34,642
At 1 January 2011 - restated	-	641	-	641

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

12 PROPERTY, PLANT AND EQUIPMENT

Group	Oil and gas properties \$'000	Coal mining assets \$'000	Land and buildings \$'000	Plant, machinery and motor vehicles \$'000	Assets under construction \$'000	Total \$'000
COST						
At 1 January 2011 restated	1,079,988	26,599	14,766	50,769	15,662	1,187,784
Additions	67,039	-	31	7,689	13,135	87,894
Transfers	11,771	-	1,753	324	(13,848)	-
Disposals	(818)	-	(59)	(1,341)	-	(2,218)
Acquired through business combination (note 38)	-	50,610	3,101	870	-	54,581
Increase in asset retirement obligation	2,062	-	-	-	-	2,062
Currency translation differences	-	(4,779)	(1,287)	(2,421)	(143)	(8,630)
At 1 January 2012 restated	1,160,042	72,430	18,305	55,890	14,806	1,321,473
Additions	55,751	-	58	8,009	17,338	81,156
Transfers	10,433	-	1,167	3,191	(14,791)	-
Disposals	(730)	-	(27)	(2,482)	(191)	(3,430)
Increase in asset retirement obligation	2,171	-	-	-	-	2,171
Currency translation differences	-	3,708	1,298	2,553	105	7,664
At 31 December 2012	1,227,667	76,138	20,801	67,161	17,267	1,409,034
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT						
At 1 January 2011 restated	421,734	431	340	15,940	-	438,445
Charge for the year	72,228	480	2,002	5,800	-	80,510
Disposals	(697)	-	(14)	(455)	-	(1,166)
Net reversal of impairment loss (note 29)	(41,411)	-	-	-	-	(41,411)
Currency translation differences	-	(31)	(333)	(643)	-	(1,007)
At 1 January 2012 restated	451,854	880	1,995	20,642	-	475,371
Charge for the year	69,004	765	2,022	6,079	-	77,870
Disposals	(730)	-	(28)	(882)	-	(1,640)
Impairment loss (note 29)	44,475	18,156	-	-	-	62,631
Currency translation differences	-	35	334	642	-	1,011
At 31 December 2012	564,603	19,836	4,323	26,481	-	615,243
NET BOOK VALUE						
At 31 December 2012	663,064	56,302	16,478	40,680	17,267	793,791
At 31 December 2011	708,188	71,550	16,310	35,248	14,806	846,102
At 1 January 2011	658,254	26,168	14,426	34,829	15,662	749,339

GCM Global Energy Plc
NOTES TO THE FINANCIAL STATEMENTS
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12 PROPERTY, PLANT AND EQUIPMENT (continued)

In accordance with the provisions of the production sharing agreements ('PSA') in Azerbaijan, title to fixed and moveable assets will be transferred to the State oil company at the earlier of the end of the calendar quarter following the date when all costs incurred by the operating companies are recovered ('Zero Balance Date') or the termination of the relevant PSA. However, the operating companies will be entitled to continue to use such fixed and moveable assets without charge, notwithstanding the transfer of title. Zero Balance Date has not been reached under any of the PSAs at the date of approval of these financial statements.

Company	Plant and machinery \$'000	Motor vehicles \$'000	Total \$'000
COST			
At 1 January 2011	511	1,107	1,618
Additions	20	131	151
Disposals	(1)	(159)	(160)
At 1 January 2012	530	1,079	1,609
Additions	32	-	32
Disposals	(118)	(79)	(197)
At 31 December 2012	444	1,000	1,444
DEPRECIATION			
At 1 January 2011	307	598	905
Charge for the year	85	173	258
Disposals	(1)	(86)	(87)
At 1 January 2012	391	685	1,076
Charge for the year	38	94	132
Disposals	(27)	(38)	(65)
At 31 December 2012	402	741	1,143
NET BOOK VALUE			
At 31 December 2012	42	259	301
At 31 December 2011	139	394	533
At 1 January 2011	204	509	713

13 NON-CURRENT LOANS AND OTHER RECEIVABLES

	2012 \$'000	Restated 2011 \$'000
Group		
Advances for property, plant and equipment	25,476	3,538
	<u>25,476</u>	<u>3,538</u>

GCM Global Energy Plc

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14 SUBSIDIARY UNDERTAKINGS

Company	\$'000
At 1 January 2011	88,611
Additions	12
At 31 December 2011	88,623
Additions	2,024
At 31 December 2012	90,647

The Group's subsidiary undertakings at 31 December 2012 are listed below

	Country of incorporation	Class of share capital held	Proportion held by Group	Nature of business
Global Energy Cyprus Limited	Cyprus	Ordinary	100%	Holding company
GEA Holdings Limited	British Virgin Islands	Ordinary	100%	Holding company of oil companies operating in Azerbaijan
Global Energy Azerbaijan Limited	British Virgin Islands	Ordinary	50%	Intermediate holding company
Global Energy Azerbaijan Management Limited	British Virgin Islands	Ordinary	50%	Management company
Kura Valley Holding Company	Cayman Islands	Ordinary	100%	Intermediate holding company
Karasu Petroleum Company	Cayman Islands	Ordinary	100%	Intermediate holding company
Karasu Development Company	Cayman Islands	Ordinary	100%	Oil company
Repleton Enterprises Limited	Cyprus	Ordinary	50%	Intermediate holding company
Azen Oil Company	Netherlands	Ordinary	50%	Intermediate holding company
Shirvan Petroleum Limited	British Virgin Islands	Ordinary	50%	Intermediate holding company
Shirvan Investments Limited	British Virgin Islands	Ordinary	50%	Intermediate holding company
Absheron Petroleum Limited	British Virgin Islands	Ordinary	50%	Intermediate holding company
Apsheron Investments Limited	British Virgin Islands	Ordinary	50%	Intermediate holding company
Neftechala Petroleum Limited	British Virgin Islands	Ordinary	50%	Intermediate holding company
Neftechala Investments Limited	British Virgin Islands	Ordinary	50%	Intermediate holding company
Barlen Holdings Limited	Cyprus	Ordinary	100%	Intermediate holding company
Krasnoyarskkraugol OAO	Russian Federation	Ordinary	99.89%	Coal company
Sibtrans-service OOO	Russian Federation	Ordinary	99.89%	Transport company
Agrokolos OOO	Russian Federation	Ordinary	99.89%	Dormant
Razrez Sayano-Partizansky OOO	Russian Federation	Ordinary	99.89%	Coal company

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

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14 SUBSIDIARY UNDERTAKINGS (continued)

	Country of incorporation	Class of share capital held	Proportion held by Group	Nature of business
Global Energy Kazakhstan Limited	United Kingdom	Ordinary	100%	Dormant
Riocono Ventures Limited	Cyprus	Ordinary	100%	Dormant
GCM Global Energy Slavkali Limited	United Kingdom	Ordinary	100%	Intermediate holding company
GCM Global Energy Slavkali (Cyprus) Limited	Cyprus	Ordinary	100%	Intermediate holding company
Slavkali FLLC	Belarus	Ordinary	100%	Potage company
Trovidor Enterprises Limited	Cyprus	Ordinary	90%	Intermediate holding company

All subsidiary undertakings have been consolidated in the Group financial statements. The proportion of voting rights in the subsidiary undertakings held directly by the Group does not differ from the proportion of ordinary shares held.

15 INVESTMENT IN JOINT VENTURE

On 20 October 2010, GCM Global Energy Plc entered into a joint venture agreement with a third party to use Precious Oil Products Investments BV ("POPI") to acquire JSC Caspiy Neft ("CaspiNeft"). CaspiNeft held subsoil use rights in respect of the Airankol oil and gas field located in the Republic of Kazakhstan. One of GCM's key obligations under the joint venture agreement was to secure a contract permitting production of petroleum from the Jurassic reserve within the Airankol field. The majority of the oil reserves within the Airankol field are within the Jurassic region. On 27 May 2011, CaspiNeft signed an addendum to its production contract which allowing production from the Jurassic reserve and thus significantly enhancing the value of CaspiNeft.

On 2 November 2011, Trovidor Enterprises Limited, a 90% owned subsidiary of GCM Global Energy Plc, acquired 50% of the share capital in POPI, a dormant company, for \$12,000 and on 3 May 2012, POPI completed the acquisition of 100% of the issued share capital of CaspiNeft, for cash consideration of \$52m.

GCM exercised significant influence over CaspiNeft prior to the completion of the legal acquisition by POPI in May 2012, as demonstrated by the Jurassic reserve addendum and the changes in local management. Management concluded that as legal ownership had not occurred by 31 December 2011, it was not appropriate to incorporate a share of joint venture income arising from CaspiNeft in the 2011 financial statements.

In the 2012 financial statements, CaspiNeft, together POPI, have been equity accounted for as a joint venture. In accordance with IFRS, Trovidor's 50% share of the joint venture has been recognised from date of GCM exercising significant influence over CaspiNeft, which is earlier than the date of legal acquisition.

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15 INVESTMENT IN JOINT VENTURE (continued)

The Group accounts for its interest in the joint venture by the equity accounting method, as more fully explained in the Accounting Policies section of these financial statements. The following amounts are included in the Group's financial statements in respect of the joint venture

	2012 \$'000	2011 \$'000
Initial investment in 50% of share capital of Precious Oil Products Investments B V	12	12
Share of results of joint ventures accounted for using the equity method	61,894	-
Dividends received from joint venture	(5,989)	-
Investments in joint venture as of 31 December 2012	<u>55,917</u>	<u>12</u>

16 INVENTORIES

	2012 \$'000	Restated 2011 \$'000
Group		
Coal	11,027	3,408
Crude oil	1,102	991
Spare parts and other materials	22,848	22,918
	<u>34,977</u>	<u>27,317</u>

During the year inventories amounting to \$8,053,000 (2011 \$11,237,000) were included in production costs in the Statement of Comprehensive Income

17 TRADE AND OTHER RECEIVABLES

	Group 2012 \$'000	Restated Group 2011 \$'000	Company 2012 \$'000	Company 2011 \$'000
Trade receivables	76,881	86,300	17	21
Other receivables	26,020	25,332	48	1
Prepayments	8,666	9,624	498	534
Other tax prepayments	2,526	2,805	76	107
Amounts owed by group companies	-	-	6	1,040
Loans receivable from related parties	17,057	6,002	-	-
	<u>131,150</u>	<u>130,063</u>	<u>645</u>	<u>1,703</u>

GCM Global Energy Plc
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18 CASH AND CASH EQUIVALENTS

	Group 2012 \$'000	Restated Group 2011 \$'000	Company 2012 \$'000	Company 2011 \$'000
Cash at bank and on hand	19,839	27,837	431	9,839

The above cash and cash equivalents were denominated as follows

	Group 2012 \$'000	Restated Group 2011 \$'000	Company 2012 \$'000	Company 2011 \$'000
US dollar	14,941	22,602	75	9,202
Roubles	3,403	3,880	1	40
Sterling	352	594	352	594
Euro	52	14	2	2
Azerbaijan Manat	1,029	656	-	-
Belarus Roubles	61	90	-	-
Swiss Francs	1	1	1	1
	19,839	27,837	431	9,839

19 TRADE AND OTHER PAYABLES

	Group 2012 \$'000	Restated Group 2011 \$'000	Company 2012 \$'000	Company 2011 \$'000
Trade payables	76,913	75,655	-	-
Accruals and deferred income	5,635	5,801	591	611
Other payables	9,643	16,993	12	10,000
Social security and other taxation	4,203	4,178	149	235
Amounts owed to group companies	-	-	1	500
	96,394	102,627	753	11,346

20 FINANCIAL LIABILITIES

Group	Current 2012 \$'000	Non-current 2012 \$'000	Restated Current 2011 \$'000	Restated Non-current 2011 \$'000
Bank loans	40,155	93,160	51,934	67,673
Non-bank borrowings	556,634	290,195	71,969	760,480
	596,789	383,355	123,903	828,153

GCM Global Energy Plc

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20 FINANCIAL LIABILITIES (continued)

The weighted average interest rates paid were

	2012 %	2011 %
Bank loans	9	8
Non-bank borrowings	9	9

\$23m (2011 \$47m) of the bank loans are denominated in US\$ amounts drawn under a revolving facility agreement was due to expire on 30 December 2013. Interest is charged on this facility at 5% above LIBOR (or if higher a rate computed having regard to the rate charged by certain reference banks). As more fully described in note 23, the Group has partially hedged its exposure to floating interest rates by means of an interest rate swap. The facility reduces by \$24m per annum until expiry.

The security for this bank loan includes (a) a fixed charge over the shares of GEA Holdings Limited and certain of its subsidiaries, (b) a first priority pledge over the oil off-take arrangements in respect of three of production sharing agreements in Azerbaijan and (c) a guarantee from the Company.

As disclosed in note 32, this bank loan facility was re-financed and extended to 2016. The security for the bank loan was amended to include a further production-sharing agreement in Azerbaijan and the removal of the parent company guarantee.

\$110m (2011 \$73m) of the bank loans are denominated in RUR at fixed interest rates ranging from 8.3% to 10.98% (2011 4.6% to 12.3%) and secured against certain of the Group's assets. As discussed in note 30, subsequent to the year end there was a breach of a bank loan covenant and the related loans of \$95m are now repayable on demand.

The non-bank borrowings are mainly denominated in US\$, are all unsecured fixed rate borrowings and have maturity dates ranging between 2013 and 2023. The directors consider that the fair value of the Group's bank loans and non-bank borrowings at the yearend were not significantly different to their carrying values.

21 PROVISIONS

	Site restoration obligations \$'000	Asset retirement obligations \$'000	Employee retirement obligations \$'000	Total \$'000
At 1 January 2012 - restated	2,649	12,793	917	16,359
Additional provision in the year	48	2,172	44	2,264
Utilisation of provision	-	-	(38)	(38)
Unwinding of discount	230	1,024	73	1,327
Exchange difference	161	-	-	161
At 31 December 2012	3,088	15,989	996	20,073

The employee retirement obligations relates to the obligation, but only in certain circumstances, of an overseas subsidiary to pay lump sum amounts to employees on retirement. The provision is increased each year by the cost attributable to employee services.

The asset retirement obligations arise at the end of oil production sharing agreements which have termination dates ranging from 2026 to 2036 and the site restoration obligations arise when coal deposits are fully extracted which is expected to be between 2037 and 2062. It is anticipated that the employee retirement obligations will be utilised in the period up to 2030.

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22 DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swap

The Group has utilised an interest rate swap in 2011 and 2012 to manage its exposure to interest rate movements on its bank borrowings. A contract with a quarterly reducing notional of \$75m value fixes interest payments at a rate of 2.05% for the period up until 31 December 2013.

This interest rate swap has not been designated as an effective cash flow hedge. Changes in the fair value of the interest rate swap are recognised in profit or loss.

The Group settled the net amount of \$306,792 and \$694,688 to the bank favour during the year ended 31 December 2012 and 2011 respectively.

At 31 December 2012, the fair value of the derivative was a current liability of \$162,033 (2011 \$460,572).

Commodity price cap and collar

The Group used oil commodity instruments ('cap and collar') in 2011 up to 30 June 2011 and in 2012 up to 30 April 2013, 31 July 2013, 31 October 2013 and 31 December 2013 in order to manage its exposure to oil price movements.

In 2011 the contract was for a nominal number of barrels of 1,061,400 fixing the sales price if the oil price moved above £125 or below \$85 per barrel.

In 2012 the 4 contracts were for a nominal number between 198,250 to 588,250 barrels fixing the sales price if the oil price moved above £160 or below \$90 per barrel.

At 31 December 2012, the fair value of the derivative was a current liability of \$224,640 (2011 \$40,158).

23 FAIR VALUE DISCLOSURES

The fair value hierarchy

Fair values have been measured at the end of the reporting period as follows -

	Level 1 'Quoted prices' \$'000	Level 2 'Observable inputs' \$'000	Level 3 'Unobservable inputs' \$'000	Total \$'000
FINANCIAL LIABILITIES				
Fair value through profit and loss				
Derivative financial instruments				
At 31 December 2011	-	501	-	501
At 31 December 2012	-	386	-	386

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23 FAIR VALUE DISCLOSURES (continued)

Financial assets and liabilities measured at fair value are disclosed using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements, as follows -

- Level 1 – Unadjusted quoted prices in active markets for identical asset or liabilities ('quoted prices'),
- Level 2 – Inputs (other than quoted prices in active markets for identical assets or liabilities) that are directly or indirectly observable for the asset or liability ('observable inputs'), or
- Level 3 – Inputs that are not based on observable market data ('unobservable inputs')

Classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement in its entirety

24 DEFERRED INCOME TAX LIABILITY/(ASSET)

	2012 \$'000	2011 \$'000
Deferred tax liabilities		
- amounts due to be settled after 12 months	15,061	18,112
Deferred tax assets		
- amounts due to be recovered after 12 months	(3,382)	(1,063)
Net position at 31 December	<u>11,679</u>	<u>17,049</u>

The movement in the year in the Group's net deferred tax position was as follows

	2012 \$'000	2011 \$'000
At 1 January	17,049	8,624
Credit to income for the year	(6,283)	(646)
On acquisition	-	10,363
Translation difference	913	(1,292)
At 31 December	<u>11,679</u>	<u>17,049</u>

The following are the major deferred tax liabilities and assets recognised by the group and the movements thereon during the year

Deferred tax liabilities/(assets)	Valuation of properties and intangibles \$'000	Other \$'000	Total \$'000
At 1 January 2011	9,530	(906)	8,624
On acquisition	10,709	(346)	10,363
Translation difference	(1,302)	10	(1,292)
Charge/(credit) to profit and loss	(1,022)	376	(646)
At 1 January 2012	<u>17,915</u>	<u>(866)</u>	<u>17,049</u>
Translation difference	804	109	913
(Credit)/charge to profit and loss	(3,922)	(2,361)	(6,283)
At 31 December 2012	<u>14,797</u>	<u>(3,118)</u>	<u>11,679</u>

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24 DEFERRED INCOME TAX LIABILITY/(ASSET) (continued)

At the year end, the Company and the Group has unused UK tax losses of \$25m (2011 \$35m) available for offset against future UK taxable profits. A deferred tax asset has not been recognised in respect of such losses where the timing of the realisation of the related tax benefit through future taxable profits is uncertain.

25 SHARE CAPITAL

	Number	£'000	\$'000
Authorised at 31 December 2011 and 31 December 2012			
Ordinary share of £1 each	18,500,000	18,500	28,817
Allotted, issued and fully paid			
Total issued at 31 December 2011 and 31 December 2012	16,748,812	16,749	29,312

26 RESERVES

Translation reserve

The translation reserve represents the exchange gains and losses that have arisen on the retranslation of overseas operations.

Accumulated deficit

The accumulated deficit represents the cumulative profit and loss.

Contributed capital

This represents the fair value of the net assets of entities given to the Group by related parties under common control with the Company.

Non-controlling interest

This represents the share of net assets attributable to minority shareholders in Global Energy Azerbaijan Limited, Krasnoyarsk Kraiugol OAO and Trovidor Enterprises Limited. As at 31 December 2011 non-controlling interest also includes minority shareholders in Razrez Sayano-Partizansky OOO, whose interest was acquired in 2012 (see note 38).

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27 CASH GENERATED FROM/(ABSORBED BY) OPERATIONS

	Group 2012 \$'000	Restated Group 2011 \$'000	Company 2012 \$'000	Company 2011 \$'000
Profit/(loss) before taxation	19,461	114,128	12,985	(857)
Adjustments for				
Depletion, depreciation and amortisation charge	78,029	80,691	128	245
Loss on disposal of property, plant and equipment	-	(24)	(14)	(24)
Profit on sale of subsidiaries	5	(36,712)	-	-
Gain on acquisition of subsidiary	-	(992)	-	-
Non-monetary contribution of consulting expenses to investments of subsidiary	-	-	(598)	-
Finance cost – net	75,495	65,750	(3,146)	(5,036)
Unwinding of discount on provisions	1,327	1,147	-	-
Impairment charge / (reversal of impairment)	62,631	(41,411)	-	-
Change in fair value of derivatives	(114)	(388)	-	-
Income from joint venture	(61,894)	-	-	-
Write-off of prepayments	-	-	45	-
Operating cash flows before movements in working capital	174,940	182,189	9,400	(5,672)
Changes in working capital				
Inventories	(7,660)	(4,456)	-	-
Trade and other receivables	(32,334)	(59,639)	25	109
Trade and other payables	9,363	5,960	(10,675)	10,491
Provisions	3,714	3,113	-	-
Cash inflow/(outflow) from operations	148,023	127,167	(1,250)	4,928

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28 OPERATING LEASE COMMITMENTS

Group as lessee:

The maximum lease payments under non-cancellable operating leases are in aggregate as follows

	2012 \$'000	2011 \$'000
Less than 1 year	2,459	2,229
1 to 2 years	1,429	1,429
2 to 5 years	4,288	4,288
Over 5 years	4,648	6,078
	<u>12,824</u>	<u>14,024</u>

Operating lease commitment relates to rental payments on the Group's and Company's offices

Group as lessor:

Property rental income earned during the year was \$500,000 (2011 \$338,000) At the year end, the Group had contracted with tenants, under non-cancellable leases, for the following aggregate future minimum lease payments

	2012 \$'000	2011 \$'000
Less than one year	470	470
Between one and five years	484	954
	<u>954</u>	<u>1,424</u>

29 IMPAIRMENT OF ASSETS

	2012 \$'000	Restated 2011 \$'000
Reversal of impairment of oil and gas properties	-	46,633
Impairment loss on oil and gas properties	(44,475)	(5,223)
Impairment loss on mining rights	(18,156)	-
Impairment loss on doubtful receivables	(13,383)	(3,011)
	<u>(76,014)</u>	<u>38,399</u>

As at 31 December 2012 the Group recognised impairment loss relating to two (2011 one) of the oil fields in Azerbaijan in the amount of US \$44,475,000 (2011 \$5,223,000) due to reduced estimates of the quantities of hydrocarbons

In the previous year 2011 the reversal of an impairment loss recognised previously in the amount of \$46,633,000 due to increase in discounted cash flows allocated to the quantity of hydrocarbons based on the independent valuation report of oil and gas reserves

As at 31 December 2012 the Group also recognised an impairment loss on doubtful receivables from related parties in the amount of \$13,383,000 (2011 \$3,011,000)

As at 31 December 2012 the Group recognised impairment loss relating to one of the coal mines in Russia in the amount of USD \$18,156,000 (2011 \$Nil) due to the increased cost of extraction

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

30 COMMITMENTS AND CONTINGENCIES

Production sharing agreements

The Group's oil production operations in Azerbaijan are conducted via various Production Sharing Agreements ('PSA') with the State oil company ('SOCAR'). Certain of these PSAs contain an obligation to achieve specified production levels by a particular date. A failure to achieve the required production levels is regarded as a material breach of the relevant PSA and gives SOCAR the right to terminate the PSA. Such a termination would, inter alia, result in the beneficial ownership of the fixed and moveable assets used in the oil production operations passing to SOCAR.

At the date of approval of these financial statements the Group has not complied with its oil production obligations in respect of three (2011: four) of the PSAs within the Group's joint venture and has not agreed an extension with SOCAR, albeit that it is in negotiations with SOCAR to do so. Historically the Group has successfully agreed extensions with SOCAR and the directors believe that the current negotiations will eventually be successful. The Group's share of the aggregate net book value of the oil field assets applicable to these PSA entities at 31 December 2012 was \$296.9m (2011: \$472.2m). In the unlikely event that the negotiations with SOCAR were not successful and the PSAs were terminated the beneficial ownership of the relevant oil field assets would pass to SOCAR and the Joint Venture would lose the right to continue production from the oil fields. These financial statements do not include any adjustments that would be necessary if the PSAs were to be terminated.

Share pledge and bank covenant breach

On 14 October 2010, the Group acquired Barlen Holdings Limited ('Barlen') whose principal asset was its 99.89% holding in OAO Krasnoyarsk Kraiugol ('KKU'). Prior to the acquisition Barlen had pledged its shares in KKU to a bank as security in respect of loans made by that bank to a company ('the borrower') over which a close family member of the ultimate controlling party of the Group has significant influence. The maximum borrowings secured by this pledge amounted to \$2,897m (2011: \$2,897m) and are repayable by the borrower in the period 2011 to 2016.

The directors of the Company, having conferred with the borrower, believe that the probability of a default by the borrower is low and even if there was a default, the likelihood of the bank enforcing the pledge is considered to be remote.

In the event of the pledge being enforced as a result of a default by the borrower, the Group would cease to have beneficial ownership of KKU. These consolidated financial statements include net assets attributable to KKU of \$42.41m (2011: \$69.89m).

Subsequent to the year end, KKU breached an EBITDA covenant contained within the loan facilities provided to KKU by the same bank who hold the share pledge. These loan facilities are separate from the facilities provided to the borrower and this is not an event of default under the borrower's loan facility with the bank.

As a result of the breach, bank loans to the Group, which totalled USD \$95m as at 31 December 2012, are now technically repayable on demand. The directors of KKU have been in discussion with the bank to rectify this breach and agree amended loan covenants to avoid a similar breach occurring in the foreseeable future. The directors of KKU confirmed that these discussions have been positive and they are confident that the breach will be rectified and future covenant terms will be amended. There is, however, no certainty that such an agreement will be reached.

Investment agreement

On 5 October 2011, the Company entered into an investment agreement with the Republic of Belarus to build a mining and processing complex for Potash in Belarus. The Company's total commitment under this investment agreement is \$1,522m over the period to 31 December 2020.

Guarantee

On 11 May 2011, the Company entered into an equity support guarantee agreement in connection with a \$70m loan facility to a related party company ('the borrower'). The guarantee provided by the Company is capped at \$30m and can be released when the borrower's average daily oil production reaches 13,000 barrels per day for a three month period. The directors of the Company believe that it is remote that the company will incur any liability as a result of this guarantee.

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NOTES TO THE FINANCIAL STATEMENTS

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31 RELATED PARTY TRANSACTIONS

Group

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of key management personnel

Acquisitions from and disposals to related parties

In 2011 the Group disposed its 100% subsidiary Edmarnton Limited to a company under common control for a consideration of \$1,000. Further details are disclosed in note 35.

In 2011 the Group sold its wholly owned subsidiary Kura Valley Petroleum Company to a company under common control for a consideration of \$31m. Further details are disclosed in note 36.

Balances and transactions with related parties

At 31 December 2012 the Group's loan and interest receivable from a company under common control was equal to \$Nil (2011 \$1,620,000). Interest was not charged during the reporting year (2011 \$150,000). As of the balance sheet date the Group had an impairment allowance on the loan receivable from this party for the full amount of \$1,620,000 (2011 \$1,620,000).

At 31 December 2012 the Group had an outstanding balance of loan receivable including interest due from a company under common control of \$7,326,000 (2011 \$7,326,000). The interest charge for the year was not recognized (2011 \$379,000). As at 31 December 2012 the Group recognised an impairment loss on the receivable from this related party for the amount of \$6,062,000 (2011 \$1,264,000), reducing the net carrying value in the accounts to zero (2011 \$6,062,000).

At 31 December 2012, the Group's promissory notes payable by a Joint Venture in 2013 to a company under common control total \$245,000,000 (2011 \$245,000,000). The interest accrued in the year amounted to \$15,968,000 (2011 \$15,925,000), resulting in \$75,829,000 (2011 \$59,861,000) of interest payable as at 31 December 2012.

The Group has received loans from a company which is owned by the trustees of a settlement of which the ultimate controlling party is a beneficiary. These loan principals amounted to \$513.9m at 31 December 2012 (2011 \$520.7m). The interest accrued in respect of these loans for the year ended 31 December 2012 amounted to \$49.1m (2011 \$43.4m), of which \$11.4m (2011 \$6.1m) was unpaid at 31 December 2012. Interest accrues on these loans at rates between 6% and 10% per annum.

During the year, the Group provided additional borrowings to a company under common control in the amount of \$3,213,000 (2011 \$10,170,000). These loans accrue interest at 10% pa and the Group recognised interest income of \$266,000 (2011 \$572,000) in the year. At 31 December 2012, the full amount of loan principal and accrued interest was repaid to the Group with \$4,047,000 being outstanding as of 31 December 2011.

In 2012 the Group made sales of coal of \$22,756,000 (2011 \$16,361,000) to an entity under a common control, of which \$17,057,000 was outstanding at 31 December 2012 (2011 \$14,976,000) and was included in other receivables after recognising an impairment allowance of \$7,274,000 (2011 \$Nil).

The Group's key management personnel comprised 7 people as at both 31 December 2012 and 31 December 2011. Total compensation to key management personnel approximated \$2,379m and \$2,297m for the year ended 31 December 2012 and 2011, respectively and is disclosed in note 7.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

31 RELATED PARTY TRANSACTIONS (continued)

Company

During 2012, the Company charged consulting fees to a subsidiary amounting to \$1 185m (2011 \$2 495m) and received dividend income from subsidiaries of \$7 242m (2011 \$5 191m)

The Company's management personnel are the 3 directors as at both 31 December 2012 and 31 December 2011. Total compensation to key management personnel approximated \$0 981m and \$1 034m for the year ended 31 December 2012 and 2011, respectively and is disclosed in note 7

32 POST BALANCE SHEET EVENT

A new Reserve Based Lending syndicated facility for \$100m was successfully closed on the 18th of April 2013. The syndication included BNP Paribas, Deutsche Bank, Amsterdam Trade Bank N V and the Federated Project and Trade Finance Core Fund. The facility matures on the 31 December 2016

33 CHANGE IN ACCOUNTING POLICY

The company and the group has early adopted IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 27 (as amended in 2011) "Separate Financial Statements" and IAS 28 (as amended in 2011) "Investments in Associates and Joint Ventures" for the preparation of these financial statements

The impact on the financial statements is that the group's 50% equity shareholding (and voting rights) in Global Energy Azerbaijan Limited ("GEAL") that was previously accounted for as a joint venture using proportionate consolidation is a subsidiary under IFRS 10

As all the directors of GEAL are representatives of GEA Holdings Limited and the shareholders' agreement does not give the other 50% shareholder rights to appoint or remove any directors, in the opinion of the directors, GEA Holdings Limited controls GEAL in accordance with the definitions in with IFRS 10 and GEAL is, therefore, a subsidiary

The other impact of the early adoption of these new accounting standards is that joint venture interests are incorporated into the group accounts using the equity method of accounting as opposed to the group's previous accounting policy of proportionate consolidation. This change in policy impacts the accounting for the joint venture interest of CaspiNeft, which was acquired during the year and is further disclosed in note 15. There is no material impact on profit for the year, total comprehensive income for the year or net assets as a result of this change of policy

The impact of this change of accounting for GEAL and its subsidiaries on the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows for 2011 is set out below. The financial impact on the 2012 financial statements has not been calculated, but as there have been no changes to the sub-group headed by GEAL for 2012, the directors consider that the impact on the 2012 financial statements is similar to the impact disclosed below

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NOTES TO THE FINANCIAL STATEMENTS

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33 CHANGE IN ACCOUNTING POLICY (continued)

Consolidated statement of comprehensive income

Year ended 31 December 2011	Full restated consolidation £'000	Proportionate consolidation £'000	Impact £'000
Revenue	389,609	261,200	128,409
Other income	36,715	34,542	2,173
Expenses	(230,231)	(182,460)	(78,733)
Finance costs	(63,082)	(42,481)	(20,601)
Taxation	-	-	-
Profit for the year	102,049	70,801	31,248

Consolidated statement of financial position

31 December 2011	Full restated consolidation £'000	Proportionate consolidation £'000	Impact £'000
Non-current assets	729,522	518,609	210,953
Current assets	120,790	84,430	36,360
Current liabilities	162,183	83,277	78,906
Non-current liabilities	765,167	5,22,220	242,947
Net liabilities	(77,038)	(2,458)	(74,580)
Equity attributable to parent	(994)	(2,458)	1,464
Non-controlling interests	(76,044)	-	(76,044)
Total equity	(77,038)	(2,458)	(74,580)

Consolidated statement of cash flows

Year ended 31 December 2011	Full restated consolidation £'000	Proportionate consolidation £'000	Impact £'000
Cash flows from operating activities	143,149	98,961	44,188
Cash flows from investing activities	(58,390)	(25,263)	(33,127)
Cash flows from financing activities	(84,119)	(73,412)	(10,707)
Net increase in cash and cash equivalents in the year	493	189	304

34 PROFIT/(LOSS) FOR THE YEAR

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own statement of comprehensive income for the year. The Company reported a profit for the financial year ended 31 December 2012 of \$12,985m (2011: loss of \$0.810m).

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35 ULTIMATE PARENT AND ULTIMATE CONTROLLING PARTY

The Company is jointly controlled by Weistein Limited and Demipliet Limited and the Company's ultimate parent company is Rali Holdings Limited. All of these parent companies are incorporated in the British Virgin Islands and none of them produce publicly available financial statements. The ultimate controlling party is Mr S Gutseriev.

36 DISCONTINUED OPERATIONS

In January 2011 the Group disposed of its subsidiary Edmarnton Limited to a company under common control for \$1,000. The gain on disposal of the subsidiary is set out below.

	\$'000
Consideration received	1
Less: Net liabilities as at the date of disposal	996
Net gain on disposal of a subsidiary	<u>997</u>

In September 2011 the Group sold its subsidiary "Balakhtinsky Coal" OOO. The gain on disposal of the subsidiary is set out below.

	\$'000
Consideration received	1,978
Less: Net assets as at the date of disposal, attributable to the Shareholders of the Parent Company	(333)
Net gain on disposal of a subsidiary	<u>1,645</u>

The results of the discontinued operations for the period to the disposal date during the year ended 31 December 2011 were not considered to be significant and, therefore, were not included above.

The assets and liabilities of both these companies were classified as disposal groups held for sale as at 31 December 2010.

37 PROFIT ON DISPOSAL OF SUBSIDIARY UNDERTAKING

In April 2011 the Group sold its wholly owned subsidiary Kura Valley Petroleum Company ("KVPC") and its subsidiaries to a related party for the total consideration of \$31m. The main reason for the disposal of subsidiary was the limited proved oil reserves and significant capital expenditures required in order to achieve production which would make it economically viable for the group. The gain on disposal of the subsidiary undertaking is set out below.

	\$'000
Consideration received	31,000
Less: Net liabilities as at the date of disposal	616
Net gain on disposal of a subsidiary	<u>31,616</u>

\$31m of the consideration was received during the years ended 31 December 2011 and 2012.

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38 ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 10 November 2011 the Group acquired 80% of the share capital of "Razrez Sayano-Partizansky" OOO, which core operations are black coal mining. The primary reason for the acquisition was to continue diversification into coal mining.

The transaction was accounted for using the acquisition method of accounting.

	Fair value 10 November 2011 \$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	54,892
Intangible assets	21
Income tax prepayments	2
Inventories	428
Trade and other receivables	138
Cash and cash equivalent	142
TOTAL ASSETS	55,623
Trade and other payables	578
Borrowings	5,472
Provision	217
Deferred tax	10,363
TOTAL LIABILITIES	16,630
Fair value of identifiable assets and liabilities	38,993
Less non controlling interest	(7,798)
	31,195
Cash consideration paid	(30,203)
Gain on acquisition	992
Cash consideration paid	30,203
Cash and cash equivalents acquired	(142)
Net cash outflow arising from business combination	30,061

Gain on a "bargain purchase" (negative goodwill) amounted to \$992,000 and has been recognised as other income for the year.

In 2012 the Group acquired additional 20% of the share capital of "Razrez Sayano-Partizansky" OOO resulting in 100% ownership as at 31 December 2012. Cost of the investment amounted to USD \$10m paid in cash before the end of the year ended 31 December 2012. The excess of the consideration paid over the book value of non-controlling interest at the date of acquisition has been deducted from equity.