Vostok Energy Plc

(Registered No 05806076)

Annual Report and Financial Statements

31 December 2012

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Vostok Energy Plc

Company information

Directors

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

Secretary

Tony Hunter

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Bankers

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Solicitors

Ashurst
Broadwalk House
5 Appold Street
London EC2A 2HA

Chief Executive Officer and Chairman's statement

Vostok Energy Public Limited Company (the "Company") and its subsidiaries (the "Group" or "Vostok") remained focused on adding shareholder value through increasing reserves and production Group production and revenue increased significantly during 2012 however the Company was not able to secure the additional funding necessary to advance its development program in Russia Without the ability to move the Russian project forward, the decision was taken by the board to initiate a sales process to dispose of all Russian operations The sale will result in the disposal of the Group's major asset and post-closing, the plan is to put the Company into liquidation and distribute the assets of the Company to the shareholders This Statement covers both our achievements in the year and outlines steps that the Company's has taken regarding the disposition of assets

Exploration activities

During 2012 the Group had minimum exploration activities due to financial constraints The second Devonian well spud in the far Eastern area of the licence in June 2011, Muravlinskaya 2, was suspended in the first quarter of 2012 The well encountered significant lost circulation while drilling at depths below 4,000 meters resulting in slow drilling progress and significant overrun on budgeted costs The well remains suspended at year end at a depth of 4,157 meters Total anticipated target depth is 4,900 meters

During 2012 our geological team continued to analyse our large data base of 3D seismic acquired during previous years identifying additional prospects in the Permian, Carboniferous and Devonian horizons

Appraisal and development activities

In the Eastern licence area, the Group completed the re-entry of the Pavlovskoye 16 well that commenced in 2011 This was the first of several planned re-entries in the Pavlovskoye field in order to confirm that by re-entering old wells drilled pre 1990, Vostok could use them as production wells to provide feedstock for the initial gas processing facility in the Eastern licence area The re-entry confirmed production rates and gas quality suitable for gas processing

In the Western licence area, four re-entries were completed as part of the Group's ongoing programme in the Karpenskoye field to support production for gas plant operations, provide wells for water disposal and to increase Group oil production

The planned sale of the Group assets includes all gas and oil production operations Once the sale is completed, the Group will no longer have any producing assets

Commercialisation

The Group had its second year of continuous operations of the Western gas processing facility (the "gas plant") in 2012 The gas plant operated consistently at full or near full capacity providing funding for ongoing operations and a small capital expenditure programme

Comparing 2012 to 2011, there was a 32 5 per cent increase in gas production, a 23 9 per cent increase in condensate production and a 110 8 per cent increase in oil production The increased gas and condensate production reflects the ongoing efforts of our team to improve operations and work out initial start-up problems incurred during the first few months of gas plant operations

Financing

Vostok retained Deutsche Bank AG and Revysion LLP as advisors to assist with raising funds through a private placement, a merger or a joint venture The process also included a search for potential purchasers for Vostok or the Group's primary assets in Russia

On 19 April 2013 the Company reached an agreement to extend the maturity date of the convertible bonds (Note 21) until 11 May Since May, the Company has been in negotiations with all debt holders to defer repayment of all principal and interest on the debt until the completion of the sale of Russian operations (Note 29) The Company is currently in the process of getting shareholder approval to provide the security requested by bondholders as part of the deferment agreement as it includes a mortgage over the Group's major assets in Russia If the shareholders do not so approve, the directors will consider other options including putting the Company into administration

The Group has negotiated an agreement to sell 100% of Diall Alliance LLC The sale will result in the disposal of the Group's major asset and post-closing, the plan is to put the Company into liquidation and distribute all assets of the Company to the shareholders The transaction is conditional on buyer receiving bondholder and Russian anti-monopoly authority approvals, therefore there is material uncertainty as to the final sale proceeds If the current sale does not complete, the directors will explore alternatives, such as finding alternative buyers or putting the Company into administration

Business review

Operations review

Production

With the certification of the gas plant in August 2012, operations moved from the trial production phase to permanent production operations During 2012 the gas plant produced an average of 46 million cubic feet of gas per day ("MMcfd") (2011 – 35 MMcfd) The lower production in 2011 was primarily a result of start-up issues early in the year and problems with the amine sweetening unit during the hot summer months

In 2012 production was slightly below planned levels The primary reasons were

1) Gazprom mandated a cut back in deliveries during June and July due to maintenance issues on their equipment
2) In October during our planned shut-down it took an additional three days to re-start the gas plant to allow time to complete piping repairs
3) In November and December the Group experienced production problems with wells in the Karpenskoye field (referred to as "K" wells) Wells K17 and K19 were not able to produce at expected levels resulting in the gas plant operating approximately ten per cent below capacity To determine the cause of the fall in production, diagnostic logs will be run and the results will be used to develop a production restoration programme The plan for 2013 is to restore gas production to full capacity through work overs on K17 and K19 wells

In late 2012 it also became apparent that the size of existing flow lines was limiting production so two flow line looping projects were planned and completed in the 2nd quarter of 2013

Overall, gas plant operations improved significantly in 2012 as the Group gained experience with the gas plant operating parameters This enabled continuous gas plant operations throughout 2012 except for planned maintenance shutdowns or very short production interruptions due to power, weather or technical problems which were usually corrected within a few hours In addition, there were no significant issues with the amine sweetening system encountered during the summer period To ensure reliable operation of the amine sweetening unit during very hot weather, an amine trim cooler was installed during the October shutdown The average production for the year was 88 5 per cent (2011 – 66 5 per cent) of gas plant capacity

During 2012 the Group produced a total of 16 7 billion cubic feet ("bcf") of gas (2011 – 12 6 bcf), 173 8 thousand barrels ("Mbbl") of condensate (2011 – 140 3 Mbbl) and 174 8 Mbbl of oil (2010 – 82 9 Mbbl) The condensate production increased as it is associated with gas production The Company more than doubled oil production in 2012 through completion of an oil gathering facility and bringing three additional oil wells on stream, wells K5D, K13 and K18

Drilling and re-entries

Exploration drilling

West area

No exploratory drilling was undertaken in the Western license area during 2012

East area.

Devonian

Muravlinskaya 2

The Muravlinskaya 2 ("M2") Devonian well commenced drilling during 2011 as a follow-up to the successful Nepryakhinskaya 1 ("N1") well, and is prognosed to be drilled to a total depth of 4,900 meters in order to fully penetrate the Lower Devonian Koyvensky interval which was proven to be hydrocarbon bearing in the N1 well The M2 well, which is located eight kilometers to the west of the N1 well, will test a second closure on the east-west trending Nepryakhinskaya structural complex

In addition to testing the stratigraphic intervals that were proved or indicated to be hydrocarbon-bearing based upon well logs in the N1 well, analysis of the seismic data indicates that the M2 well will also penetrate the uppermost portion of the Middle Devonian D2 Eifelian–Zhivetian age sequence This sequence which contains economically significant hydrocarbon bearing reservoirs regionally is interpreted to have been removed by erosion beneath a middle Frasnian regional unconformity in the N1 well but is interpreted to be preserved beneath the unconformity surface on the closure to be tested by the M2 well

During drilling the M2 well encountered intervals of significant lost circulation at depths slightly below 4,000 meters The lost circulation resulted in significant drilling delays and cost overruns as drilling progressed very slowly, approximately 130 meters over a 3 month period Due to the difficulties, drilling activities on the well were suspended at the end of February 2012 at a drilled depth of 4157 meters At this depth the well was interpreted to still be within the lowermost Upper Devonian sequence A 100 meter metal sleeve was run in the wellbore to isolate the intervals of lost circulation and cemented into place following which, the well was plugged back temporarily and the rig placed upon standby on location At the end of 2012 drilling operations on the well remained suspended

Business review
Operations review

Development drilling

As a result of successful development drilling and an acid matrix stimulation programme completed in prior years within the Karpenskoye field, no additional development wells were required to be drilled for gas deliverability in the Western area of the licence in 2012

Well re-entries and recompletions

West area

In the Western licence area, the Company completed several re-entries, the most important being a water shut-off operation on well K18, our best oil production well After a successful re-entry programme, the well produced 350 barrels per day for several months, however, rates declined towards year end to slightly under 300 barrels per day The other re-entries in 2012 were K1-9, K52 and Mokrousovskoye 85 ("M85") The K1-9 work was a re-completion of a water disposal well into a shallower zone to provide sufficient water disposal capacity K52 and M85 were simple re-entries to confirm casing integrity to allow for an extension of their suspension permits as required by local regulations

East area

In the Eastern licence area, the re-completion operations on well 16 in the Pavlovskoye field ("P16") started in 2011 and were successfully completed in 2012 Two intervals in the well were perforated, acid stimulated and tested These two zones gave a combined flow of 185 MMcfd of gas during a short term test with an 8 mm choke The flow test and fluid samples confirmed results obtained during the original test in the 1980's The well was conserved to be used as a gas producer upon completion of the proposed gas processing facility to be built in the Eastern licence area (the "new gas plant")

Seismic activity

There was no seismic acquisition activity during the year

Geological and geophysical evaluations

West area

No further geophysical or geological work was undertaken in the Western licence area during 2012

East area

The Eastern area of the licence has been the Company's main area of focus for geophysical and geological work during 2012 in support of proposed future exploration drilling and the proposed future development and exploitation of both gas and liquids Future development and exploitation of gas and liquids is dependent on the Group having funds available Given the planned sale of the Group assets and limited available funding, minimal geophysical or geological work will be undertaken by the Group in the near future

Devonian and Carboniferous

Due to their potential magnitude and significance of the Devonian interval, the emphasis of geological and geophysical work conducted during 2012 has continued to be on the potential prospective resources within this interval This work was undertaken in an effort to further identify the depositional, structural and tectonic controls that have been in play to develop seismically identified prospects, and to understand the influences that these factors have exerted upon defining the prospectivity of overlying sedimentary intervals, particularly the Carboniferous

Based upon the demonstrated economic success of the N1 Devonian exploration well, the Group has developed a programme for drilling additional Devonian wells in combination with superimposed Carboniferous prospects commencing with the M2 well The drilling program is dependent on having additional funding and is not planned for the foreseeable future

The Company continued to analyse the 3D seismic data acquired during the winter of 2010 - 2011 The integration of the Company's 3D seismic data for all prospective intervals and horizons was completed during 2012 Work to date demonstrates the continuation of the prospective Devonian structural trend as far west as the Kochkurovskoye area of the Eastern licence area Interpretive work also confirms the close genetic association of the potentially prospective Middle to Lower Carboniferous structural trend with deeper underlying structures developed on the Devonian

Lower Permian

Additional specialised seismic re-processing work and seismic character analysis of 3D seismic data over Lower Permian prospects drilled during 2010 as well as prospects proposed for future drilling were completed during 2012 This work is a further attempt to rationalize the results of drilling and to optimize the location of future Lower Permian exploration wells by defining those areas that have carbonate reef build ups with higher primary (depositional) porosity that can serve as hydrocarbon reservoirs Future drilling is dependent on having additional funding and is not planned for the foreseeable future

Business review

Operations review

Reserves evaluation

Vostok's independent engineers, Miller and Lents Ltd, prepared a revised reserves evaluation report as of 1 May 2012 in support of the Group's initiative to secure a UK public listing Miller and Lents Ltd revised their March 2011 estimate of economic recoverable 3P reserves of the Group from 1,411 bcf of natural gas and 18 5 MMbbl of oil and condensate to 1,359 bcf of natural gas and 15 66 MMbbl of oil and condensate and their estimate of proven P1 reserves from 496 to 469 bcf of natural gas and from 10 5 to 8 29 MMbbl of oil and condensate

Future developments

There is limited exploration activity proposed for the license area during 2013 due to financing constraints

Business review
Financial review

Review of 2012 results

The Annual Report and Financial Statements are prepared under International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") The Group uses United States dollars ("USD") as its presentation currency The Group revenue for 2012 was 48 261 million USD (2011 – 34 185 million USD) and the loss before taxation was 64 350 million USD (2011 – 10 242 million USD) Detailed Group financial information is set out in the audited financial statements for 2012 on pages 13-42 of this report

The key performance indicators at 31 December were

	2012	2011
Proven gas reserves in billion cubic feet (1)	469 0	495 8
Proven oil reserves in millions of barrels (1)	8 3	10 5
Gas production in billion cubic feet per annum (2)	16 7	12 6
Oil production in thousands of barrels per annum (2)	174 8	82 9
Condensate production in thousands of barrels per annum (2)	173 8	140 3
Maximum annual available production capacity of gas in billion cubic feet	18 98	18 98
Revenue for the year (in millions of USD) (2)	48 3	34 2
Loss for the year (in millions of USD) (3)	67 5	12 2
Health and safety monitoring		
Near misses (4)	10	4
Lost time incidents (4)	0	2

(1) 2012 gas and oil reserves are based on the most recent (1 May 2012) independent engineer's reports The decrease in reserves resulted from re-evaluating the field structures on the licence based on drilling, testing and re-entry results and the interpretation of 3D seismic acquired in previous years

(2) The increase in production and revenue resulted from the gas plant maintaining commercial production throughout 2012 In 2011, the gas plant was in operation at full or near full capacity from September to year-end

(3) The primary increase in the loss for the year was due to increased finance costs, impairment charges related to change in accounting policy and provision for liquidation costs

(4) There were no production interruptions during 2012 related to near misses or accidents In 2011, the two incidents resulted in a total of 107 lost man-days of work

Corporate events

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

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

On 28 June 2012 9,280,000 shares were issued to the EBT, 2,210,000 as compensation to senior management and directors that vest subject to certain performance conditions being met and 7,070,000 shares were issued for future allocation to employees, senior management and directors

Events since the end of the year

On 19 April 2013 the Company reached an agreement to extend the maturity date of all outstanding convertible bonds until 11 May

On 22 April 2013 the Company entered into a convertible bond agreement (the "bond") in the amount of 1 414 million USD to pay the additional interest of 10% per annum accrued on the amount of convertible bonds issued in 2012 and 2010

Since May 2013, the Company has been negotiating an agreement to extend the maturity date and defer all interest payments on the outstanding convertible bonds and the term loan until the completion of the sale of the Group's Russian assets The Company is currently in the process of getting shareholder approval to provide the security requested by debt holders as part of the deferment agreement as it includes a mortgage over the Group's major assets in Russia

The Group has negotiated an agreement to sell 100% of Diall Alliance LLC The sale will result in the disposal of the Group's major asset and post-closing, the plan is to put the Company into liquidation and distribute the assets of the Company to the shareholders The transaction is contingent on the buyer obtaining certain internal approvals and approval of the Russian anti-monopoly authorities

Business review
Risk management

Financial

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

Operations and commercial

The main activity of the Group is the exploration, development and production of gas which has associated condensate In addition, the Group has oil production from a limited number of wells The Group currently sells all gas produced to a subsidiary of OJSC Gazprom, Gazprom Mezhregiongaz Saratov LLC The selling price is set at a discount to the gas prices for the Saratov region as determined by the Russian Tariff Service From July to December 2012 the price was set at 82 USD (2,549 rubles) per thousand cubic meters of gas ("Mcm") reflecting a 15% increase in the Russian Tariff Service gas price effective 1 July 2012 For the first six months of the year the price was 75 USD (2,216 rubles) The contract sets out estimated volumes to be delivered, however, the volumes can be amended based on mutual agreement, and invoices are based on actual amounts delivered

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

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

Operating environment

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

The Russian economy, while deemed to be of market status since early 2000's, continues to display certain traits consistent with that of a market in transition These characteristics have in the past included higher than normal inflation, lack of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside Russia The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal and economic reforms

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently Management's interpretation of such legislation as applied to the transactions and activity of the Group in Russia may be challenged by the relevant regional and federal authorities Based on reviews and audits performed to date by the relevant authorities, there have been no significant tax fines or penalties incurred, and management believes that as of 31 December 2012 its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained

Strategic and reputational

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

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

Financial risks

A review of financial risks is included in Note 25 to the Financial Statements

As set out in the Directors' Report and Note 2 to the financial statements the Company has adopted the break up basis of accounting for the year ended 31 December 2012 for the consolidated financial statements, where cash and other liquid assets have been measured at fair value at 31 December 2012 Capitalised costs and other assets where no value is expected to be recovered have been written off

Directors' report

The directors of the Company present their report and financial statements for the year ended 31 December 2012

Principal activity and review of the business

The principal activities of the Group during the year were exploration, development and production of natural gas and hydrocarbon liquids The Group's operating activities during 2012 were in Russia where the Group holds a sub-soil licence for geological exploration and production of hydrocarbons

Business review

A review of the Group's business during the year, events since the end of the year and the Group's future prospects is included in the Chief Executive Officer and Chairman's Statement and Business Review on pages 3-8 which should be read in conjunction with this report of which they form part and in which they are incorporated by reference The review of the financial risk management objectives and policies is included under the risk management section within the Business Review on page 8 and in Note 25 to the financial statements

Board of Directors

The directors at 31 December 2012 and 2011 were and remain as given below except where noted otherwise

Charles Jamieson
Yuri Samsonov
Robert Cathery
Blaine Karst
Roger Cagle
Ronald Harris
John Orange
Mark Sadykhov
Jacob Ulrich
Douglas Strinemetz

Dividends

The directors do not recommend a dividend for the year (2011 – nil)

Going concern

Financial statements are normally prepared on a going concern basis unless there is a reason to depart from this basis

As detailed in this report, the Group has non-current borrowings that are to be repaid in 2013 (Note 21) The Group's gas plant has been operating at full or near full capacity since September 2011 and generates sufficient cash flow to cover ongoing operational costs and a small capital programme The cash flow generated would not necessarily be sufficient to cover all ongoing obligations if the Group were to experience production decreases, sale price decreases or increased costs Additionally, the cash flow generated is currently not sufficient to accumulate adequate funds to repay the non-current borrowings as they come due in 2013

As noted in Business Review, Company has been negotiating an agreement to extend the maturity date and defer all interest payments on the outstanding convertible bonds and the term loan until the completion of the sale of the Group's Russian assets The Group has negotiated an agreement to sell 100% of Diall Alliance LLC The sale will result in the disposal of the Group's major asset and post-closing, the plan is to put the Company into liquidation and distribute all assets of the Company to the shareholders The transaction is conditional on buyer receiving certain internal approvals and approval from the Russian anti-monopoly authorities

Given that the Company will be liquidated on the execution of sale, the Directors consider it inappropriate to prepare the consolidated financial statements on a going concern basis, and therefore the Directors have prepared these Accounts on a break-up basis as set out in note 2

The effect of preparing the consolidated financial statements on a break-up basis is that all group assets and liabilities have been restated to their estimated recoverable value as at 31 December 2012

- cash and other liquid assets have been measured at fair value at 31 December 2012,
- capitalised costs and other assets where no value is expected to be recovered have been written off,
- provisions are recognised for liabilities that may arise as a result of liquidation (Note 6), and
- non-current borrowings have been reclassified to current and recognition provided for additional costs relating to early repayment (Note 21)

The sale of Diall Alliance is conditional on the approval of the bondholders and the Russian anti-monopoly authority, therefore there is material uncertainty as to the final sale proceeds If the current sale does not complete, the director will explore alternatives, such as finding alternative buyers or putting the Group into administration

Audit and Risk, Remuneration and Nomination Committees

Directors' report

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

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

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

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

Charitable donations and social responsibility

The Group operations are in the Saratov region in Russia and it is one of the goals of the Group to provide support to the local community to ensure the region benefits from the Group's presence on an enduring basis During the year, the Group spent 240 thousand USD (2011 – 216 thousand USD) on sponsorships and charitable donations for local government and non-governmental agencies that support local development and industry and for agencies focusing on maintaining and improving local environmental standards

Subsidiaries

The Company had the following subsidiaries at 31 December 2012 (all are owned directly by the Company unless otherwise noted)

Active subsidiaries	*Country of incorporation*	*Effective ownership percentage*	
		2012	*2011*
Royal Atlantic Energy (Cyprus) Limited (RAECL)	Cyprus	100	100
Diall Alliance LLC – 100% subsidiary of RAECL	Russia	100	100
Vostok Energy Ltd	United States	100	100
Vostok Energy Resources Limited	United Kingdom	100	100
Vostok (Cyprus) Limited	Cyprus	100	100
Inactive subsidiary			
Vostok Energy Company, CJSC – inactive since 2009, dissolved 13 February 2013	Russia	100	100

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

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

Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period In preparing the Group financial statements the directors are required to

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

f state whether the Group and the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements

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

Statement as to disclosure of information to the auditor

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

- So far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- he has taken all reasonable steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

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

By order of the Board

Tony Hunter
Secretary
14 October 2013

INDEPENDENT AUDITOR'S REPORT

to the members of Vostok Energy Plc

We have audited the financial statements of Vostok Energy Plc for the Group and parent company for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flow, the Consolidated Statement of Changes in Equity, the parent company Statement of Financial Position, the parent company Statement of Changes in Equity, the parent company Statement of Cash Flows and the related notes 1 to 30 for the Group financial statements and notes 1 to 17 for the parent company financial statements The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006 As set out in Note 2, these financial statements have been prepared on a break-up basis

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Annual Report and the Financial Statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

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

Emphasis of matter – Fair value of assets

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the company's ability to finalise the sale transaction in respect of Diall Alliance The conditions indicate the existence of a material uncertainty over the fair value of the company's assets The financial statements do not include the adjustments that would result if the company was unable to finalise the sale transaction at the current offer price

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Mirco Bardella, (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 October 2013

Vostok Energy Plc

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Notes	2012 USD '000	2011 USD '000
Revenue	3	48,261	34,185
Cost of sales	4	(30,953)	(21,833)
Gross margin		17,308	12,352
Write off of advances and appraisal costs	5	(430)	(536)
Impairment of assets	6	(32,392)	-
Provision for liquidation costs	6	(10,000)	-
Administrative expenses		(13,927)	(13,550)
Operating loss		(39,441)	(1,734)
Finance income	8	13	6
Finance costs	9	(24,922)	(8,514)
Loss before taxation		(64,350)	(10,242)
Income tax expense	13	(3,111)	(1,958)
Loss for the year		(67,461)	(12,200)
Other comprehensive income			
Foreign exchange movements on translation of foreign entities		13,493	(14,130)
Total comprehensive income		(53,968)	(26,330)

		2012 USD	2011 USD
Loss per share during the year			
-basic	14	0 35	0 07
-diluted	14	0 35	0 07

Consolidated statement of financial position
at 31 December 2012

	Notes	2012 USD '000	2011 USD '000
Assets			
(2012 Current, 2011 Non Current)			
Intangible assets	15	51,969	73,500
Property, plant and equipment	16	228,528	223,545
Deferred tax	13	1,786	4,676
(2012 Current, 2011 Current)			
Trade and other receivables	17	5,231	8,538
Inventories	18	108	87
Cash and cash equivalents	19	5,515	9,360
Total assets		293,137	319,706
Liabilities			
(2012 Current, 2011 Current)			
Trade and other payables	20	9,972	11,105
Provision for liquidation costs	6	10,000	-
Finance lease liabilities		89	-
(2012. Current, 2011 Non Current)			
Borrowings	21	118,840	106,238
Decommissioning provisions	22	10,288	7,951
Total liabilities		149,189	125,294
Net assets		143,948	194,412
Equity			
Share capital	23	2,037	1,928
Share premium	23	90,031	61,970
Own shares held	23	(37,181)	(11,600)
Equity component of convertible debt	23	-	5,937
Currency translation reserve	23	(12,396)	(25,889)
Share option reserve	23	4,150	3,235
Accumulated reserves		97,307	158,831
Total equity attributable to owners of the parent		143,948	194,412

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

Signed on behalf of the Board of Directors

Blaine Karst

Blaine Karst,
Director
14 October 2013

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Share capital USD '000	Share premium USD '000	Own shares held USD '000	Equity component of convertible debt USD '000	Currency translation reserve USD '000	Share option reserve USD '000	Accumulated reserves/ (deficit) USD '000	Total equity USD '000
Balance at 1 January 2011	1,870	50,569	(11,600)	5,937	(11,759)	2,598	171,031	208,646
Loss for the year	-	-	-	-	-	-	(12,200)	(12,200)
Other comprehensive income	-	-	-	-	(14,130)	-	-	(14,130)
Total comprehensive income for the year	-	-	-	-	(14,130)	-	(12,200)	(26,330)
Transactions with owners								
Share issues	58	11,551	-	-	-	-	-	11,609
Share issue costs	-	(150)	-	-	-	-	-	(150)
Share option charge	-	-	-	-	-	637	-	637
Total of transactions with owners	58	11,401	-	-	-	637	-	12,096
Balance at 31 December 2011	1,928	61,970	(11,600)	5,937	(25,889)	3,235	158,831	194,412
Loss for the year	-	-	-	-	-	-	(67,461)	(67,461)
Other comprehensive income	-	-	-	-	13,493	-	-	13,493
Total comprehensive income for the year	-	-	-	-	13,493	-	(67,461)	(53,968)
Transactions with owners								
Share issues	109	28,061	-	-	-	-	-	28,170
Own shares issued to the employee benefit trust	-	-	(25,581)	-	-	-	-	(25,581)
Equity component of convertible debt	-	-	-	(5,937)	-	-	5,937	-
Share option charge	-	-	-	-	-	915	-	915
Total of transactions with owners	109	28,061	(25,581)	(5,937)	-	915	5,937	3,504
Balance at 31 December 2012	2,037	90,031	(37,181)	-	(12,396)	4,150	97,307	143,948

Consolidated statement of cash flows
for the year ended 31 December 2012

	Notes	2012 USD '000	2011 USD '000
Operating activities			
Loss for the year		(67,461)	(12,200)
Adjustments to reconcile loss for the year to net cash flow used from operating activities			
Tax for the year	13	3,111	1,958
Net finance costs	8,9	24,909	4,651
Adjustment to expected cash flows of the convertible bond	9	-	3,856
Foreign exchange losses/(gains)		209	(492)
Depreciation, depletion and amortisation	15,16	12,204	5,032
Share based payments	12	915	637
Movement in provisions		10,319	219
Impairment of assets	6	32,392	-
Working capital adjustments			
Decrease in trade and other receivables		659	15,247
Increase in inventories		(21)	(28)
Increase/(decrease) in trade and other payables		(1,082)	5,934
Net cash flow from operating activities		16,154	24,814
Investing activities			
Interest received	8	13	6
Payments to acquire intangible assets		(7,329)	(19,078)
Purchase of property, plant and equipment		(6,152)	(20,347)
Decrease in other receivables		-	3,150
Net cash flow used in investing activities		(13,468)	(36,269)
Financing activities			
Net proceeds on issuance of shares		2,589	11,459
Costs on share capital transactions		(874)	(1,074)
Interest paid		(7,932)	(7,617)
Net cash flow from/(used in) financing activities		(6,217)	2,768
Decrease in cash and cash equivalents		(3,531)	(8,687)
Net foreign exchange difference		(314)	(100)
Cash and cash equivalents at beginning of the year	19	9,360	18,147
Cash and cash equivalents at the end of the year	19	5,515	9,360

Notes to the consolidated financial statements
for the year ended 31 December 2012

1 Corporate Information

a) Organisation and principal activities

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

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

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

b) Russian business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in Russia These risks include matters arising out of the policies of the Government, economic conditions, imposition of, or changes to, taxes and regulations and foreign exchange rate fluctuations Refer to Note 25 for more information on key risks

c) Financial risk management

The Group's long term success is exposed to the effect of fluctuations of oil and gas prices in the local markets which are influenced by international prices Refer to Note 25 for a description of other risks

2 Significant accounting policies

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

The financial statements for the Group for the year ended 31 December 2012 were authorised for issue by the board of directors on 14 October 2013 and the statement of financial position was signed on the board's behalf by Blaine Karst

The financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2012

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

b) Basis of preparation

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

As detailed in this report, the Group has borrowings that are to be repaid in 2013 (Note 21) The Group's first gas plant has been operating at full or near full capacity since September 2011 and given current production, generates sufficient cash flow to cover current operating costs, financing costs and a small capital programme The cash flow generated would not necessarily be sufficient to cover all ongoing obligations if the Group were to experience production decreases, sale price decreases or increased costs In addition, even at full production, the cash flow being generated would not be sufficient to accumulate adequate funds to repay the non-current borrowings as they come due in 2013

As set out in the Directors' Report, given that the Company will be liquidated on the execution of sale, the directors have decided to prepare the consolidated financial statements on a basis other than that of a going concern The consolidated financial statements have been prepared on a break up basis In adopting the break up basis at the year end the following policies and procedures were implemented at the year-end

- cash and other liquid assets have been measured at fair value at 31 December 2012,
- capitalised costs and other assets where no value is expected to be recovered have been written off,
- provisions are recognised for liabilities that may arise as a result of liquidation (Note 6), and
- non-current borrowings have been reclassified to current and recognition provided for additional costs relating to early repayment (Note 21)

The sale of Diall Alliance is conditional on the approval of the bondholders and the Russian anti-monopoly authority, therefore there is material uncertainty as to the final sale proceeds If the current sale does not complete, the director will explore alternatives, such as finding alternative buyers or putting the Group into administration

2 **Significant accounting policies** (continued)

c) Changes in accounting policies

The accounting policies adopted by the Group at 31 December 2012 have been consistently applied in all periods presented During the period, the following standards have been adopted in these financial statements

No new accounting standards were adopted during the year As the Company accounts have been prepared on a break up basis no future amendments, standards or interpretations are considered to impact the Group

d) Basis of consolidation

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

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

e) Business combinations

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

f) Foreign currency translation

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

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

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

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

g) Revenue recognition

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

Sale of goods

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

Finance income

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

2 Significant accounting policies (continued)

h) Borrowing costs

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

i) Taxation

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

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

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

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

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

j) Share-based payments

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

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

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

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

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

k) Intangible assets – exploration and evaluation expenditures

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

2 **Significant accounting policies** (continued)

Drilling, seismic and other costs

Drilling exploration and appraisal activities are initially capitalised as intangible assets on a well by well basis until the results of the drilling have been determined Seismic acquisition, processing and interpretation costs are capitalized based on the area covered during the acquisition programme If commercial reserves are discovered and development of the area is approved, the carrying values of the related intangible assets are reclassified as development and production assets If commercial reserves are not discovered or a well is deemed to be non-commercial, the related intangible costs are charged to profit or loss after appraisal activities are completed

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

Sub-soil licences

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

For amortization purposes, useful lives are estimated as follows

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

l) **Property, plant and equipment**

Oil and gas assets

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

Motor vehicles, office equipment and furniture

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

Depletion

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

Depreciation

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

For depreciation purposes, useful lives are estimated as follows

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

2 **Significant accounting policies** (continued)

Decommissioning and environmental restoration provision

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

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

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

As a result of the management decision to sell DIALL, an impairment assessment on asset by asset basis was performed (Note15) If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount Impairment losses are recognised in profit or loss

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell The recoverable amount is noted as the 'fair value less cost to sell' for impairment performed at the year-end (Note 15)

Reversals of impairment

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

***n)* Inventories**

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

***o)* Financial assets**

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

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

Loans and receivables

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

Trade and other receivables

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

2 **Significant accounting policies** (continued)

Cash and cash equivalents

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

p) **Impairment of financial assets**

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

Assets carried at amortised cost

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

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

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

q) **Interest bearing loans and borrowings**

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

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

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

r) **Financial liabilities and equity**

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

s) **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases Assets held under finance leases are recognised at the lower of their fair value at the date of commencement of the lease and the present value of the minimum lease payments These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation Lease payments are apportioned between finance costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability The Group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms

t) **Equity Instruments**

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

Convertible debt

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

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

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

2 **Significant accounting policies** (continued)

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

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

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

v) **Employee benefit trust**

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

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

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

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

Taxation

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

Share-based payments (Note 12)

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

Estimates and assumptions

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

Fair value of acquisition

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

Capitalisation of interest (Note 9)

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

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

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

2 **Significant accounting policies** (continued)

Sub-soil licences (Note 15)

The Group is subject to periodic reviews of its activities by governmental authorities in Russia with respect to the requirements of its sub-soil licences and seeks amendments to the licences when supported by the results of ongoing exploration and development activities The requirements under the licences are subject to interpretation and enforcement policies of the relevant authorities In management's opinion, as of 31 December 2012, there are no serious non-compliance issues that will have an adverse effect on the financial position or the operating results of the Group

Decommissioning and environmental restoration (Note 22)

The Group operates in the upstream oil industry in the Russian Federation and its activities may have an impact on the environment The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered The Group periodically evaluates its obligations related thereto The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material

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

3 **Segment information**

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

Revenue is primarily from the sale of three products

	2012 USD'000	2011 USD'000
Gas	34,010	24,645
Condensate	5,411	6,120
Oil	8,840	3,420
	48,261	34,185

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

4 **Cost of sales**

	2012 USD '000	2011 USD '000
Operating costs	10,465	9,069
Production based taxes and royalties	8,411	8,186
Depreciation, depletion and amortisation	12,077	4,578
	30,953	21,833

The rise in operating costs, taxes and royalties reflects the increased production volumes in 2012 over 2011 The increase in depreciation, depletion and amortisation reflects a full year of depletion on the oil and gas assets, it was previously determined that the gas plant was substantially complete as of 1 October 2011

5 **Write-off of advances and appraisal costs**

	2012 USD '000	2011 USD '000
Expensed exploration and development costs	111	99
Provision for advance payments	319	437
	430	536

6 **Charges resulting from the change in accounting basis**

As a result of post balance sheet events the accounts have been prepared on a break up basis The effect to the income statement resulting from such accounting treatment is

	2012 USD '000	2011 USD '000
Decrease in assets		
- intangible assets	32,392	-
- trade and other receivables	1,947	-
Increase in liabilities		
- provision for liquidation costs	10,000	-
- interest-bearing loans and borrowings	4,647	-
	48,986	-

An impairment of 32 392 million USD (Note 15) was made to the carrying value of intangible assets of Diall to reflect its fair value prior to disposal The adjustments to trade and other receivables of 1 947 million USD (Note 9) represent the write-off of the capitalised share issue costs related to the planned IPO The adjustment to interest-bearing loans and borrowings of 4 647 million USD (Note 9) is the result of the preparation of accounts on a break up basis

7 **Auditor's remuneration**

	2012 USD '000	2011 USD '000
Auditor's remuneration for services included in professional fees		
Audit of the Group's annual accounts	306	497
Statutory subsidiary audits	49	24
Other services related to taxation	4	28

The Group audit expense includes 23 thousand USD (2011 - 219 thousand USD) for audit services related to prior periods

8 **Finance income**

	2012 USD '000	2011 USD '000
Interest on short-term deposits	13	6

9 **Finance costs**

	2012 USD '000	2011 USD '000
Interest on borrowings	15,889	3,042
Adjustments to interest-bearing loans and borrowings	4,647	-
Adjustments to trade and other receivables	1,947	-
Adjustments to expected cash flows of the convertible bond	-	3,856
Unwinding of discount on provisions	670	700
Other finance costs	1,769	916
	24,922	8,514

The Company started expensing the interest on non-current liabilities on 1 October 2011 upon the gas plant being determined to be substantially complete In 2012 no interest on current and non-current borrowings was capitalised (2011 – 2 923 million USD) The adjustments to interest-bearing loans and borrowings and to trade and other receivables are the result of the preparation of accounts on a break up basis (Note 6) The unwinding of discount on provisions relates to the decommissioning provision (Note 22) Other finance costs relate to costs incurred in association with the efforts to complete an initial public offering of shares in 2012 and 2011

10 Directors' emoluments

Included in staff costs are executive directors' emoluments of 1 878 million USD (2011 – 1 567 million USD) and fees payable to non-executive directors of 311 thousand USD (2011 – 193 thousand USD)

The highest paid director's emolument was 1 229 million USD (2011 - 550 thousand USD) which includes an accrual for share based payments of 688 thousand USD (2011 – 64 thousand USD)

11 Staff costs

	2012 USD '000	2011 USD '000
Wages and salaries	7,997	7,017
Share-based payment benefits	913	637
Social security costs	1,551	1,375
Rental benefits	231	368
	10,692	9,397

Total salaries and benefits for the Group includes 3 434 million USD (2011 – 2 325 million USD) recorded as cost of sales, 7 194 million USD (2011 – 6 909 million USD) included in administrative expenses and 64 thousand USD (2011 – 163 thousand USD) recorded as drilling, seismic and other costs included in intangible assets and oil and gas assets included in property, plant and equipment

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

	2012	2011
Operations	204	164
Head office and administration	107	100
	311	264

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

12 Share-based payments

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

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

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

	2012	2011
As at 1 January	4,700,000	3,800,000
Granted during the year	1,623,333	1,000,000
Forfeited during the year	-	(100,000)
As at 31 December	6,323,333	4,700,000
Shares vested at 31 December	4,376,667	3,300,000

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

	2012	2011
Number of awards	1,590,000	1,000,000
Award fair value at grant date	$1 52	$1 52
Share price at grant date	$1 53	$1 53
Amount payable by executive	$3 05	nil
Risk free rate	3%	4%
Dividend yield	nil	nil
Expected volatility	25 6%	25 8%
Expected life of awards	2 years	2 years
Weighted average remaining contractual life of share awards at the end of the year	0 91 years	2 67 years

12 **Share-based payments** (continued)

Expected volatility is based on historic share price movements The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome Maximum term for the awards is three years For key employees the probability that not all the awards will vest due to the resignation was set at 10% (2011 – 10%) No other features of options' terms were incorporated into the measurement of fair value

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

	2012 USD '000	2011 USD '000
Total share-based payment reserve	4,150	3,235

The expense recognized for share-based payments in respect of employee services received during the year is 915 thousand USD (2011 – 637 thousand USD)

Share awards

In 2012, 1,590,000 shares (2011 – 1,000,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions In 2012 the Company issued 9,660,000 shares (2011 – nil) to the EBT of which 7,070,000 shares (2011 – nil) were unallocated and available for future allocation to employees and directors of the Group There are an additional 100,000 shares available for reallocation that had been previously allocated to a senior manager who is no longer employed by the Group

13 **Tax**

The tax charge for the year comprises

	2012 USD '000	2011 USD '000
Current tax – Russian tax	13	-
Deferred tax	3,098	1,958
	3,111	1,958

A reconciliation of the income tax expense applicable to the accounting profit before income tax at the statutory income tax rate to the income tax expense at the Company's effective income tax rate for the periods presented is as follows

	2012 USD '000	2011 USD '000
Loss before taxation	(64,350)	(10,242)
Tax at applicable rate of tax of 24 5% (2011 – 26 5%)	(15,766)	(2,714)
Tax effect of		
- unrecognised tax losses	7,123	5,863
- effect of different foreign tax rates	(700)	(631)
- items which are not deductible for tax	12,347	713
- EBT transactions	107	(1,273)
Total tax (benefit)/expense reported in profit or loss	3,111	1,958

The main rate of corporation tax reduced from 26% to 24% from 1 April 2012 The Government has announced its intention to reduce the main rate of corporation tax to 20% from 1 April 2015 However, only the reduction in the corporation tax rate to 23% from 1 April 2013 was substantively enacted at the reporting date The Russian corporate tax rate was 20% from 1 January 2012 to 31 December 2012

At 31 December 2012 the Group has an unrecognised deferred tax asset on tax losses which arose in the UK of 71 029 million USD (2011 — 38 218 million USD) and in the US of 3 265 million USD (2011 — 2 571 million USD)

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

13 Tax (continued)

Deferred tax

The deferred tax included in the balance sheet is as follows

	2012 USD '000	2011 USD '000
Deferred tax assets		
- tax losses carried forward	5,109	6,612
- current assets	108	211
- property, plant and equipment	438	1,036
Deferred tax liabilities		
- intangible assets	(3,869)	(3,183)
	1,786	4,676

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

	2012 USD '000	2011 USD '000
As at 1 January	4,676	6,828
Charged to profit or loss	(3,098)	(1,958)
Net exchange adjustment	208	(194)
As at 31 December	1,786	4,676

A net deferred tax asset has been recognised on the basis that there will be sufficient taxable profits, based on the Diall Alliance LLC's expected profit for 2013, against which these temporary differences can be utilised

The deferred tax included in profit or loss is as follows

	2012 USD '000	2011 USD '000
Deferred tax assets		
- tax losses carried forward	1,683	2,014
- property, plant and equipment	654	(790)
Deferred tax liabilities		
- intangible assets	-	-
- other allowances	761	734
	3,098	1,958

14 Loss per share

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

	2012	2011
Loss for the purposes of basic loss per share (in USD'000)	67,461	12,200
Weighted average number of ordinary shares for the purposes of basic loss per share	190,159,774	187,256,453
Loss per share (in USD)		
Basic	0 35	0 07
Diluted	0 35	0 07

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

15 Intangible Assets

	Exploration and evaluation expenditures		
	Drilling, seismic & other costs USD '000	Sub-soil licences USD '000	Total USD '000
Cost			
Balance at 1 January 2011	45,953	17,581	63,534
Translation difference	(3,909)	(7)	(3,916)
Additions	19,074	92	19,166
At 31 December 2011	61,118	17,666	78,784
Disposal	(4,726)	-	(4,726)
Translation difference	3,576	6	3,582
Additions/disposal	7,349	-	7,349
Transfers	(8)	(9)	(17)
At 31 December 2012	67,309	17,663	84,972
Amortisation and impairment			
Accumulated balance at 1 January 2011	(5,369)	(25)	(5,394)
Amortisation for the year	(275)	(9)	(284)
Translation difference	422	(28)	394
At 31 December 2011	(5,222)	(62)	(5,284)
Disposal	4,726	-	4,726
Amortisation for the year	(10)	(9)	(19)
Impairment at the balance sheet date	(32,392)	-	(32,392)
Translation difference	(30)	(4)	(34)
At 31 December 2012	(32,928)	(75)	(33,003)
Net book value			
At 31 December 2011	55,896	17,604	73,500
At 31 December 2012	34,381	17,588	51,969

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

Included in sub-soil licences is the Bortovoy licence, the licence area that the Group operates located in the Saratov region of Russia The sale of the licence and the sale of major assets belonging to the Group are restricted pursuant to the convertible loan agreement and the conditional convertible bond agreement (Note 21)

An impairment of 32 392 million USD was made to the carrying value of intangible assets of Diall to reflect its fair value prior to disposal

In management's opinion, as at 31 December 2012 there were no serious non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group

16 Property, plant and equipment

	Oil and gas assets USD '000	Motor vehicles USD '000	Other equipment and furniture USD '000	Total USD '000
Cost				
Balance at 1 January 2011	211,835	476	649	212,960
Translation differences	(10,830)	(47)	(2)	(10,879)
Additions	31,067	333	48	31,448
Disposals	(3,395)	(89)	(17)	(3,501)
At 31 December 2011	228,677	673	678	230,028
Translation differences	10,999	46	11	11,056
Additions	7,752	505	65	8,322
Disposals	(1,543)	(167)	(66)	(1,776)
At 31 December 2012	245,885	1,057	688	247,630
Depreciation				
Accumulated balance at 1 January 2011	(1,838)	(271)	(418)	(2,527)
Depreciation and depletion	(4,546)	(137)	(135)	(4,818)
Translation differences	507	24	18	549
Disposals	269	35	9	313
At 31 December 2011	(5,608)	(349)	(526)	(6,483)
Depreciation and depletion	(12,003)	(123)	(65)	(12,191)
Translation differences	(567)	(19)	(6)	(592)
Disposals	25	86	53	164
At 31 December 2012	(18,153)	(405)	(544)	(19,102)
Net book value				
At 31 December 2011	223,069	324	152	223,545
At 31 December 2012	227,732	652	144	228,528

Depletion is charged to profit or loss through cost of sales (Note 4) Depreciation is charged to the profit or loss through cost of sales (Note 4) and administrative expenses (Note 5) In 2012, 2 thousand USD (2011 – 70 thousand USD) of depreciation was capitalized and included as additions to property, plant and equipment

The sale of all or a substantial part of the assets belonging to the Group is restricted pursuant to the term loan agreement and the convertible bond agreement (Note 21)

17 Trade and other receivables

	2012 USD '000	2011 USD '000
Tax receivables	28	2,115
Prepayments	1,813	3,302
Other	220	362
Trade receivables	3,170	2,759
	5,231	8,538

Tax receivables relate primarily to value added tax payments that are expected to be recovered within the next twelve months During 2012 the Group recovered 2 102 million USD of value added tax (2011 – 17 287 million USD) mainly from Russian operations Prepayments are advance payments for services to be rendered within the next twelve months

The amounts shown in prepayments are net of provisions where the Group does not expect to fully recover the advance payment made on a contract Movements in the provision were as follows

17 Trade and other receivables (continued)

	2012 USD '000	2011 USD '000
At 1 January	1,113	894
Charge for the year	304	437
Amounts written off	(660)	(150)
Translation difference	58	(68)
At 31 December	816	1,113

Prepayments for 2011 included the portion of IPO related costs of 1 357 million USD, which was written off at the end of 2012 No trade receivables have been pledged as security for any credit facilities

18 Inventories

	2012 USD '000	2011 USD '000
Natural gas and hydrocarbon liquids	92	87
Sulphur	16	-
	108	87

Inventory represents amounts of natural gas, hydrocarbon liquids and sulphur held in storage pending sales to customers There are no inventory costs expensed during the period as part of cost of sales (2011 — 153 thousand USD)

19 Cash and cash equivalents

Cash is kept on deposit with banks and earns interest at the daily deposit rates or placed in short-term deposits such as money market funds which can be redeemed upon demand At 31 December 2012 the cash and cash equivalents totalled 5 515 million USD (2011 – 9 360 million USD) Under terms of the convertible bond agreement, the Company is required to maintain cash deposits to cover the next six months of principal and interest payments on all borrowings (Note 29)

20 Trade and other payables

	2012 USD '000	2011 USD '000
Trade payables	5,629	8,344
Accruals and other payables	4,343	2,761
	9,972	11,105

Notes to the consolidated financial statements

for the year ended 31 December 2012

21 Borrowings

	Nominal interest rate	2012 USD'000	2011 USD'000
Net amounts due in less than 5 years			
Term loan	LIBOR + 4%	61,312	54,153
Convertible bonds	20%	57,528	52,085
		118,840	106,238
Loan comprises			
Drawdown of the loan		60,000	60,000
Equity element		-	(5,937)
		60,000	54,063
Cost of borrowing		-	(3,376)
Accrued interest		112	3,466
Earlier repayment fees		1,200	-
Net term loan		61,312	54,153
Convertible bonds comprises			
Drawdown of the bond		50,000	50,000
Cost of borrowing		-	(5,313)
Bonds issued in 2012		5,191	-
Accrued interest		2,337	7,398
Net convertible bond		57,528	52,085

Term loan

The term loan was originally a convertible loan, however, the option to convert into ordinary shares of the Company expired on 18 March 2012 The term loan is to be repaid in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015 The expiry of the conversion option resulted in a reclassification of the equity component of convertible debt into accumulated reserves in the amount of 5 937 million USD

The net proceeds received from the issue of the term loan had been split between debt and an embedded equity element The fair value of the term loan had been calculated as the present value of the contracted future cash flows using an effective interest rate of 7% The equity element was calculated as the difference between the principal debt amount and the fair value of the term loan at the time of drawdown The earlier repayment fees represent the amount of charges the Company has to pay for repayment the loan before the repayment date

Convertible bond

The convertible bond (the "bond") is convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bond holder's option To determine the number of ordinary shares received upon conversion, the amount of the bond to be converted is divided by the share price paid by investors for ordinary shares of the Company at the time of a Qualifying Initial Public Offering (the "QIPO") as defined in the convertible bond agreement At the Company's option, the conversion of the bond can be forced if the ordinary shares of the Company trade at a value of 50% above the QIPO price for at least 20 dealing days in any period of 30 consecutive dealing days any time prior to 6 April 2013 For any unconverted amounts, the bond is to be repaid in full in one instalment on 13 April 2013 (Note 29)

The convertible bond initially bore interest at 10% per annum Under terms of the convertible bond agreement, additional interest of 10% per annum began accruing effective 13 October 2011 as the Company did not complete an initial public offering of shares As a result of the additional 10% interest, a re-measurement of the carrying amount of the liability for the change in expected cash flows resulted in an income statement impact 3 856 million USD in 2011

In 2012 the Company entered into four convertible bond agreements (the "new bonds") to pay the additional interest of 10% per annum accrued on the convertible bond issued 13 October 2010 and the new bonds issued in 2012 The new bonds are also convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bondholder's option

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

At the balance sheet date the term loan and convertible bond is stated at the fair value basis resulting in increase of finance costs in the amount of 4 647 million USD (Notes 6 and 9)

Notes to the consolidated financial statements
for the year ended 31 December 2012

22 Decommıssıonıng provısıon

	2012 USD '000	2011 USD '000
At 1 January	7,951	7,922
Change ın provısıon	-	100
Unwındıng of dıscount	670	700
Reserve adjustment due to estımates change	1,147	(305)
Translatıon of dıfferences	520	(466)
At 31 December	10,288	7,951

The provısıon ıs for decommıssıonıng and envıronmental restoratıon costs related to the gas processıng plant and related ınfrastructure located on the Bortovoy lıcence Under the current levels of enforcement of exıstıng legıslatıon, management belıeves there are no sıgnıfıcant lıabılıtıes ın addıtıon to amounts whıch are already accrued and whıch would have a materıal adverse effect on the fınancıal posıtıon of the Group

The lıabılıty becomes payable at the end of the useful lıfe of each well and the gas plant components whıch ranges from 7 to 30 years

Under the current levels of enforcement of exıstıng legıslatıon, management belıeves there are no sıgnıfıcant lıabılıtıes ın addıtıon to amounts whıch are already accrued and whıch would have a materıal adverse effect on the fınancıal posıtıon of the Group

23 Equıty

Authorısed and ıssued share capıtal

Authorısed	2012 USD'000	2011 USD'000
250,000,000 ordınary shares of USD 0 01 each	2,500	2,500

Allotted, called up and fully paıd	Ordınary Shares No	Share capıtal USD '000	Share premıum USD '000	Own shares held USD '000
At 1 January 2011	186,970,198	1,870	50,569	(11,600)
Share ıssue 13 December 2011	5,804,613	58	11,551	-
Share ıssue costs	-	-	(150)	-
At 31 December 2011	192,774,811	1,928	61,970	(11,600)
Share ıssue 27 February 2012	1,294,616	13	2,576	-
Share ıssue 13 March 2012	380,000	4	1,156	(1,160)
Share ıssue 28 June 2012	9,280,000	92	24,329	(24,421)
At 31 December 2012	203,729,427	2,037	90,031	(37,181)

Share capıtal and share premıum

On 27 February 2012 the Company ıssued 1,294,616 shares as the second tranche of an agreed share subscrıptıon wıth exıstıng shareholders, executıves and dırectors The fırst tranche of 5,804,613 shares was ıssued on 13 December 2011

Own shares held

The other shares ıssued durıng 2012 were to the EBT and for presentatıon purposes ıncluded as part of own shares held

Redeemable shares

At 31 December 2012 and 2011 there were 50,000 redeemable shares at 1 pound sterlıng (£) each ın ıssue

Currency translatıon reserve

The foreıgn currency translatıon reserve ıs used to record exchange dıfferences arısıng from the translatıon of the fınancıal statements of subsıdıarıes whose functıonal currencıes are not ın USD ınto the Group's presentatıon currency

23 **Equity** (continued)

Share option reserve

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

Equity component of convertible debt

The equity component of convertible debt is the difference between the principal amount and the fair value of the convertible debt reflecting values of the convertible option on the debt instruments (Note 21)

24 **Lease obligations**

Operating lease payments are mainly rentals by the Group of land, office space and equipment required for use on a temporary basis In 2012 the Group also had finance leases for various items of plant and machinery in the amount of 89 thousand USD (2011 – none) Leases are normally signed on a short term basis of one to two years with options to extend

Lease payments under operating leases recognized in the statement of comprehensive income for the year are 1 354 million USD (2011 – 1 573 million USD)

At the reporting date the Group's outstanding commitments for future minimum lease payments under non-cancellable leases fall due as follows

	2012 USD '000	2011 USD '000
Within one year	525	387
In two to five years	73	33
More than five years	183	181

25 **Financial instruments**

Financial instruments recognised in the balance sheet

	Loans and receivables USD '000	Other financial liabilities at amortised cost USD '000	Total USD '000
Year ended 31 December 2012			
Financial assets			
Trade and other receivables	3,418	-	3,418
Cash and cash equivalents	5,515	-	5,515
	8,933	-	8,933
Financial liabilities			
Trade and other payables	-	5,629	5,629
Finance lease liabilities	-	38	38
Borrowings	118,840	-	118,840
	118,840	5,667	124,507
As at 31 December 2011			
Financial assets			
Trade and other receivables	3,121	-	3,121
Cash and cash equivalents	9,360	-	9,360
	12,481	-	12,481
Financial liabilities			
Trade and other payables	-	8,344	8,344
Borrowings	-	106,238	106,238
	-	114,582	114,582

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

25 Financial instruments (continued)

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

Interest rate risk

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

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

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

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

	Increase/decrease in basis points	Effect on property, plant and equipment	Effect on profit before tax
2012			
US Dollar	+100	-	(572)
US Dollar	-100	-	572
2011			
US Dollar	+100	(416)	(135)
US Dollar	-100	416	135

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

Credit risk

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

This risk arises principally from cash and cash equivalents Management's policy is to hold cash and cash equivalents in reputable financial institutions of which 31 2% (2011 – 80 5%) of cash and cash equivalents are held in the UK To limit exposure to credit risk on trade receivables, management's policy is to sell only to financially solid customers and use prepayments or payment upon delivery for product sales whenever possible The average credit period taken on sale of goods is less than thirty days There is no allowance for estimated irrecoverable amounts from sale of goods for the year (2011 – nil)

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

Provisions for doubtful debts are recognised against prepayments based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position The movements in the provisions against prepayments are presented in Note 17

Foreign currency risk

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

25 Financial instruments (continued)

The Group's primary operations are within Russia where the functional currency of the Group's subsidiaries is the RUB Sales and purchasing transactions within Russia are RUB denominated giving rise to foreign currency risk on cash, receivables and payables held in RUB

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

A ten per cent strengthening of USD against the following currencies would have decreased loss before tax and impact the Group's equity by the amounts shown below For a ten per cent strengthening of the US dollar against the euro there is no significant impact on loss before tax or on the Group's equity This analysis assumes that all other variables remain constant and the analysis is performed on the same basis for 2011

	Effect on loss before tax	
	2012 USD '000	2011 USD '000
RUB	394	331
Pounds sterling	190	140

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

Liquidity risk

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

Management is continually monitoring cash requirements for the Group and evaluating potential sources to fund its operating and capital expenditures All Group entity operations are controlled through annual and monthly budget reviews to mitigate liquidity risk It is the goal of management to ensure adequate funding is available through an appropriate mix of debt and equity instruments In 2012 the Group issued new equity of 2 590 million USD (2011 – 11 609 million USD)

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

	On demand USD '000	Less than 3 months USD '000	3 to 12 months USD '000	1 to 5 years USD '000	>5 years USD '000	Total USD '000
Year ended 31 December 2012						
Trade and other payables	-	5,629	-	-	-	5,629
Accruals	-	-	4,343	-	-	4,343
Borrowings	-	3,412	115,428	-	-	118,840
Finance lease liabilities	-	-	89	-	-	89
Year ended 31 December 2011						
Trade and other payables	-	8,344	-	-	-	8,344
Borrowings	-	1,910	5,743	117,127	-	124,780

Fair values of financial assets and financial liabilities

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

	Book Value		Fair Value	
	2012 USD '000	2011 USD '000	2012 USD '000	2011 USD '000
Cash and cash equivalents	5,515	9,360	5,515	9,360
Trade and other receivables	3,418	3,121	3,418	3,121
Trade and other payables	(5,629)	(8,344)	(5,629)	(8,344)
Borrowings and finance lease liabilities	(118,840)	(106,238)	(118,840)	(106,238)

25 Financial instruments (continued)

Capital management

Capital includes total equity attributable to the owners of the parent

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 2011

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

	2012 USD '000	2011 USD '000
Borrowings	118,840	106,238
Capital	143,948	194,412
Gearing ratio	83%	55%

26 Related party transactions

Transactions with related parties

	Charges to related parties USD '000	Purchases from related parties USD '000	Amounts owed by related parties USD '000	Amounts owed to related parties USD '000
Entities with key management personnel of the Group				
2012	-	6,394	38	3
2011	29	13,332	2	2,140

Transactions primarily relate to the provision of goods and services from companies whose Boards have common directors with the Company's Board The majority of purchases from related parties during 2012 and 2011 were for drilling management services

Sales and purchases between related parties are made at normal market prices Outstanding balances are unsecured, interest free and cash settlement is expected within thirty days of invoice The Group has not provided or benefited from any guarantees for any related party receivables or payables During the year ended 31 December 2012, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2011 – nil)

Key management compensation

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

	2012 USD '000	2011 USD '000
Salaries and other short-term employee benefits	2,267	2,442
Share-based payments	878	603
	3,145	3,045

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

27 Capital commitments

The Group's capital commitments represent the amount required to meet its sub-soil licence agreement obligations At 31 December 2012 there were no unfulfilled licence commitments (2011 – nil)

28 Contingencies

Russian business operating environment

During the year ended 31 December 2012 all of the Group's business was conducted in Russia through its investment in subsidiaries operating in the oil and gas industry These operations and those of similar companies in Russia are subject to the economic, political and regulatory uncertainties prevailing in Russia

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

Taxation

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

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

Decommissioning and environmental restoration costs

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

Sub-soil licences

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

Notes to the consolidated financial statements
for the year ended 31 December 2012

29 Events after the reportıng penod

On 13 January 2013 the Company entered ınto a convertıble bond agreement ın the amount of 1 379 mıllıon USD to pay the addıtıonal ınterest of 10% per annum accrued on the amount of convertıble bonds ıssued ın 2012 and 2010 (Note 21)

On 19 Apnl 2013 the Company reached an agreement to extend the matunty date of all outstandıng convertıble bonds untıl 11 May

On 22 Apnl 2013 the Company entered ınto a convertıble bond agreement (the "bond") ın the amount of 1 414 mıllıon USD to pay the addıtıonal ınterest of 10% per annum accrued on the amount of convertıble bonds ıssued ın 2012 and 2010

The Company ıs currently negotıatıng an agreement to extend the matunty date and defer all ınterest payments on the outstandıng convertıble bonds and the term loan untıl the completıon of the sale of the Group's Russıan assets

The Group has negotıated an agreement to sell 100% of Dıall Allıance LLC The sale wıll result ın the dısposal of the Group's major asset and post-closıng, the plan ıs to put the Company ınto lıquıdatıon and dıstnbute the assets of the Company to the shareholders The transactıon ıs contıngent on the buyer obtaınıng certaın ınternal approvals and approval of the Russıan antı-monopoly authorıtıes

30 Foreıgn exchange rates

The exchange rate at the year-end was 30 3727 RUB to 1 USD (2011 – 32 1961) and the average exchange rate for the year was 31 0930 RUB to 1 USD (2011 – 29 3874) For UK operatıons, the exchange rate at the penod end was 0 6203 £ to 1 USD (2011 – 0 6487) and the average exchange rate for the penod was 0 6314 £ per 1 USD (2011 – 0 6242)

Parent company statement of financial position
at 31 December 2012

	Notes	2012 USD '000	2011 USD '000
Assets			
(2012 Current, 2011 Non Current)			
Property, plant and equipment	6	43	110
Investments in subsidiaries	7	279,346	349,282
(2012. Current, 2011 Current)			
Trade and other receivables	8	226	1,744
Cash and cash equivalents		136	7,518
Total assets		279,751	358,654
Current liabilities			
(2012 Current, 2011 Current)			
Trade and other payables	9	12,290	3,964
Provisions		10,000	-
(2012 Current, 2011 Non-Current)			
Borrowings	10	118,840	106,238
Total liabilities		141,130	110,202
Net assets		138,621	248,452
Equity			
Share capital	11	2,037	1,928
Share premium	11	90,031	61,970
Own shares held	11	(37,181)	(11,600)
Currency translation reserve	11	(282)	19
Share option reserve	11	4,150	3,235
Equity component of convertible debt	10	-	5,937
Accumulated reserves		79,866	186,963
Total equity attributable to owners of the parent		138,621	248,452

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

Signed on behalf of the Board of Directors

Blaine Karst

Blaine Karst
Director
14 October 2013

Vostok Energy Plc

Parent company statement of changes in equity

for the year ended 31 December 2012

	Share capital USD '000	Share premium USD '000	Own shares held USD '000	Equity component of convertible debt USD '000	Currency translation reserve USD '000	Share option reserve USD '000	Accumulated reserves/ (deficit) USD '000	Total equity USD '000
Balance at 1 January 2011	1,870	50,569	(11,600)	5,937	45	2,598	211,986	261,405
Loss for the year	-	-	-	-	-	-	(25,023)	(25,023)
Other comprehensive income	-	-	-	-	(26)	-	-	(26)
Total comprehensive income for the year	-	-	-	-	(26)	-	(25,023)	(25,049)
Transactions with owners								
Share issues	58	11,551	-	-	-	-	-	11,609
Own shares issued to the employee benefit trust								
Equity element of convertible debt								
Share issue costs	-	(150)	-	-	-	-	-	(150)
Share option charge	-	-	-	-	-	637	-	637
Total of transactions with owners	58	11,401	-	-	-	637	-	12,097
Balance at 31 December 2011	1,928	61,970	(11,600)	5,937	19	3,235	186,963	248,452
Loss for the year	-	-	-	-	-	-	(113,034)	(113,034)
Other comprehensive income	-	-	-	-	(301)	-	-	(301)
Total comprehensive income for the year	-	-	-	-	(301)	-	(113,034)	(113,335)
Transactions with owners								
Share issues	109	28,061	-	-	-	-	-	28,170
Own shares issued to the employee benefit trust	-	-	(25,581)	-	-	-	-	(25,581)
Equity component of convertible debt	-	-	-	(5,937)	-	-	5,937	-
Share option charge	-	-	-	-	-	915	-	915
Total of transactions with owners	109	28,061	(25,581)	(5,937)	-	915	5,937	3,504
Balance at 31 December 2012	2,037	90,031	(37,181)	-	(282)	4,150	79,866	138,621

Parent company statement of cash flows

for the year ended 31 December 2012

	Notes	2012 USD '000	2011 USD '000
Operating activities			
Loss for the year		(113,034)	(25,023)
Adjustments for			
Foreign exchange gains		(288)	(367)
Depreciation, depletion and amortization		39	95
Finance costs		26,076	12,420
Adjustments to expected cash flows of liability		-	3,981
Interest income on cash invested		-	(6)
Provision for liquidation costs	5	10,000	-
Accrued share based payments		914	637
Impairment of investments	5	69,125	-
Decrease/(increase) in trade and other receivables		(429)	441
Increase/ (decrease) in trade and other payables		7,446	(925)
Net cash flow used in operating activities		(151)	(8,747)
Investing activities			
Investments in subsidiaries		(1,015)	(4,124)
Interest income on cash investments		-	6
Purchase of property, plant and equipment	6	(6)	(54)
Net cash flow used in investing activities		(1,021)	(4,172)
Financing activities			
Proceeds on issue of share capital		2,589	11,459
Cost of share capital transactions		(874)	-
Interest payments on long term liabilities		(7,932)	(7,778)
Net cash flow from financing activities		(6,217)	3,681
Decrease in cash and cash equivalents		(7,389)	(9,238)
Cash and cash equivalents at beginning of year		7,518	16,752
Effect of exchange rate changes on cash and cash equivalents		7	4
Cash and cash equivalents at the end of the year		136	7,518

Notes to the parent company financial statements

for the year ended 31 December 2012

1 Corporate information

Organisation and principal activities

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

2 Significant accounting policies

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

Basis of preparation

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

As set out in the Directors' Report, given that the Company will liquidated on the execution of sale , the directors have decided to prepare the consolidated financial statements on a basis other than that of a going concern The consolidated financial statements have been prepared on a break up basis In adopting the break up basis at the year end the following policies and procedures were implemented at the year-end

- cash and other liquid assets have been measured at fair value at 31 December 2012,
- capitalised costs and other assets where no value is expected to be recovered have been written off, and
- provisions are recognised for liabilities that may arise as a result of liquidation (Note 6), and
- non-current borrowings have been reclassified to current and recognition provided for additional costs relating to early repayment (Note 10)

The sale of Diall Alliance is conditional on the approval of the bondholders and the Russian anti-monopoly authority, therefore there is material uncertainty as to the final sale proceeds If the current sale does not complete, the director will explore alternatives, such as finding alternative buyers or putting the Group into administration

Investments in subsidiaries

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

Authorization

The financial statements for the parent company for the year ended 31 December 2012 were authorised for issue by the board of directors on 14 October 2013 and the statement of financial position was signed on the board's behalf by Blaine Karst

3 Taxation

As at 31 December 2012 the Company has unrecognised deferred tax assets which arose in the UK of 71 029 million USD (2011 – 38 035 million USD) Deferred tax is not provided for these losses on the basis that it is not sufficiently certain there will be adequate taxable profits arising in the future to offset against the tax losses The losses incurred in the UK are available to carry forward indefinitely for offset against future taxable profits

4 Loss attributable to members of the parent company

The parent company loss for the year is 113 034 million USD (2011 – 25 023 million USD)

Notes to the parent company financial statements

for the year ended 31 December 2012

5 Charges resulting from the change in accounting basis

As a result of post balance sheet events the accounts have been prepared on a break up basis The effect to the income statement resulting from such accounting treatment is

	2012 USD '000	2011 USD '000
Decrease in assets		
- investments in subsidiaries	69,125	-
- trade and other receivables	1,947	-
Increase in liabilities		
- provision for liquidation costs	10,000	-
- interest-bearing loans and borrowings	4,647	-
	85,719	-

Notes to the parent company financial statements

for the year ended 31 December 2012

6 Property, plant and equipment

	Office equipment and furniture USD'000	Motor vehicles USD'000	Total USD'000
Cost			
At 1 January 2011	490	95	585
Additions	11	38	49
Disposals	(1)	(79)	(80)
At 31 December 2011	500	54	554
Additions	6	-	6
Disposals	(42)	(57)	(99)
Translation differences	-	3	3
At 31 December 2012	464	-	464
Depreciation			
Accumulated depreciation at 1 January 2011	324	28	352
Charge for the year	101	20	121
Disposals	-	(26)	(26)
Translation differences	(2)	(1)	(3)
At 31 December 2011	423	21	444
Charge for the year	32	7	39
Disposals	(35)	(29)	(64)
Translation differences	1	1	2
At 31 December 2012	421	-	421
Net book value			
At 31 December 2011	77	33	110
At 31 December 2012	43	-	43

7 Investments in subsidiaries

	Investment in subsidiary undertakings USD'000	Loans to subsidiary undertakings USD'000	Total USD'000
Balance at 1 January 2011	292,554	52,604	345,158
Increase	3,084	1,040	4,124
Balance at 31 December 2011	295,638	53,644	349,282
Increase/(decrease)	(1,826)	1,015	(811)
Impairment at the balance sheet date	(64,441)	(4,684)	(69,125)
Balance at 31 December 2012	229,371	49,975	279,346

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

All loans to subsidiaries are demand loans and classified as current in consideration of the planned sale of the Group's major assets For 2011, the loans were classified as non-current as the Company did not expect to demand repayment of the advances in 2012

No interest was charged on loans to subsidiaries in the year (2011 – nil)

Notes to the parent company financial statements

for the year ended 31 December 2012

8 Trade and other receivables

	2012 USD'000	2011 USD'000
Prepayments and deposits	170	338
Tax receivables	51	35
Other receivables	5	1,371
	226	1,744

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

Other receivables are non-interest bearing and are generally on 30-90 day terms Other receivables in 2011 included the portion of IPO related costs of 1 357 million USD, which was written off at the balance sheet date

9 Trade and other payables

	2012 USD'000	2011 USD'000
Trade payables	2,389	1,734
Accruals and other payables	9,901	2,230
	12,290	3,964

10 Borrowings

	Nominal interest rate	2012 USD'000	2011 USD'000
Net amounts due in less than 5 years			
Term loan	LIBOR + 4%	61,312	54,153
Convertible bonds	20%	57,528	52,085
		118,840	106,238
Loan comprises			
Drawdown of the loan		60,000	60,000
Equity element		-	(5,937)
		60,000	54,063
Cost of borrowing		-	(3,376)
Accrued interest		112	3,466
Earlier repayment fees		1,200	-
Net term loan		61,312	54,153
Convertible bonds comprises			
Drawdown of the bond		50,000	50,000
Cost of borrowing		-	(5,313)
Bonds issued in 2012		5,191	-
Accrued interest		2,337	7,398
Net convertible bond		57,528	52,085

Term loan

The term loan was originally a convertible loan, however, the option to convert into ordinary shares of the Company expired on 18 March 2012 The term loan is to be repaid in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015 The expiry of the conversion option resulted in a reclassification of the equity component of convertible debt into accumulated reserves in the amount of 5 937 million USD

Notes to the parent company financial statements

for the year ended 31 December 2012

10 Borrowings (continued)

The net proceeds received from the issue of the term loan had been split between debt and an embedded equity element The fair value of the term loan had been calculated as the present value of the contracted future cash flows using an effective interest rate of 7% The equity element was calculated as the difference between the principal debt amount and the fair value of the term loan at the time of drawdown The earlier repayment fees represent the amount of charges the Company has to pay for repayment the loan before the repayment date

Convertible bond

The convertible bond (the "bond") is convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bond holder's option To determine the number of ordinary shares received upon conversion, the amount of the bond to be converted is divided by the share price paid by investors for ordinary shares of the Company at the time of a Qualifying Initial Public Offering (the "QIPO") as defined in the convertible bond agreement At the Company's option, the conversion of the bond can be forced if the ordinary shares of the Company trade at a value of 50% above the QIPO price for at least 20 dealing days in any period of 30 consecutive dealing days any time prior to 6 April 2013 For any unconverted amounts, the bond is to be repaid in full in one instalment on 13 April 2013 (Note 17)

The convertible bond initially bore interest at 10% per annum Under terms of the convertible bond agreement, additional interest of 10% per annum began accruing effective 13 October 2011 as the Company did not complete an initial public offering of shares As a result of the additional 10% interest, a re-measurement of the carrying amount of the liability for the change in expected cash flows resulted in an income statement impact 3 856 million USD

In 2012 the Company entered into four convertible bond agreements (the "new bonds") to pay the additional interest of 10% per annum accrued on the convertible bond issued 13 October 2010 and the new bonds issued in 2012 The new bonds are also convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bondholder's option

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

At the balance sheet date the term loan and convertible bond is stated at the fair value basis resulting in increase of finance costs in the amount of 4 647 million USD (Note 5)

Notes to the parent company financial statements

for the year ended 31 December 2012

11 Equity

Authorised and issued share capital

Authorised	2012 USD'000	2011 USD'000
250,000,000 ordinary shares of USD 0 01 each	2,500	2,500

Allotted, called up and fully paid	Ordinary Shares No	Share capital USD '000	Share premium USD '000	Own shares held USD '000
At 1 January 2011	186,970,198	1,870	50,569	(11,600)
Share issue 13 December 2011	5,804,613	58	11,551	-
Share issue costs	-	-	(150)	-
At 31 December 2011	192,774,811	1,928	61,970	(11,600)
Share issue 27 February 2012	1,294,616	13	2,576	-
Share issue 13 March 2012	2,590,000	26	7,881	(7,906)
Share issue 28 June 2012	7,070,000	70	17,604	(17,675)
At 31 December 2012	203,729,427	2,037	90,031	(37,181)

Share capital and share premium

On 27 February 2012 the Company issued 1,294,616 shares as the second tranche of an agreed share subscription with existing shareholders, executives and directors The first tranche of 5,804,613 shares was issued on 13 December 2011

Own shares held

The other shares issued during 2012 were to the EBT and for presentation purposes included as part of own shares held (Note 12)

Redeemable shares

At 31 December 2012 and 2011 there were 50,000 redeemable shares at 1 pound sterling each in issue

Share option reserve

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

Equity component of convertible debt

The equity component of convertible debt is the difference between the principal amount and the fair value of the convertible debt reflecting values of the convertible option on the debt instruments (Note 10)

Notes to the parent company financial statements

for the year ended 31 December 2012

12 Share-based payments

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

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

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

	2012	2011
As at 1 January	4,700,000	3,800,000
Granted during the year	1,623,333	1,000,000
Forfeited during the year	-	(100,000)
As at 31 December	6,323,333	4,700,000
Shares vested at 31 December	4,376,667	3,300,000

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

	2012	2011
Number of awards	1,590,000	1,000,000
Award fair value at grant date	$1 52	$1 52
Share price at grant date	$1 53	$1 53
Amount payable by executive	$3 05	nil
Risk free rate	3%	4%
Dividend yield	nil	nil
Expected volatility	25 6%	25 8%
Expected life of awards	2 years	2 years
Weighted average remaining contractual life of share awards at the end of the year	0 91 years	2 67 years

Expected volatility is based on historic share price movements The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome Maximum term for the awards is three years For key employees the probability that not all the awards will vest due to the resignation was set at 10% (2011 – 10%) No other features of options' terms were incorporated into the measurement of fair value

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

	2012 USD '000	2011 USD '000
Total share-based payment reserve	4,150	3,235

The expense recognized for share-based payments in respect of employee services received during the year is 914 thousand USD (2011 –637 thousand USD)

Share awards

In 2012, 1,590,000 shares (2011 – 1,000,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions In 2012 the Company issued 9,660,000 shares (2011 – nil) to the EBT of which 7,070,000 shares (2011 – nil) were unallocated and available for future allocation to employees and directors of the Group There are an additional 100,000 shares available for reallocation that had been previously allocated to a senior manager who is no longer employed by the Group

Notes to the parent company financial statements

for the year ended 31 December 2012

13 Financial instruments

Financial instruments recognised in the balance sheet

	Loans and receivables USD '000	Other financial liabilities at amortised cost USD '000	Total USD '000
Year ended 31 December 2012			
Financial assets			
Intercompany advances	170	-	170
Trade and other receivables	226	-	226
Cash and cash equivalents	136	-	136
	532	-	532
Financial liabilities			
Trade and other payables	12,290	-	12,290
Interest-bearing loans and borrowings	118,840	-	118,840
	131,130	-	131,130
As at 31 December 2011			
Financial assets			
Non-current investments	53,644	-	53,644
Trade and other receivables	14	-	14
Cash and cash equivalents	7,518	-	7,518
	61,176	-	61,176
Financial liabilities			
Trade and other payables	-	1,734	1 734
Interest-bearing loans and borrowings	-	106,238	106,238
	-	107,972	107,972

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

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

Interest rate risk

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

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

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

Notes to the parent company financial statements

for the year ended 31 December 2012

13 Fınancıal ınstruments (contınued)

The followıng table demonstrates the sensıtıvıty to a reasonably possıble change ın ınterest rates on that portıon of loans and borrowıngs affected With all other varıables held constant, the Company's profit before tax ıs affected through the ımpact on floatıng rate borrowıngs as follows

	Increase/decrease ın basıs poınts	Effect on profit before tax
2012		
US Dollar	+100	(572)
US Dollar	-100	572
2011		
US Dollar	+100	(551)
US Dollar	-100	551

The assumed movement ın basıs poınts for the ınterest rate sensıtıvıty analysıs ıs based on the currently observable market envıronment

Credıt rısk

Credıt rısk ıs the potentıal exposure of the Company to loss ın the event of non-performance by a counter- party The amount that best represents the maxımum credıt exposure of the Company's financıal assets ıs the carryıng value of the financıal assets at the reportıng date

Thıs rısk arıses prıncıpally from cash and cash equıvalents Management's polıcy ıs to hold cash and cash equıvalents ın reputable financıal ınstıtutıons of whıch 100% (2011 – 99 6%) of cash and cash equıvalents are held ın reputable financıal ınstıtutıons ın the UK

Maxımum credıt rısk exposure relatıng to financıal assets ıs represented by carryıng value as at the reportıng date

Foreıgn currency rısk

Fluctuatıons ın exchange rates can affect the Company's reported profit or loss The Company's financıal assets and lıabılıtıes gıve rıse to transactıonal currency exposures Such exposures arıse from transactıons ın currencıes other than the Company's functıonal currency

Cash balances ın the Company are usually held ın USD, but smaller amounts may be held ın pounds sterlıng or local currencıes to meet operatıng and admınıstratıve expenses or to comply wıth local legıslatıon

The Company does not have formal arrangements to mıtıgate foreıgn exchange rısks at thıs tıme however as cırcumstances dıctate, the Group consıders hedgıng posıtıons to protect the value of any cash balances ıt holds ın non-US dollar currency or to protect agaınst exchange fluctuatıons on future non-USD denomınated commıtments or oblıgatıons

A ten per cent strengthenıng of USD agaınst the pound sterlıng would have decreased loss before tax and ımpact the Group's equıty by the amounts shown below For a ten per cent strengthenıng of the USD agaınst the euro and RUB there ıs no sıgnıficant ımpact on loss before tax or on the Group's equıty Thıs analysıs assumes that all other varıables remaın constant and the analysıs ıs performed on the same basıs for 2011

	Effect on loss before tax	
	2012 USD '000	2011 USD '000
Pounds sterlıng	1,180	319

A ten per cent weakenıng of the US dollar agaınst pound sterlıng would have had an equal but opposıte effect on the basıs that all other varıables remaın constant

Lıquıdıty rısk

Lıquıdıty rısk ıs the rısk that sources of fundıng for the Company's busıness actıvıtıes may not be avaılable

Management ıs contınually monıtorıng cash requırements for the Company and evaluatıng potentıal sources to fund ıts operatıons All Company operatıons are controlled through annual and monthly budget revıews to mıtıgate lıquıdıty rısk It ıs the goal of management to ensure adequate fundıng ıs avaılable through an approprıate mıx of debt and equıty ınstruments In 2012 the Group ıssued new equıty of 2 589 mıllıon USD (2011 – 11 609 mıllıon USD)

Notes to the parent company financial statements

for the year ended 31 December 2012

13 Financial instruments (continued)

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted payments

	On demand USD '000	Less than 3 months USD '000	3 to 12 months USD '000	1 to 5 years USD '000	>5 years USD '000	Total USD '000
Year ended 31 December 2012						
Trade and other payables	-	12,290	-	-	-	12,290
Borrowings and liabilities	-	3,412	115,428	-	-	118,840
Year ended 31 December 2011						
Trade and other payables	-	1,734	-	-	-	1,734
Borrowings	-	1,910	5,743	117,127	-	124,780

Fair values of financial assets and financial liabilities

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

	Book Value		Fair Value	
	2012 USD '000	2011 USD '000	2012 USD '000	2011 USD '000
Intercompany advances	170	53,644	170	53,644
Cash and cash equivalents	136	7,518	136	7,518
Trade and other receivables	226	14	226	14
Trade and other payables	(12,290)	(1,734)	(12,290)	(1,734)
Borrowings	(118,840)	(106,238)	(118,840)	(106,238)

Capital management

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

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt No changes were made in the capital management objectives, policies or processes during the years ended 31 December 2012 and 2011

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

	2012 USD '000	2011 USD '000
Borrowings	118,840	106,238
Capital	129,445	248,452
Gearing ratio	92%	43%

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14 Related party transactions

Obligations to related parties

As at 31 December 2012 the Company had no obligations (2011 – nil) to related parties as all obligations were paid out during the year

Transactions with related parties

	Charges to related parties USD '000	Purchases from related parties USD '000	Amounts owed by related parties USD '000	Amounts owed to related parties USD '000
Entities with key management of the Company				
2012	-	14	-	-
2011	29	31	-	-

The Company advances funds to its subsidiaries There was no interest accrued on the advances in 2012 (2011 – nil) Note 7 details movements and year-end balances in respect of subsidiary undertakings

Key management compensation

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

	2012 USD '000	2011 USD'000
Salaries and other short-term employee benefits	2,267	2,442
Share-based payments	878	603
	3,145	3,045

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

15 Auditor's remuneration

	2012 USD'000	2011 USD'000
Auditor's remuneration for services included in professional fees		
Audit of the Group's annual accounts	306	497
Other services related to taxation	4	11

The audit expenditure in 2012 includes payment of 23 thousand USD (2011 - 219 thousand USD) for audit services related to prior periods

16 Operating lease obligations

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

Lease payments under operating leases recognised in profit or loss for the year were 493 thousand USD (2011 – 501 thousand USD)

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

	2012 USD'000	2011 USD'000
Within one year	262	216

Notes to the parent company financial statements

for the year ended 31 December 2012

17 Events after the reporting period

On 13 January 2013 the Company entered into a convertible bond agreement in the amount of 1 379 million USD to pay the additional interest of 10% per annum accrued on the amount of convertible bonds issued in 2012 and 2010 (Note 10)

On 19 April 2013 the Company reached an agreement to extend the maturity date of all outstanding convertible bonds until 11 May

On 22 April 2013 the Company entered into a convertible bond agreement (the "bond") in the amount of 1 414 million USD to pay the additional interest of 10% per annum accrued on the amount of convertible bonds issued in 2012 and 2010

The Company is negotiating an agreement to extend the maturity date and defer all interest payments on the outstanding convertible bonds and the term loan until the completion of the sale of the Group's Russian assets

The Group has negotiated an agreement to sell 100% of Diall Alliance LLC The sale will result in the disposal of the Group's major asset and post-closing, the plan is to put the Company into liquidation and distribute the assets of the Company to the shareholders The transaction is contingent on the buyer obtaining certain internal approvals and approval of the Russian anti-monopoly