

Company number: 5966431

Caspian Sunrise plc

Annual report and financial statements
for the year ended
31 December 2016

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Directors

Mr C Carver (Executive Chairman)
Mr K Oraziman (Chief Executive Officer)
Mr K Satylganov (Chief Financial Officer)
Lord Limerick (Non Executive Director)

Company Secretary

Mr Clive Carver

Registered Office and Business address

5 New Street Square, London EC4A 3TW

Company Number 5966431

Nominated Adviser and Broker

WH Ireland Limited

Solicitors

Fladgate LLP
16 Great Queen Street, London, WC2B 5DG

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Share Register

Capital Registrars
Northern House, Woodsome Park, Fenay Bridge,
Huddersfield, HD8 0LA

Principal Banker

HSBC bank London
1-3 Bishopsgate,
London, EC2N 3AQ

Strategic Report

Directors present their strategic report on the Group for the year ended 31 December 2016.

Introduction

The Company's name was changed from Roxi Petroleum to Caspian Sunrise following shareholder approval of the Baverstock Merger on 24 March 2017.

This strategic report comprises; the Group's objectives; the Group's strategy; the Group's business model; and a review of the Group's business using key performance indicators.

The Chairman's statement, which also forms the main part of the strategic review, contains a review of the development and performance of the Group's business during the financial year, and the position of the Group's business at the end of that year.

Additionally, a summary of the principal risks and uncertainties facing the business is set out in this strategic report immediately before the Chairman's statement.

Objectives

The Group's objective is to create shareholder value from the development of oil and gas projects and associated activities.

The Group has a number of secondary objectives, including promoting the highest level of health & safety standards, developing our staff to their highest potential and being a good corporate citizen in our chosen countries of operations.

Strategy

The Group's long term strategy is to build an attractive portfolio of oil and gas exploration and production assets in Central Asia, and in particular Kazakhstan where the board has the greatest experience.

Additionally the Group will seek to exploit associated opportunities where the board believes it can add significant value and contribute towards the success of the Group as a whole.

At present the Group's principal asset is its interest in BNG, which the Group will continue to develop.

Business model

The Board plans to further develop the BNG Contract Area such that by summer 2018, the expected date when a full production licence will be applied for, the BNG Contract Area has been drilled to identify the greatest level of reserves and production consistent with not unduly diluting Caspian Sunrise's shareholders interest in the asset.

Should the Group achieve reserves in excess of 100 tonnes (730 mbbbls) by the date of this licence renewal it would qualify for a 49-year production licence rather than the standard 29-year licence.

Over the medium term the Group will consider acquiring additional assets where the board believes an acquisition would increase shareholder value. The Directors believe the Group is exceptionally well placed through its local presence to increase shareholder value by opportunistic acquisitions of undervalued oil and gas assets.

Additionally, the Board believes there is a significant opportunity to assist much larger companies seeking to enter the vast Kazakhstan oil and gas market where they wish to have a well placed local partner.

Notwithstanding the above should the board identify other projects where the Group's status and positioning as a leading Kazakh smaller resources company allows it to make opportunistic profitable investments in the wider oil & gas sector it would seek to do so provided this did not compromise the Group's wider plans.

Key performance indicators

Review of the Group's business using key performance indicators.

The Key Performance Indicators are:

- Operational (wells drilled)
- Production (oil produced)

Following the completion of the Baverstock Merger the Company will own 99% interests in the BNG and Munaily Contract Areas. Production from BNG must under the terms of the current licence be sold at domestic prices although production under the planned BNG Full Production licence would be capable of being sold at International prices. Production from Munaily may be sold at international prices.

At the date of this report production from the:

- BNG Contract Area was 1,300 bopd (2015: 825 bopd)
- Munaily Contract Area was 80 bopd (2015: 75 bopd)

Details of the wells drilled are set out in the Chairman's statement.

Reserves

Details of the Group's assets and reserves are set out in the Chairman's statement.

Financial

The principal expenses of the Company relate to the drilling programme at BNG. The Company's drilling commitments under the BNG licence include one shallow well (now drilled) and two deep wells by 30 June 2018. Day to day drilling costs have recently been funded by the pre sales of oil, which is expected to be the principal source of funding for the remainder of the 2017 drilling programme. The deep wells will require additional debt or equity funding. There remains some \$10.8 million undrawn on the \$40 million equity facility provided by Kairat Satylganov. However such funding would result in new equity being raised at a price of some 7.41p per share, which is materially below the prevailing share price and, accordingly, it is not currently the intention of the board to call further on this facility unless necessary. Whilst, if required, this facility would meet one of the deep well commitments further funding will be required to complete the drilling program. In keeping with other oil and gas exploration companies the Group frequently seeks to raise funds to undertake its drilling program as and when such funds are required. The Directors remain confident that necessary funding will be obtained for the drilling program, either through additional debt or equity.

In the event the Group decides to develop BNG at a rate faster than could be funded by current production or chooses to acquire other assets, additional equity or debt would also be required.

Other costs are the costs associated with G&A and maintaining the London listing for the Group's shares and for the period under review and in 2017 the costs associated with the Baverstock merger.

The principal and other risks and uncertainties facing the business

The Company and the Group are subject to various risks relating to political, economic, legal, social, industry, business and financial conditions. The following risk factors, which are not exhaustive, are particularly relevant to the Company and the Group's business activities:

Financing risks

Despite the continued low price of rigs and crew exploring for oil is still an expensive business, with each well drilled potentially costing typically US\$1.5 million for a shallow well and between US\$8 million and US\$12 million for a 5,000 meter well.

The relatively low value of the Kazakh Tenge compared to the US\$ mitigates the costs of exploration and production as most workers and some equipment costs are denominated in Kazakh Tenge.

Following the proposed capitalisation of the US\$10.1 million debt due to Vertom, which was approved by shareholders in March 2017, but remains subject to the completion of the Baverstock Merger, the Group will be free of long term debt with only short-term financing from local oil traders based upon existing production.

The Group continually monitors the financing arrangements to ensure the continuation of the operational activities and expects to fund the bulk of the costs of its planned development programme over the next 12 months from the proceeds of the receipt of oil plus the introduction of new equity or debt as set out above. In the short term the continued availability of funding from local oil traders remains crucial to the completion of the current work programme and additional funding is required to meet short term working capital. To this end, the Group's major shareholder has provided written undertakings to provide funding to meet working capital requirements (excluding future drilling costs) if necessary. Further details regarding financing risks are set out in note 1.1 to the financial statements.

Exploration risk

Despite our recent successes with our shallow wells there is no assurance that the Group's future exploration activities will continue to be successful. Accordingly, the Group seeks to reduce this risk by acquiring and evaluating 3D seismic information before committing to drill exploration and appraisal wells. The Company also seeks to engage suitably skilled personnel either as employees or contractors to undertake detailed assessments of the areas under exploration.

Environmental and other regulatory requirements

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted.

Before exploration and production can commence the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that new rules and regulations will not be enacted or existing legislations will not be applied in a manner, which could limit or curtail the Group's activities.

The Group employs staff experienced in the requirements of the Kazakh environmental authorities and seeks through their experience to mitigate the risk of non-compliance with accepted best practice.

Operational risks

It is the nature of oil and gas operations that each project is long term. It can be many years before the exploration and evaluation expenditures incurred are proven to be viable and progress to reach commercial production.

To control these risks the Board arranges for the provision of technical support, directly or through appointed agents and also as appropriate commissions technical research and feasibility studies both prior to entering into these commitments and subsequently in the life of these projects.

In addition, operational risks include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is project operator, it takes an increased responsibility for ensuring that the Company is compliant with all relevant legislation.

The Group has hired competent people with appropriate skills to manage such risks at the appropriate levels within the Group structure. Additionally where appropriate the Group engages expert contractors.

Political risk

The Group currently operates primarily in Kazakhstan. The nature of the Group's investments requires the commitment of significant funding to facilitate exploration and evaluation expenditure in Kazakhstan.

While the Group enjoys very good working relationships with the Kazakh regulatory authorities there can be no assurances that the laws and regulations and their interpretation will not change in future periods and that as a result the Group's activities would be affected.

However, the Directors believe with the exceptionally high proportion of Kazakh nationals in key positions and the Group's prolonged experience of operating in Kazakhstan it is as well placed as any internationally listed company operating in Kazakhstan to avoid inadvertently falling foul of local regulations or customs.

Pricing risk

As the Group increases production during the exploration and estimation phases of its licences its financial performance could be adversely affected by a fall in the price of oil.

World prices have stabilised in the period under review and subsequently. The bulk of the oil sold is from the BNG Contract Area and under the terms of the current licence must be sold at domestic prices, which in recent months have typically been some US\$16 per barrel. Until BNG is awarded a full production licence, the first opportunity being in June 2018, the Group will not be able to sell oil produced from the BNG Contract Area at world prices.

Over the medium and longer terms the Group will inevitably be impacted by movements in the price of oil. Production levels to date have not warranted active hedging and no oil price hedging is anticipated in the coming year.

Exchange rate risk

The Group's income is denominated in US\$ and its expenditure is denominated in US\$ and Kazakh Tenge. In the year under review the exchange rate movement was limited. However in recent years the Tenge has suffered serious depreciation against the US\$, which has materially benefitted the Group. In the event the Kazakh Tenge is devalued further against the US\$ the Company benefits as income is unaffected but Tenge denominated costs fall when reported in US\$.

The Group's presentational currency is the US\$. Since 2014, the Kazakh Tenge has depreciated by approximately 82% against the US\$ resulting in an accounting reduction in the carrying value of our unproven oil and gas assets of approximately US\$90 million as the result of devaluations in the Kazakh Tenge.

Given the relative strengths of the US\$ and the Kazakh Tenge the Group has decided not to seek to hedge this foreign currency exposure.

Chairman's Statement

A new start

The long planned merger with Baverstock marks the start of a new phase in the Group's development. Once the merger, which independent shareholders approved on 24 March 2017, has completed we will own a 99% interest of our flagship BNG asset. We will therefore be free to develop the BNG Contract Area in the direction and at a pace to suit ourselves alone.

Additionally, with the capitalisation of the US\$10.1 million Vertom loan which is also subject to the completion of the Baverstock Merger, the Group will be free of long-term debt with only short-term financing from local traders based upon existing production.

To mark the new phase in the Group's development shareholders also approved the change of name to Caspian Sunrise. The new name both identifies our principal operational location but also draws on the imagery depicted on the Kazakh national flag with its rising sun in a clear blue sky.

Business performance overview

Introduction

During the period under review and subsequently the Group has made steady progress against the backdrop of an industry recovering with broadly stable oil prices.

Our 58.41% (99% following the completion of the Baverstock Merger) interest in our principal asset, the BNG Contract Area, remains a potentially very valuable asset, possibly comparable with other high profile assets in the area.

While we have been extremely successful with our shallow wells this is not yet the case with our deep wells. A consistent theme with our deep wells over the past few years has been how to deal with the problems resulting from extremely high pressure and temperatures. Once mastered, BNG, in the opinion of the Board, has the ability to become a very significant oil producer.

BNG Background

The BNG Contract Area is located in the west of Kazakhstan 40 kilometers southeast of Tengiz on the edge of the Mangistau Oblast, covering an area of 1,561 square kilometers of which 1,376 square kilometers has 3D seismic coverage acquired in 2009 and 2010.

In January 2016, we announced that the area of the Contract Area was extended at a cost of US\$2 million with the addition of 140.6 square kilometres to the northeast of the current block. The extended BNG Contract Area now covers 1,702 square kilometres.

We intend to acquire 3D seismic data on the new territory before finalising its drilling plans. Of particular interest is the deep formation currently being explored by Deep Wells A5, 801 & A6, which the Company believes extends into the new extension area.

The BNG Contract Area is similar in size to the area bounded by London's M25 Motorway. It is sparsely populated and arid region highly successful in oil production, being only 40 kilometers from the world-renowned Tengiz field.

BNG is located close to existing oil separation facilities and close to the CPC export pipeline, which provides a relatively low cost option to export our oil when the licence terms permit and is expected to significantly reduce the funding required to bring BNG into full field production. This together with low lifting costs are expected to place BNG in the bottom quartile as a low cost producer.

Our approach to developing BNG

The Contract Area has a number of areas of interest both above the salt layer (shallow) and below the salt layer (deep).

Development of the shallow prospects is technically far easier than the deep prospects and much cheaper. Shallow well costs have typically been approximately US\$1.25 - US\$1.5 million with successful wells repaying drilling costs in little over 12 months even though production may only be sold at domestic prices under the current exploration licence (approximately US\$16 per barrel at the end of the period under review and subsequently).

We expect commercial production from certain shallow wells to be in excess of 600 bopd.

Development of the deeper prospects is technically difficult with problems from extreme high pressure and temperature to be overcome. Costs of deep wells have typically been between US\$8-US\$15 million over the period drilled.

The rewards from a deep well are however expected to be much greater with wells expected to flow potentially at rates between 2,000 – 3,000 bopd and with oil of a significantly higher quality, which on the open market would command a premium over the oil produced from the shallow wells.

The quantity of oil to be discovered and produced from the deep prospects is also expected to be very significantly greater than from shallow prospects.

We therefore have a mix of shallow and deep development activities. The shallow wells are quick to drill and have an excellent pay-back period even from existing pilot production, which is partially funding the continued development of BNG. The aggregate production from these and other shallow wells will, in the board's opinion, be the basis for a very successful commercial enterprise without any contribution from the deep prospects.

However the addition of successful deep prospects very materially increases the value of the Contract Area and our Group.

During 2016, a further US\$10.5 million was invested into BNG (2015: US\$11.7 million).

BNG Shallow

South Yelemes structure

The South Yelemes structure was first identified as an oil producing structure during the Soviet era. During the Group's involvement with BNG three new shallow wells (805,806 & 807) have been drilled and in aggregate these are producing at the rate of 150 bopd.

Whilst useful these are not rates high enough to warrant further investment given the other opportunities at BNG. Accordingly no new shallow wells are planned on this structure.

MJF structure

It was during the period under review that the full potential of the MJF structure became apparent.

Well 143 was drilled to a depth of 2,750 meters in 2013 to explore a potential new structure. During 2016, after delays in clearing the well of excess drilling fluid, we tested the well at 5 separate intervals, with the result the well is currently producing at the rate of 604 bopd using a 8 mm choke.

Also in 2016, we drilled wells 141 and 142 both to depths of 2,500 meters to assess the extent of the MJF structure. The success of both Well 141 and Well 142 has resulted in aggregate production from the MJF structure of 1,150 bopd and the extension of the area to a minimum of 10km².

A further shallow well (Well 144) is planned to be spudded in Q2 2017 to assess further the MJF structure. This well has a planned total depth of 2,500 meters is targeting the same Jurassic Callovian sands at a depth of 2,200 meters with a secondary objective in the Cretaceous Valanginian limestone at a depth of 1,900 meters as wells 141, 142 and 143. Total depth is expected to be reached by the end of Q2 2017. Well 144 is located some 0.89 km from well 141 and some 2 km from Well 143, which is believed to be near the centre of the MJF structure. If successful Well 144 should extend the minimum size of the MJF structure from the current 10 km².

Potential New structure

We have also explored a potential new structure with Well 808, which was spudded in Q1 2017 targeting Cretaceous Jurassic and possible Triassic horizons and reached its total depth of 3,200 meters in March 2017.

The well has six intervals with potential hydrocarbons. The lower intervals tested between 3,038 – 3030 meters and between 3,014 and 3,008 meters contained shows of oil films but tested water with gas and are not considered worth pursuing.

The remaining intervals between 2714 – 2716 meters; 2646 – 2648 meters; 2557 – 2559 meters & 2356 – 2363 meters are planned for perforation and testing in in Q2 2017.

In the event the results of testing the remaining intervals at Well 808 indicate the presence of a significant quantity of oil a further two wells are planned for later in 2017.

Shallow reserves

Production from the South Yelemes structure and Well 143 in the MJF structure led to Gaffney Cline & Associates to ascribe 29.3 mmbbls of P2 reserves to these structures. Since 31 December 2015 cut off date for the information considered we have successfully drilled Well 141 & Well 142 and spudded Well 144 on the MJF structure and successfully drilled and tested Well 808 on the new structure. In due course we will ask Gaffney Cline & Associates to reconsider their assessment of the reserves attributable to our shallow structures.

BNG Deep

Work in the period under review and subsequently has focused on getting the three wells drilled to flow freely to allow well tests to be undertaken.

Deep Well A5

Deep Well A5 was the first of the deep wells to be drilled and like deep Well A6 has been drilled on the Airshagyl structure. The well has produced for a few hours at the rate of 2,000 bopd but has not yet flowed sufficiently for a prolonged well test.

Extreme high pressure and temperature resulted in a difficult drilling phase, which led to the initial decision to test the well on an open-hole basis. We no longer believe an open-hole test is the best way forward and have decided to side-track from a depth of 4,000 meters, following which we would hope to be able to conduct the long waited flow test.

The preparation work for the side-track is at an advanced stage and we expect to be able to report on the outcome of the remedial work by the end of Q2 2017.

Deep Well 801

Deep Well 801 was the second deep well to be drilled and was drilled under contract by Sinopec, the leading Chinese contractor. To date this is the only deep well drilled on the Yelemes structure.

As with deep Well A5 the issue was that the high pressure in the well has made clearing the drilling fluid used while drilling to control the well very difficult. As with Deep Well A5 the well has flowed for short periods at the rate of 2,000 bopd before becoming blocked.

The technique being used on this well is a mixture of chemical washes and to use the natural pressure in the well to slowly remove the excess drilling fluids. These techniques were used successfully on Shallow Well 143, which is currently flowing at the rate of 604 bopd. Additionally work is underway to free instances where the 5-inch liner has become caught at a number of casing points on the pipe.

Deep Well A6

Deep Well A6 was the third deep well drilled. Lessons were learned from the earlier wells and with the exception of delays penetrating the salt layer the drilling of the well was less eventful than for either deep Well A5 or deep Well 801.

A gross interval of in excess of 100 meters was identified from mud and wireline logs as being potentially hydrocarbon bearing.

In January 2017, as previously announced, the lower 46 meters were poorly perforated although the limited recoveries tested with oil films, water and gas.

In April the top 60 meters of the 100-meter plus interval were successfully perforated using a different leading international contractor. To date limited recoveries from the well have been possible and the well is being prepared for a chemical wash to stimulate the flows to allow a proper assessment of what is there.

Deep Well summary

Drilling deep wells through salt in the presence of extremely high temperature and pressure is not easy. We have learnt as we have drilled, principally by employing individual local staff with direct experience of high pressure drilling rather than relying on the standard operating procedures employed by the large international contractors.

The three deep wells drilled to date have been drilled at a fraction of the costs likely had each been drilled by a large international company. The relative ease with which deep Well A6, the third of the deep wells, was drilled, demonstrates how the pressures can be controlled during drilling without spending tens of millions per well.

The positives from our deep drilling campaign to date are that we know where the oil is and that it is of high quality. Dependent upon further testing, once flowing we would expect the potential for significant quantities and a target of production levels between 2,000 – 3,000 bopd.

That said we are yet to get any of the deep wells flowing sufficiently long enough for information to be provided to Gaffney Cline & Associates to allow them to begin to estimate BNG's deep reserves. Were we to do so it should transform our stated reserves and the Group cash-flows to allow a faster development of the BNG than possible at present.

Getting the deep wells to flow remains our first priority.

Our licences and work programme obligations

In June 2015 the BNG licence was successfully extended until June 2018. During this estimation phase any oil produced from exploration and appraisal activities at BNG must be sold on the domestic Kazakh market, with prices significantly lower than international prices.

A condition of the licence renewal was that one further shallow well and two further deep wells be drilled before the next anticipated licence renewal in June 2018. The obligations are being met with the drilling of Shallow Well 808 & Deep Well A6 (which have been drilled) and Deep Well 802 which remains to be drilled.

In January 2016, Roxi invested a further \$2.2 million in extending the area of its BNG Contract Area by 140.6 square kilometres to the north west of the existing BNG Contract Area. The minimum work programme commitment for the extension area is one additional deep well. This will be satisfied by drilling Deep Well A8.

The successful renewal and extension of the BNG licence in June 2018 is a priority for the Company.

The licence at Munaily is a full production licence, with an expiry term of 8 years where production can be sold at export prices. Our work programme commitments at Munaily will be satisfied by the well re-entry programme referred to below.

Our Assets

		Interest (%)		
Asset		Following the completion of the Baverstock merger	31 December 2016	31 December 2015
BNG		99.00	58.41	58.41
Munaily		99.00	58.41	58.41
Beibars		50.00	50.00	50.00

		Wells drilled and completed at	
Asset		31 December 2016	31 December 2015
BNG		12	8
Munaily		1	1
Beibars		-	-

Reserves and Resources

In January 2011, BNG engaged Gaffney Cline & Associates ("GCA") to undertake a technical audit of the BNG Contract Area and subsequently Petroleum Geology Services ("PGS") to undertake depth migration work, based on the 3D seismic work carried out in 2009 and 2010.

The work of GCA resulted in confirming total unrisks resources of 900 million barrels from 37 prospects and leads mapped from the 3D seismic work undertaken in 2009 and 2010. The report of GCA also confirmed risked resources of 202 million barrels as well as Most Likely Contingent Resources of 13 million barrels on South Yelemes.

The depth migration work that was carried out by PGS enabled Roxi to gain a greater understanding of some of the deeper prospects yet to be explored. Roxi believes the greater potential exists in the pre salt prospects and has plans to drill further wells to validate this belief.

In September 2016 Gaffney Cline & Associates assessed the reserves attributable to the BNG shallow structures as set out below. The reserves attributable to Munaily are taken from balances held by the Kazakh authorities.

Asset		31 December 2016	31 December 2015
		MMBLS	MMBLS
BNG			
Shallow (P1)		18.3	-
Shallow (P2)		29.3	-
Deep (P1)		-	-
Deep (P2)		-	-
Munaily			
P1		1.2	1.2
Beibars		0	0

We plan to have Gaffney Cline & Associates revisit these finding based on additional information from well 143 and information from new wells 141 & 142 and if appropriate Well 808.

Well Summary

Well	Date spudded	Depth (Meters)	Structure	Working interest <i>post completion of the Baverstock Merger</i> (%)	Status	BOPD
BNG						
A5	July 2013	4,432	Aryshagal	99	Preparing to undertake a side-track	N/A
A6	Nov 2015	4,516	Aryshagal	99	Preparing for well stimulation following a successful perforation	N/A
801	Dec 2014	5,050	Yelemes deep	99	Undergoing periodic chemical washes	N/A
54	Soviet era	3,000	Yelemes	99	Shut in	N/A
805	2010	2,505	Yelemes	99	Producing under test	61
806	2010	2,557	Yelemes	99	Producing under test	47
807	Sep 2013	2,500	Yelemes	99	Producing under test	48
808	Jan 2017	3,200	New	99	Testing 5 intervals	N/A
141	Aug 2016	2,500	MJF	99	Producing under test	367
142	Oct 2016	2,500	MJF	99	Producing under test	163
143	April 2013	2,750	MJF	99	Producing under test	605
144	April 2017	2,500	MJF	99	Drilling	N/A
Munaily						
H1	2008	1,300	Munaily	99	Producing at export prices	80

Operator status

BNG Ltd LLP, of which, following completion of the Baverstock Merger, Caspian Sunrise will own 99%, has been the operator at BNG since 2011.

Work programme

In the remainder of 2017 Caspian Sunrise plans to test the remaining four intervals at well 808 in the extension area, drill a further deep well at BNG between Deep Wells A5 and 801 and 2 further shallow wells in the MJF Structure and subject to the success of well 808, two further shallow wells at the potential new structure.

Other assets

Munaily

The Munaily field is located in the Atyrau Region approximately 70 kilometres southeast of the town of Kulsary. The field was discovered in the 1940s and produced from 12 reservoirs in the Cretaceous through to the Triassic. Caspian Sunrise acquired 58.41 per cent interest of the 0.67 square kilometres rehabilitation block in 2008 and funded two wells and one well re-entry.

The field is capable of producing at the rate of 80 bopd. Sales of oil from Munaily are at export prices.

We have concluded an agreement with a Chinese company to re-enter up to 24 wells drilled during Soviet times with our Chinese partner with it bearing the drilling costs and any incremental production being split between us on a 50:50 basis. To date four wells have been re-entered but it is too early to predict with confidence how successful they will be.

Beibars

In 2007, Roxi acquired a 50 per cent interest in Beibars Munai LLP, which operates the 167 square kilometer Beibars Contract Area on the Caspian shoreline south of the city of Aktau. While acquiring 3D seismic in 2008, the licence was put under Force Majeure when the acreage was allocated as a military exercise area (Polygon), by the Ministry of Defence. Since then no operations have been carried out, and Caspian Sunrise operates a care and maintenance administrative budget on the project.

At some point we expect to be invited to resume our interest in Beibars but are not able to predict with certainty when that might be.

The costs of maintaining our interest at the Beibars Contract Area are not material.

Baverstock Merger

Independent shareholders voted to approve the Baverstock merger on 24 March 2017, subject to completion of certain conditions precedent. Under the terms of the merger upon completion 651,436,544 new Caspian Sunrise shares representing 41.59% of the then enlarged share capital will be issued to the Baverstock quotaholders in return for the Company acquiring 41.59% of BNG, so that in aggregate the enlarged company will have a 99% interest in the BNG Contract Area.

Also approved by independent shareholders was the capitalisation of approximately US\$10.1 million due to Vertom again subject to the completion of the Baverstock Merger, a company controlled by Kuat Oraziman, the Company's CEO, which will be satisfied by the issue of a further 80,804,200 new Caspian Sunrise shares making the Group free of long term debt with only short-term financing from local traders based upon existing production.

On 12 May 2017 we announced the receipt of the final material condition to the merger, being the receipt of the formal approval of the relevant Kazakh authorities. Finalisation of the Baverstock merger is now dependent only upon a number of procedural steps, with completion expected before the end of Q2 2017.

In addition to the advantages of greater size and greater control of the development of the BNG asset the Group will now be able to reorganise to simplify the wider Caspian Sunrise Group for commercial advantage and to better comply with various international administrative and requirements.

Most important though is the ability to develop the BNG asset at a rate faster than may have been possible otherwise.

Funding

Recent development at BNG has been in part funded by the pre sale of oil from the shallow wells at BNG. The deep wells will require additional debt or equity funding.

There remains some \$10.8 million undrawn on the \$40 million equity facility provided by Kairat Satylganov. However such funding would result in new equity being raised at a price of some 7.41p per share, which is materially below the prevailing share price and, accordingly, it is not currently the intention of the board to call further on this facility unless necessary. Whilst, if required, this facility would meet one of the deep well commitments further funding will be required to complete the drilling program. In keeping with other oil and gas exploration companies the Group frequently seeks to raise funds to undertake its drilling program as and when such funds are required.

In the event the Board decides to continue to develop BNG at a rate faster than can be funded solely by current production additional equity or debt would be required.

Based on enquiries should the board seek new equity capital they believe it would be available to fund the continued development of BNG.

Dividends

There is no current intention to pay a dividend. Revenue from production is being used to fund further development.

Financial statements

The Group incurred capitalised exploration costs of US\$10.4 million in the year, principally related to the drilling programme at BNG, which after the completion of the work programme obligations are essentially discretionary. Total assets increased by US\$0.2 million to US\$85.2 million with cash balances reducing from US\$10.4 million to US\$0.4 million as a result of the exploration expenditure.

In respect of funding, the loans due to Vertom International NV ("Vertom") falls due for repayment in April 2018. However, the loan is due to be converted into equity on completion of the Baverstock Merger and Vertom have provided written undertakings that, in the event the Baverstock Merger is delayed they will extend the term of the loan to 30 June 2018.

The Group generated revenue of US\$1.6 million (2015: US\$1.1 million) reflecting increased production. Total administrative costs were broadly stable at US\$3.1 million (2015: US\$2.8 million), which mainly refer to costs associated with maintaining the London listing for the Group's shares for the period under review. The Group generated a loss for the year of US\$5.4 million (2015: profit of US\$10.6 million). The 2015 profit included US\$14.2 million of profit, net of taxation, on discontinued operations relating to the sale of Galaz and a gain of US\$2.2 million associated with the settlement of royalty liabilities.

The Group incurred net cash flows from operating activities of US\$0.03 million and cash outflows from investing activities of US\$9.9 million related mainly to exploration expenditure on the BNG asset. In 2015 the Group incurred operating cash outflows of US\$7.9 million due to payments to suppliers and repayments of advances from customers, generated net cash inflows of US\$16.2 million from investing activities including exploration expenditure of US\$16.9 million and receipts from the Galaz disposal of US\$21.9 million and repayments of loans of US\$11.3 million, whilst net cash inflows from financing activities were US\$1.5 million including proceeds from equity issued and repayment of loans.

Tenge Depreciation

Since 2014 the Kazakh Tenge has depreciated against the US\$, the functional accounting currency of the Group, by approximately 82%, although in the period under review and subsequently it has been relatively stable. Commercially this is very much to the Group's advantage as all income and the value of our reserves are denominated in US\$ and only costs are denominated in Tenge.

However, as for previous years, the international accounting standards require that we translate assets, liabilities and results of our Kazakh subsidiaries, which have a Tenge functional currency, into US\$. Whilst the Tenge was relatively stable in 2016, the carrying value of the Company's assets has been depreciated on a cumulative basis by approximately US\$90 million since the start of 2013, when for all commercial purposes it has significantly appreciated in value.

Impairment assessment

The carrying value of the Group's principle asset BNG has to date been based on implied valuations from a succession of financing arrangements. It also reflects the impact of the depreciation of the Tenge against the US\$ (see above).

Following the strengthening of the world oil price and the operational progress made during the period under review, albeit without the desired breakthrough at a deeper well, the Caspian Sunrise board has concluded that no impairment to the carrying value of our flagship asset, BNG would be appropriate.

Going Concern

The financial statements have been prepared on a going concern basis. Refer to note 1.1 in the financial statements and the Strategic Report and Chairman's Statement for details.

Board responsibilities

The senior management team comprises Kuat Oraziman, CEO, who has overall responsibility for managing the Group's affairs in Kazakhstan; Kairat Satylganov, CFO, with responsibility for the Group's finances in Kazakhstan, and Clive Carver, Executive Chairman, who is responsible for the Group's overall finances and its activities in the UK, including the activities arising from Caspian Sunrise being a publicly listed company.

Edmund Limerick is the Group's senior non-executive Director, and chairman of the audit and remuneration committees.

Staffing

We have 90 employees based in Kazakhstan, the vast majority of whom are all of Kazakh nationals, who we thank once again for their continued hard work and commitment.

Shareholders

I would also like to take this opportunity to thank shareholders for their continued support.

Following Independent shareholder approval of the Baverstock Merger and the change in the Group's name we have launched a new website (www.caspiansunrise.com) which is up to date and contains new features such as interviews with management and analysts forecasts. We would encourage anyone interested in Caspian Sunrise to log onto the website.

The Board is looking to build a lasting business on the foundations of our BNG asset. We recognise that the pace of development has not always been as fast as shareholders would like.

Part of the issue has been dealt with by way of the Baverstock Merger. Once we overcome the issues of pressure and temperature at our deep wells at BNG the future should look very good.

Social Programmes

Under Kazakh regulations part of our obligations under various work programmes on the assets in which we have an interest are paid in the form of contributions to local social programmes. Caspian Sunrise is pleased to have assisted in the development of these projects.

Environmental

No significant environmental issues have arisen at any of the properties acquired to date.

Current trading

Oil prices grew steadily during much of the period under review and have held up since and remain significantly above the lowest seen in recent periods. We remain pleased with the production from the shallow wells and in particular from the MJF structure. Even using the domestic price of US\$16 per barrel required under our current Estimation & Appraisal Licence this production together with production from BNG's South Yelemes structure and from Munaily is helping to fund the continued development of BNG.

Rig prices remain low, although the costs of consumables such as drill pipes and drilling mud is rising. With a high proportion of our costs in Kazakh Tenge the overall costs of drilling remains low by historic standards.

The Group is well placed to continue with its planned development activity at BNG.

Prospects

Our focus in 2017 and the first six months of 2018 will be to do all possible to maximise the period of the BNG full production licence, which first becomes possible in June 2018, without unduly diluting shareholders.

To qualify for a 49-year production licence we would need to report reserves in excess of 100 tonnes (730 mmbbls).

While we expect the reserves attributable to our shallow drilling success to increase as we pass new information to Gaffney Cline & Associates. It will only be the success with the deeper wells that would permit us to reach our June 2018 reserves target. The Strategic Report and these financial statement were approved and authorised by the Board for issue on 12 May 2017 and signed on its behalf by

Clive Carver

Chairman
12 May 2017

Qualified Person & Glossary

Qualified person

Mr. Nurlybek Ospanov, the Company's Chief Geologist & Technical Director, who is a member of the Society of Petroleum Engineers ("SPE"), has reviewed and approved the technical disclosures in this announcement.

Glossary

SPE – The Society of Petroleum Engineers

Bopd - barrels of oil per day.

Mmbs – million barrels.

Proven reserves

Proved reserves (P1) are those quantities of petroleum which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable reserves

Probable reserves are those additional Reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Possible reserves

Possible reserves are those additional reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of proved plus probable plus possible (3P), which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Contingent resources

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Prospective resources

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects.

Directors' report

The Directors present their annual report on the operations of the Company and the Group, together with the audited financial statements for the year ended 31 December 2016. The Strategic report forms part of the business review for this year.

Results and dividends

The consolidated statement of profit or loss is set out on page 23 and shows US\$ 5.4 million loss for the year. The Directors do not recommend the payment of a dividend (2015: US\$ nil). The position and performance of the Group is discussed below and further details are given in the business review.

Events after the reporting period

Other than as disclosed in this annual report, including notes to the financial statements, there have been no material events between 31 December 2016 and the date of this report, which are required to be brought to the attention of shareholders.

Employees

Staff employed by the Group are based primarily in Kazakhstan. The recruitment and retention of staff, especially at management level, is increasingly important as the Group continues to build its portfolio of oil and gas assets.

As well as providing employees with appropriate remuneration and other benefits together with a safe and enjoyable working environment, the Board recognises the importance of communicating with employees to motivate them and involve them fully in the business. For the most part, this communication takes place at a local level but staff are kept informed of major developments through email updates. They also have access to the Company's website.

The Company has taken out full indemnity insurance on behalf of the Directors and officers.

Health, safety and environment

It is the Group's policy and practice to comply with health, safety and environmental regulations and the requirements of the countries in which it operates, to protect its employees, assets and environment.

Charitable and Political donations

During the year the Group made no charitable or political donations.

Directors and Directors' interests

The Directors of the Group and the Company who served throughout the year were:

Clive Carver

Kuat Oraziman

Kairat Satylganov

Edmund Limerick

Directors interests

Director	Number of shares	Number of shares	Number of shares
	Following the completion of the Baverstock Merger	As at 31 December 2016	As at December 2015
Clive Carver	nil	nil	nil
Kuat Oraziman	763,706,614	374,408,033	374,408,033
Kairat Satylganov	205,428,656	205,428,656	205,428,656
Edmund Limerick*	2,235,000	2,235,000	655,000

* includes 1,135,000 shares held by his wife

Biographical details of the current Directors are set out on the Company's website www.caspian sunrise.com.

Details of the Directors' individual remuneration, service contracts and interests in share options are shown in the Remuneration Committee Report.

Financial instruments

Details of the use of financial instruments by the Group and its subsidiary undertakings are contained in note 25 of the financial statements.

Statement of disclosure of information to auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Auditors

BDO LLP were appointed auditors to the Company on 29 November 2016. BDO LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group's and Company's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company's law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the London Stock Exchange AIM Market.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of 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.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Clive Carver

Chairman
12 May 2017

Remuneration Committee Report

Remuneration Committee

The Remuneration Committee comprises Edmund Limerick, Kuat Oraziman and Clive Carver, and is chaired by Edmund Limerick.

Remuneration policy

The Group's and the Company's policy is to provide remuneration packages that will attract, retain and motivate its executive Directors and senior management. This consists of a basic salary, ancillary benefits and other performance-related remuneration appropriate to their individual responsibilities and having regard to the remuneration levels of comparable posts. The Remuneration Committee determines the contract term, basic salary, and other remuneration for the members of the Board and the senior management team.

Service contracts

Details of the current Directors' service contracts are as follows:

	Date of service agreement/appointment letter	Date of last renewal of appointment
Executive		
Clive Carver	1 June 2012	11 February 2013
Kuat Oraziman	1 April 2007	1 June 2012
Kairat Satylganov	11 February 2013	11 February 2013
Non-Executive		
Edmund Limerick	1 February 2010	1 February 2010

Basic salary and benefits

The basic salaries of the Directors who served during the financial year are established by reference to their responsibilities and individual performance. The amounts received by the Directors are set out below in US\$.

Directors		2016 Salary/fees US\$	2016 Share options US\$	2016 Total US\$	2015 Total US\$
Clive Carver	Executive Chairman	240,000	136,441	376,441	376,441
Kuat Oraziman	CEO	122,382	136,441	258,823	253,255
Kairat Satylganov	CFO	122,382	136,441	258,823	257,946
Edmund Limerick	Non-Executive	40,356	34,110	74,466	79,360
Hyunsik Jang	Non-Executive	-	-	-	25,875
Total		525,120	443,433	968,553	992,877

Share option amounts refer to the IFRS 2 accounting charge. Mr Hyunsik Jang was Non-Executive Director from 1 January 2014 and resigned 24 July 2015.

Bonus schemes

All Executive Directors are eligible for consideration of participation in the Company bonus scheme. However, as in previous years no bonuses are payable in respect of the year ended 31 December 2016 (2015: nil).

Remuneration Committee Report (continued)

Share options

The current interests as at approval of accounts of the current Directors and as at 31 December 2016 in share options agreements are as follows:

Directors	Granted	Exercise Price	Expiry date
Clive Carver	2,400,000	4p	14 December 2021
Kuat Oraziman	4,200,000	4p	14 December 2021
Edmund Limerick	1,200,000	4p	14 December 2021

Directors	Granted	Exercise Price	Expiry date
Clive Carver	538,264	12p	14 August 2019
Kuat Oraziman	269,132	12p	14 August 2019
Edmund Limerick	200,000	12p	15 February 2020

Directors	Granted	Exercise Price	Expiry date
Clive Carver	750,000	13p	12 January 2021
Kuat Oraziman	3,090,000	13p	12 January 2021
Edmund Limerick	750,000	13p	12 January 2021

Directors	Granted	Exercise Price	Expiry date
Clive Carver	3,000,000	20p	21 August 2024
Kuat Oraziman	3,000,000	20p	21 August 2024
Kairat Satylganov	3,000,000	20p	21 August 2024
Edmund Limerick	750,000	20p	21 August 2024

Directors	Granted	Exercise Price	Expiry date
Clive Carver	1,345,660	38p	22 May 2017
Kuat Oraziman	672,830	38p	22 May 2017

Directors	Granted	Exercise Price	Expiry date
Clive Carver	1,215,385	65p	29 February 2018
Clive Carver	387,692	65p	22 April 2018
Kuat Oraziman	607,692	65p	29 February 2018
Kuat Oraziman	193,846	65p	22 April 2018

On behalf of the Directors of Caspian Sunrise plc

Edmund Limerick

Chairman of Remuneration Committee

12 May 2017

Report on Corporate Governance

The Directors consider it important that appropriately high standards of corporate governance are maintained. They have therefore put in place governance structures and provide information, which would be expected for companies listed on the Alternative Investment Market of the London Stock Exchange and in light of the Group's size, stage of development and resources. However, the Company is not required to comply with the UK Corporate Governance Code (the "Code"), as published by the Financial Reporting Council, so this report does not describe compliance with or departures from the Code.

The Company has one Non-Executive Director and three Executive Directors as follows:

Clive Carver	Executive Chairman
Kuat Oraziman	Chief Executive Officer
Kairat Satylganov	Chief Financial Officer
Edmund Limerick	Non-Executive Director

The Board retains full and effective control over the Company. The Company holds a Board meeting at least once per quarter, at which operational, financial and other reports are considered and, where appropriate, voted on.

Apart from regular meetings, additional meetings are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resource and environmental management.

The Board is also responsible for monitoring the activities of the Management.

Board of meetings

The Board met 7 times and 18 times during 2016 and 2015 respectively, with the following attendance:

	2016	2015
C Carver	7	18
E Limerick	7	18
K Oraziman	5	6
K Satylganov	4	3
H S Jang	NA	4

The Board has established the following committees:

Audit & Risk Committee

The Audit & Risk Committee, which comprises Edmund Limerick and Clive Carver, with Edmund Limerick acting as Chairman, determines and examines any matters relating to the financial affairs of the Group including the terms of engagement of the Group's auditors and, in consultation with the auditors, the scope of the audit.

The Audit & Risk Committee receives and reviews reports from the management and the external auditors of the Group relating to the annual and interim amounts and the accounting and internal control systems of the Group. In addition it considers the financial performance, position and prospects of the Group and the Company and ensures they are properly monitored and reported on.

Remuneration Committee

The Remuneration Committee, which comprises Edmund Limerick, Kuat Oraziman and Clive Carver, with Edmund Limerick acting as Chairman, reviews the performance of the senior management, sets and reviews their remuneration and the terms of their service contracts and considers the Group's bonus and option schemes.

Rule 21

The Directors comply with Rule 21 of the AIM Rules relating to Directors' dealing and take all reasonable steps to ensure compliance by the Group's applicable employees. The Company has adopted and operates a share dealing code for Directors and employees in accordance with the AIM Rules.

Internal controls

The Board acknowledges responsibility for maintaining appropriate internal control systems and procedures to safeguard the shareholders' investments and the assets, employees and the business of the Group.

The Board has established and operates a policy of continuous review and development of appropriate financial controls together with operating procedures consistent with the accounting policies of the Group.

The Board does not consider it appropriate for the current size of the Group to establish an internal audit function.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CASPIAN SUNRISE PLC

We have audited the financial statements of Caspian Sunrise plc for the year ended 31 December 2016 which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the parent company statement of changes in equity, the consolidated statement of financial position, the parent company statement of financial position, the consolidated and parent company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2016 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 – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1.1 to the financial statements concerning the Group's ability to continue as a going concern. Further funding will be required to meet the Group's drilling commitments by 30 June 2018. While the Directors are confident of being able to secure the funding to meet liabilities as they fall due, the necessary funding is not currently in place. These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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.

Ryan Ferguson

(Senior statutory auditor)

*For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
12 May 2017*

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year to 31 December 2016 US\$'000	Year to 31 December 2015 US\$'000
Revenue		1,571	1,051
Cost of sales		(1,589)	(1,049)
Gross (loss)/profit		(18)	2
Share-based payments		(555)	(555)
Revaluation of royalty liability	24	-	2,183
Other administrative costs		(3,085)	(2,787)
Total administrative expenses		(3,640)	(1,159)
Operating loss	4	(3,658)	(1,157)
Finance cost	7	(826)	(946)
Finance income	8	235	234
Loss before taxation		(4,249)	(1,869)
Tax charge*	9	(1,124)	(1,749)
Loss after taxation from continuing operations		(5,373)	(3,618)
Profit for the year from discontinued operations (net of tax)*	29,30	-	14,213
(Loss)/profit for the year		(5,373)	10,595
(Loss)/profit attributable to owners of the parent		(3,582)	7,829
(Loss)/profit attributable to non-controlling interest		(1,791)	2,766
(Loss)/profit for the year		(5,373)	10,595
Earnings per share	10		
<i>Basic (loss)/earnings per ordinary share (US cents)*</i>			
From continuing operations		(0.38)	(0.06)
From discontinued operations		-	0.91
Total		(0.38)	0.85
<i>Diluted (loss)/earnings per ordinary share (US cents)*</i>			
From continuing operations		(0.38)	(0.06)
From discontinued operations		-	0.90
Total		(0.38)	0.84

* Refer to note 1.2 for details of reclassifications in respect of the taxation charge and profit on discontinued operations in the 2015 comparative, together with the impact on earnings per share in 2015.

The notes on pages 30 to 58 are essential part of these financial statements

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2016	Year ended 31 December 2015
	US\$000	US\$000
(Loss)/profit after taxation	(5,373)	10,595
Other comprehensive income:		
Exchange differences on translating foreign operations from continuing operations*	2,311	(70,861)
Exchange differences and recycling of exchange differences on translating foreign operations from discontinued operations	-	2,650
Total comprehensive loss for the year	(3,062)	(57,616)
Total comprehensive loss attributable to:		
Owners of parent	(2,055)	(29,703)
Non-controlling interest	(1,007)	(27,913)

*Items which may be reclassified to the consolidated statement of profit or loss. Refer to note 1.2 for details of the reclassification of the recycling of exchange differences on disposal of Galaz in 2015.

The notes on pages 30 to 58 are essential part of these financial statements

Consolidated Statement of Changes in Equity

	Share capital US\$'000	Share premium US\$'000	Deferred shares US\$'000	Cumulative translation reserve US\$'000	Other reserves US\$'000	Retained deficit US\$'000	Total attributable to the owner of the Parent US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Total equity as at 1 January 2016	15,979	146,664	64,702	(56,533)	(583)	(124,316)	45,913	3,624	49,537
Loss after taxation	-	-	-	-	-	(3,582)	(3,582)	(1,791)	(5,373)
Exchange differences on translating foreign operations	-	-	-	1,527	-	-	1,527	784	2,311
Total comprehensive income/(loss) for the year	-	-	-	1,527	-	(3,582)	(2,055)	(1,007)	(3,062)
Arising on employee share options	-	-	-	-	-	555	555	-	555
Stock options exercised	21	64	-	-	-	-	85	-	85
Total equity as at 31 December 2016	16,000	146,728	64,702	(55,006)	(583)	(127,343)	44,498	2,617	47,115

	Share capital US\$'000	Share premium US\$'000	Deferred shares US\$'000	Cumulative translation reserve US\$'000	Other reserves US\$'000	Retained deficit US\$'000	Total attributable to the owner of the Parent US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Total equity as at 1 January 2015	14,761	136,674	64,702	(19,001)	(583)	(132,700)	63,853	31,537	95,390
Income after taxation	-	-	-	-	-	7,829	7,829	2,766	10,595
Exchange differences on translating foreign operations	-	-	-	(37,532)	-	-	(37,532)	(30,679)	(68,211)
Total comprehensive income/(loss) for the year	-	-	-	(37,532)	-	7,829	(29,703)	(27,913)	(57,616)
Arising on share issues	405	2,595	-	-	-	-	3,000	-	3,000
Arising on employee share options	-	-	-	-	-	555	555	-	555
Conversion of debts to equity	726	7,083	-	-	-	-	7,809	-	7,809
Stock options exercised	87	312	-	-	-	-	399	-	399
Total equity as at 31 December 2015	15,979	146,664	64,702	(56,533)	(583)	(124,316)	45,913	3,624	49,537

Refer to note 1.2 for details of the reclassification of the recycling of exchange differences on disposal of Galaz in 2015.

Equity	Description and purpose
Share capital	The nominal value of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Deferred shares	The nominal value of deferred shares issued
Cumulative translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into US Dollars, less amounts recycled on disposal of subsidiaries and joint ventures
Other reserves	Fair value of warrants issued and capital contribution arising on discounted loans
Retained deficit	Cumulative losses recognised in the consolidated statement of profit or loss
Non-controlling interest	The interest of non-controlling parties in the net assets of the subsidiaries

The notes on pages 30 to 58 are essential part of these financial statements

Parent Company Statement of Changes in Equity

	Share capital US\$'000	Share premium US\$'000	Deferred shares US\$'000	Other reserves US\$'000	Retained deficit US\$'000	Total attributable to the owner of the Parent US\$'000
Total equity as at 1 January 2016 (restated)	15,979	146,664	64,702	16,715	(134,439)	109,621
Total comprehensive loss for the year	-	-	-	-	(9,891)	(9,891)
Arising on employee share options	-	-	-	-	555	555
Stock options exercised	21	64	-	-	-	85
Total equity as at 31 December 2016	16,000	146,728	64,702	16,715	(143,775)	100,370
	Share capital US\$'000	Share premium US\$'000	Deferred shares US\$'000	Other reserves US\$'000	Retained deficit US\$'000	Total attributable to the owner of the Parent US\$'000
Total equity as at 1 January 2015 (as previously stated)	14,761	136,674	64,702	16,715	(119,085)	113,767
Prior year restatement (note 27)	-	-	-	-	(14,566)	(14,566)
Total equity as at 1 January 2015 (restated)	14,761	136,674	64,702	16,715	(133,651)	99,201
Total comprehensive loss for the year	-	-	-	-	(1,343)	(1,343)
Arising on share issues	405	2,595	-	-	-	3,000
Conversion of debts to equity	726	7,083	-	-	-	7,809
Arising on employee share options	-	-	-	-	555	555
Stock options exercised	87	312	-	-	-	399
Total equity as at 31 December 2015 (restated)	15,979	146,664	64,702	16,715	(134,439)	109,621

Refer to note 1.2 and 27 for details of the prior year restatement.

Equity	Description and purpose
Share capital	The nominal value of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Deferred shares	The nominal value of deferred shares issued
Other reserves	Fair value of warrants issued and capital contribution arising on discounted loans
Retained deficit	Cumulative losses recognised in the profit or loss

The notes on pages 30 to 58 are essential part of these financial statements

Consolidated Statement of Financial Position

Company number 5966431	Notes	Group 2016 US\$'000	Group 2015 US\$'000
Assets			
Non-current assets			
Unproven oil and gas assets	11	68,086	57,323
Property, plant and equipment	12	223	195
Inventories	14	10	12
Other receivables	15	7,738	14,640
Restricted use cash		283	271
Total non-current assets		76,340	72,441
Current assets			
Other receivables	15	8,490	2,096
Cash and cash equivalents	16	405	10,462
Total current assets		8,895	12,558
Total assets		85,235	84,999
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital	17	16,000	15,979
Share premium		146,728	146,664
Deferred shares	17	64,702	64,702
Other reserves		(583)	(583)
Retained deficit		(127,343)	(124,316)
Cumulative translation reserve		(55,006)	(56,533)
Equity attributable to the owners of the Parent		44,498	45,913
Non-controlling interests		2,617	3,624
Total equity		47,115	49,537
Current liabilities			
Trade and other payables	18	5,643	5,732
Short - term borrowings	19	809	308
Current provisions	20	3,692	2,957
Total current liabilities		10,144	8,997
Non-current liabilities			
Borrowings	21	9,935	9,903
Deferred tax liabilities	22	7,748	7,485
Non-current provisions	20	679	780
Other payables	18	9,614	8,297
Total non-current liabilities		27,976	26,465
Total liabilities		38,120	35,462
Total equity and liabilities		85,235	84,999

Approved by the Board and authorized for issue:

Clive Carver,

Chairman,
12 May 2017

Company number: 5966431

The notes on pages 30 to 58 are essential part of these financial statements

Parent Company Statement of Financial Position

Company number 5966431	Notes	Company 2016 US\$'000	Company 2015 US\$'000 (restated)	Company 2014 US\$'000 (restated)
Assets				
Non-current assets				
Investments in subsidiaries	13	126,342	107,307	117,698
Other receivables	15	2,728	52,628	49,512
Total non-current assets		129,070	159,935	167,210
Current assets				
Other receivables	15	3,204	2	122
Cash and cash equivalents	16	10	25	18
Total current assets		3,214	27	140
Total assets		132,284	159,962	167,350
Equity and liabilities				
Capital and reserves attributable to equity holders of the parent				
Share capital	17	16,000	15,979	14,761
Share premium		146,728	146,664	136,674
Deferred shares	17	64,702	64,702	64,702
Other reserves		16,715	16,715	16,715
Retained deficit		(143,775)	(134,439)	(133,651)
Equity attributable to the owners of the Parent		100,370	109,621	99,201
Total equity		100,370	109,621	99,201
Current liabilities				
Trade and other payables	18	606	1,204	6,121
Total current liabilities		606	1,204	6,121
Non-current liabilities				
Borrowings	21	9,935	9,903	9,075
Other payables	18	21,373	39,234	52,953
Total non-current liabilities		31,308	49,137	62,028
Total liabilities		31,914	50,341	68,149
Total equity and liabilities		132,284	159,962	167,350

The Company incurred loss for the year ended 31 December 2016 in the amount of US\$ 9,891,000 (2015: US\$ 1,343,000).

Refer to note 1.2 and 27 for details of the prior year restatement.

Approved by the Board and authorized for issue:

Clive Carver,

Chairman,
12 May 2017

Company number: 5966431

The notes on pages 30 to 58 are essential part of these financial statements

Consolidated and Parent Company Statements of Cash Flows

		Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
	Notes				
Cash flows from operating activities					
Cash received from/(repaid to) customers*		3,823	(3,125)	-	-
Payments made to suppliers for goods and services		(2,256)	(3,089)	(1,363)	(927)
Payments made to employees		(1,541)	(1,699)	(744)	(455)
Net cash flow from operating activities		26	(7,913)	(2,107)	(1,382)
Cash flows from investing activities					
Purchase of property, plant and equipment	12	(64)	(30)	-	-
Additions to unproven oil and gas assets **	11	(9,840)	(16,915)	-	-
Transfers from/(to) restricted use cash		(12)	52	-	-
Loans repaid by joint ventures		-	11,280	-	6,900
Disposal of joint venture (net of cash disposed and taxation)	30	-	21,908	-	-
Advances repaid by subsidiaries		-	-	8,302	10,391
Advances issued to subsidiaries		-	-	-	(12,102)
Return of exclusivity payment received in advance		-	-	-	(1,000)
Net cash flow from investing activities		(9,916)	16,295	8,302	4,189
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		85	3,399	85	3,399
Loans repaid		(753)	(1,924)	(753)	-
Loans received		501	-	-	-
Repayment of loans provided by subsidiaries		-	-	(5,542)	(6,199)
Net cash flow from financing activities		(167)	1,475	(6,210)	(2,800)
Net increase/(decrease) in cash and cash equivalents		(10,057)	9,857	(15)	7
Cash and cash equivalents at the beginning of the year		10,462	605	25	18
Cash and cash equivalents at the end of the year	16	405	10,462	10	25

Significant non-cash transactions include the following and details can be found in notes 6, 7, 8, 15, 24, 30:

- Share-based payments in the amount of US\$ 555,000 (2015: US\$ 555,000);
- Withholding tax in the amount of US\$ 1,124,000 (2015: US\$ 1,126,000);
- Discounting of receivables in the amount of US\$ 235,000 (2015: US\$234,000);
- Exchange differences on translating foreign operations of US\$ 2,311,000 (2015: US\$ 68,211,000);
- Depreciation charge of US\$ 42,000 (2015: US\$ 40,000);
- Conversion of debt to equity of US\$ 0 (2015: US\$ 7,809,000);
- Interest expense of US\$ 826,000 (2015: US\$ 946,000);
- Change in the fair value of derivative of US\$ 0 (2015: US\$ 2,183,000);
- Adjustment of the net working capital position at the date of Galaz disposal of US\$ 0 (2015: US\$ 966,000);
- Adjustment of the net assets disposed for Galaz disposal of US\$ 0(2015: US\$ 7,247,000);
- Adjustment for the release of the cumulative translation reserve of US\$ 0 (2015: US\$ 2,361,000);
- Adjustment for the taxation on Galaz disposal being paid on behalf of the Group by new owners of US\$ 0 (2015: US\$ 3,521,000);
- Adjustment for the deferred consideration on Galaz disposal of US\$ 225,000 (2015: US\$ 1,827,000).

* The amount of cash returned to the customers of US\$ 3,125,000 in 2015 includes prepayments received by Galaz from traders being returned by the Group.

** Additions to unproven oil and gas assets contain the amount of US\$ 211,000 in relation to payroll expenses capitalized (2015: US\$: 302,000).

The Parent Company cash flow comparatives for 2015 include reclassifications of advances issued to subsidiaries, advances repaid by subsidiaries and repayment of loans provided by subsidiaries. Net cash flows from investing activities were previously stated as an outflow of US\$4,910,000 and net cash flows from financing activities were previously stated as an inflow of US\$6,299,000 prior to the reclassifications.

Notes to the Financial Statements

General information

Caspian Sunrise plc ("the Company") is a public limited company incorporated and domiciled in England and Wales. The address of its registered office is 5 New Street Square, London, EC4A 3TW. These consolidated financial statements were authorised for issue by the Board of Directors on 12 May 2017.

The principal activities of the Group are exploration and production of crude oil.

1 Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

1.1 Basis of preparation

The Group's and Parent's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The Directors have prepared cash flow forecasts for the next 12 months which demonstrate that the Group will have sufficient funds to meet its liabilities as they fall due and operate as a going concern, including completion of its planned drilling program. The forecasts include growth in revenue including the impact of anticipated deep well test production.

The Group's \$10.1m loan from Vertom is due to be converted to equity upon completion of the Baverstock Merger, which remains subject to conditions precedent although these are not substantive in nature. In the event it is not converted the loan is due for repayment in April 2018, Vertom have provided a written undertaking to extend the loan repayment to June 2018.

The Group has minimal current cash balances and its operations are currently being financed by local oil traders from existing production, such that the Group is dependent upon oil trader funding remaining available as well as additional funding being secured in the immediate future to meet its short term working capital requirements. The Directors are confident that the existing oil trader funding will continue, based on the production profile and relationships with the oil traders, and the Group's major shareholder has provided a written undertaking to provide financial support as required to meet the Group's working capital requirements excluding future drilling costs.

The Group's committed drilling program requires one shallow well (now drilled) and two deep wells to be drilled under its licence obligations by 30 June 2018, which will require additional debt or equity funding over and above the short term working capital requirements. There remains some \$10.8 million undrawn on the \$40 million equity facility provided by Kairat Satylganov. However such funding would result at new equity being raised at a price of some 7.41p per share, which is materially below the prevailing share price and, accordingly, it is not currently the intention of the board to call further on this facility unless necessary. Whilst this facility would meet one of the deep well commitments further funding will be required to complete the drilling program. In keeping with other oil and gas exploration companies the Group frequently seeks to raise funds to undertake its drilling program as and when such funds are required. The Directors remain confident that necessary funding will be obtained for the drilling program, either through additional debt or equity.

However, there can be no guarantee as to the Group's ability to secure sufficient funding to meet its drilling commitments under the licence on a timely basis. This condition represents a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit or loss in these financial statements. The Group loss for the year included a loss on ordinary activities after tax of US\$9,891,000 in respect of the Company.

The preparation of financial statements in conformity with IFRSs requires the Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 2.

1.2 Restatement

Company level

The Parent company statement of financial position as at 31 December 2015 and 1 January 2015 as well as Parent statement of changes in equity for the year ended 31 December 2015 have been restated. Interest was incorrectly accrued in respect of several non-current advances provided to the subsidiary from 1 January 2012 onwards. The prior year comparatives have been restated accordingly to exclude this accrued interest.

In addition, in order to properly reflect the nature of the advances provided by the Parent company, which are in substance an equity

investment and formed part of the net investment in subsidiaries, the relevant non-current intercompany receivables have been reclassified as part of investments in subsidiaries.

For the reconciliation between the previously reported financial position for the years ended 31 December 2015 and 31 December 2014 and the restated financial position refer to note 27. As a result of the restatement, the Parent company's retained loss has been increased from US\$ 115,968,000 to US\$ 134,439,000 at 31 December 2015 and the profit and total comprehensive income for 2015 of US\$ 2,562,000 has been restated to a loss and total comprehensive expense of US\$ 1,343,000.

Consolidated level

Taxation of US \$3,531,000 in relation to Galaz disposal in 2015 was previously included as part of the taxation charge rather than as a deduction from the profit for the year from discontinued operations. The amount has been reclassified in the current year comparatives, reducing the tax charge and the profit on discontinued operations accordingly. There was no impact on total equity or the profit for 2015. Basic earnings and diluted earnings per share for continued and discontinued operations have been adjusted accordingly as a result as detailed in note 10.

Additionally, the amounts relating to the recycling of unrealised foreign exchange of US\$2,361,000 was previously recorded as part of the profit on discontinued operations and as an increase in the cumulative translation reserve. The 2015 comparative has been adjusted to reflect the release of the unrealised foreign exchange within other comprehensive income. The adjustment had no effect on profit or total equity but resulted in a decrease in the total comprehensive loss for 2015 of US\$2,361,000 from US\$ 59,977,000 to US\$57,616,000.

1.3 New and revised standards and interpretations applied

The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2016. The implementation of these standards did not have a material effect on the Group.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.3 New and revised standards and interpretations applied (continued)

Standard	Effective date	Impact on initial application
Annual Improvements to IFRSs (2012 - 2014 Cycle)	1 Jan 2016	No impact
IAS1 – Presentation of Financial Statements	1 Jan 2016	No impact
IFRS 10, IFRS 12, IAS 28 – Investment Entities	1 Jan 2016	No impact
IAS 16 and IAS 38 – Depreciation and Amortisation	1 Jan 2016	No impact
IFRS 11 – Joint Operations	1 Jan 2016	No impact
IAS 27 - Separate Financial Statements	1 Jan 2016	No impact

Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of this financial information which have not been adopted early:

Standard	Description	Effective date
IFRS 9	Financial Instruments	1 Jan 2018
IFRS 15	Revenue from Contracts with Customers	1 Jan 2018
IFRS 16	Leases	1 Jan 2019*
IAS 12*	Amendment – Recognition of deferred tax assets for unrealised losses	1 Jan 2017
IAS 7*	Amendment – Disclosure initiative	1 Jan 2017
IFRS 2*	Amendment – Classification and measurement of share based payment transactions	1 Jan 2018

**Not yet been endorsed by the European Union at the date that this financial information was approved and authorised for issue by the Board.*

IFRS 15 is intended to introduce a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognize. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management are currently assessing the standard's full impact.

IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognise all lease assets and liabilities on the balance sheet; recognise amortization of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cash flow statement. Management are currently assessing the impact of this standard as whilst there are no material operating leases in the Group it may be relevant to future operations.

IFRS 9 addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. Management are currently assessing the standard's full impact.

The remaining items in the table are still being assessed by the Group.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.4 Basis of consolidation

Subsidiary undertakings are entities that are directly or indirectly controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Where the Group holds interests in jointly ventures, it accounts for its interests using the equity method.

1.5 Operating Loss

Operating loss is stated after crediting all operating income and charging all operating expenses, but before crediting or charging the financial income or expenses.

1.6 Foreign currency translation

1.6.1 Functional and presentational currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US Dollars ("US\$"), which is the Group's presentational currency. Beibars Munai LLP, Munaily Kazakhstan LLP, BNG Ltd LLP and Roxi Petroleum Kazakhstan LLP, subsidiary undertakings of the Group, undertake their activities in Kazakhstan and the Kazakh Tenge is the functional currency of these entities. The functional currency for the Company, Beibars BV, Ravninnoe BV, Galaz Energy BV, BNG Energy BV and Eragon Petroleum FZE is USD as USD reflects the underlying transactions, conducts and events relevant to these companies.

1.6.2 Transactions and balances in foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items, including the parent's share capital, that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

1.6.3 Consolidation

For the purpose of consolidation all assets and liabilities of Group entities with a functional currency that is not US\$ are translated at the rate prevailing at the reporting date. The profit or loss is translated at the exchange rates approximating to those ruling when the transaction took place. Exchange difference arising on retranslating the opening net assets from the opening rate and results of operations from the average rate are recognised directly in other comprehensive income (the "cumulative translation reserve"). On disposal of a foreign operator related cumulative foreign exchange gains and losses are reclassified to profit and loss and are recognized as part of the gain or loss on disposal.

1.7 Current tax

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

1.8 Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.9 Unproven oil and gas assets

The Group applies the full cost method of accounting for exploration and unproven oil and gas asset costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring for and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cost pools. Such cost pools are based on license areas. The Group currently has two cost pools.

Exploration and evaluation costs include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the profit or loss as they are incurred.

Plant and equipment assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such asset is consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

The amounts included within unproven oil and gas assets include the fair value that was paid for the acquisition of partnerships holding subsoil use in Kazakhstan. These licenses have been capitalised to the Group's full cost pool in respect of each license area.

Exploration and unproven oil and gas assets related to each exploration license/prospect are not amortised but are carried forward until the technical feasibility and commercial usability of extracting a mineral resource are demonstrated.

Commercial reserves are defined as proved oil and gas reserves.

Proven oil and gas properties

Once a project reaches the stage of commercial production and production permits are received, the carrying values of the relevant exploration and evaluation asset are assessed for impairment and transferred to proven oil and gas properties and included within property plant and equipment.

Proven oil and gas properties are accounted for in accordance with provisions of the cost model under IAS 16 "Property Plant and Equipment" and are depleted on unit of production basis based on commercial reserves of the pool to which they relate.

Impairment

Exploration and unproven intangible assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable as at the reporting date. Intangible exploration and evaluation assets that relate to exploration and evaluation activities that are not yet determined to have resulted in the discovery of the commercial reserve remain capitalised as intangible exploration and evaluation assets subject to meeting a pool-wide impairment test as set out below.

In accordance with IFRS 6 the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired, whether:

- the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- exploration for and evaluation of hydrocarbons in a specific area have not led to the discovery of commercially viable quantities of hydrocarbons and the Group has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Group perform an impairment test in accordance with the provisions of IAS 36. The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit, being the relevant cost pool. The recoverable amount is the higher of value in use and the fair value less costs to sell.

An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Workovers/Overhauls and maintenance

From time to time a workover or overhaul or maintenance of existing proven oil and gas properties is required, which normally fall into one of two distinct categories. The type of workover dictates the accounting policy and recognition of the related costs:

Capitalisable costs – cost will be capitalised where the performance of an asset is improved, where an asset being overhauled is being changed from its initial use, the assets' useful life is being extended, or the asset is being modified to assist the production of new reserves.

Non-capitalisable costs – expense type workover costs are costs incurred as maintenance type expenditure, which would be considered day-to-day servicing of the asset. These types of expenditures are recognised within cost of sales in the statement of comprehensive income as incurred. Expense workovers generally include work that is maintenance in nature and generally will not increase production capability through accessing new reserves, production from a new zone or significantly extend the life or change the nature of the well from its original production profile.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.10 Abandonment

Provision is made for the present value of the future cost of the decommissioning of oil wells and related facilities. This provision is recognised when the asset is installed. The estimated costs, based on engineering cost levels prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of decommissioning. The corresponding amount is capitalised as a part of the oil and gas asset and, when in production is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of decommissioning is capitalised, while the charge arising from the unwinding of the discount applied to the decommissioning provision is treated as a component of the interest charge.

1.11 Restricted use cash

Restricted use cash is the amount set aside by the Group for the purpose of creating an abandonment fund to cover the future cost of the decommissioning of oil and gas wells and related facilities and in accordance with local legal rulings.

Under the Subsoil Use Contracts the Group must place 1% of the value of exploration costs in an escrow deposit account. At the end of the contract this cash will be used to return the field to the condition that it was in before exploration started.

1.12 Property, plant and equipment

All property, plant and equipment assets are stated at cost or fair value on acquisition less accumulated depreciation. Depreciation is provided on a straight-line basis, at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. Expected useful economic life and residual values are reviewed annually.

The annual rates of depreciation for class of property, plant and equipment are as follows:

- | | |
|------------------|----------------|
| - motor vehicles | over 7 years |
| - other | over 2-4 years |

The Group assesses at each reporting date whether there is any indication that any of its property, plant and equipment has been impaired. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value.

1.13 Investments (Company)

Non-current asset investments in subsidiary undertakings are shown at cost less allowance for impairment. Long term advances to subsidiaries form part of the net investment in the subsidiary and are recorded at cost as part of the investment.

1.14 Financial instruments

The Group classifies financial instruments, or their component parts on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

The Group's financial assets consist of cash and other receivables. Cash and cash equivalents are defined as short term cash deposits which comprise cash on deposit with an original maturity of less than 3 months. Other receivables are initially measured at fair value and subsequently at amortised cost.

The Group's financial liabilities are non-interest bearing trade and other payables, other interest bearing borrowings and profit oil royalties. Non-interest bearing trade and other payables and other interest bearing borrowings are stated initially at fair value and subsequently at amortised cost. Profit oil royalties are recognised and measured at fair values through profit or loss.

Where a loan is renegotiated on substantially different terms, this is treated as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are considered to be 'substantially different' if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. In addition to this quantitative test, a qualitative test is also applied.

Share capital issued to extinguish financial liabilities is fair valued with any difference to the carrying value of the financial liability taken to the profit or loss.

1.15 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.16 Other provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.17 Share capital

Ordinary and deferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.18 Share-based payments

The Group has used shares and share options as consideration for services received from employees.

Equity-settled share-based payments to employees and others providing similar services are measured at fair value at the date of grant. The fair value determined at the grant date of such an equity-settled share-based instrument is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair value determined at the grant date of such an equity-settled share-based instrument is expensed since the shares vest immediately. Where the services are related to the issue of shares, the fair values of these services are offset against share premium where permitted.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted based on the Management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

1.19 Warrants

Warrants are separated from the host contract as their risks and characteristics are not closely related to those of the host contracts. Where the exercise price of the warrants is in a different currency to the functional currency of the Company, at each reporting date the warrants are valued at fair value with changes in fair values recognised through profit or loss as they arise. The fair values of the warrants are calculated using the Black-Scholes model. Where the warrant exercise price is in the same currency as the functional currency of the issuer and involve the issuance of a fixed number of shares the warrants are recorded in equity.

1.20 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products provided in the normal course of business, net of discounts, VAT and other sales related taxes to third party customers. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of the revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group.

1.21 Cost of sales

During test production cost of sales cannot be reliably estimated and therefore a cost of sales equal to revenue is recognised and credited to the unproven oil and gas assets.

1.22 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions, has been identified as the Board of Directors. The Group has two operating segment being oil exploration and production in Kazakhstan and one reporting segment.

1.23 Interest receivable and payable

Interest income and expense are reported on an accrual basis using the effective interest rate method.

1.24 Exchange rates

For reference the year end exchange rate from sterling to US\$ was 1.23 and the average rate during the year was 1.36. The year end exchange rate from KZT to US\$ was 333.29 and the average rate during the year was 342.16.

1.25 Joint venture agreements

The Group's investments in joint arrangements are characterised as a joint venture in which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. Investments in joint ventures are accounted for using the equity method. The carrying amount of the investment in joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group. Unrealised gains and losses on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.26 Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from the measurement and disposal of assets classified as held for sale.

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation. Any profit or loss arising from the sale or re-measurement of discontinued operations is presented as part of a single line item, profit or loss from discontinued operations.

2 Critical accounting estimates and judgements

In the process of applying the Group's accounting policies, which are described in note 1, the Management has made the following judgements and key assumptions that have the most significant effect on the amounts recognised in the financial statements.

2.1 Recoverability of exploration and evaluation costs

Under the full cost method of accounting for exploration and evaluation costs, such costs are capitalised as intangible assets by reference to appropriate cost pools, and are assessed for impairment on a concession basis based on the IFRS 6 impairment indicators detailed in the accounting policy note 1.9. As at 31 December 2016, the Group assessed the exploration and evaluation assets disclosed in note 11 and determined that no indicators of impairment existed at a cost pool level in respect of the BNG cost pool. In forming this assessment, the Board considered the results of the Competent Person report, the economic models associated with the shallow wells, the results of exploration activity to date, the status of licences and future plans for the licence areas. The Beibars cost pool remains impaired based on the continuance of the force majeure.

2.2 Merger completion and carrying value of receivables

The Group has receivables due from Baverstock as detailed in note 15. As at 31 December 2016 the receivables have been classified as current receivables as they are due to form part of the effective consideration paid as part of the Baverstock Merger detailed in note 28.

2.3 Decommissioning

Provision has been made in the accounts for future decommissioning costs to plug and abandon wells in note 20. The costs of provisions have been added to the value of the unproven oil and gas asset and will be depreciated on the unit of production basis. The decommissioning liability is stated in the accounts at discounted present value and accreted up to the final expected liability by way of an annual finance charge.

The Group has potential decommissioning obligations in respect of its interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. Actual costs incurred in future periods may substantially differ from the amounts of provisions. In addition, future changes in environmental laws and regulations, estimates of deposit useful lives and discount rates may affect the carrying value of this provision.

2.4 Share-based compensation

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 25.

3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments and making strategic decisions, has been identified as the Board of Directors.

The Group operates in one operating segment (exploration for and production of oil in Kazakhstan). All revenues from test production are generated domestically in Kazakhstan.

75% of Group's revenue was derived from the major customer Petroleum Operating LLP.

Notes to the Financial Statements (continued)

4 Operating loss

Group operating profit for the year has been arrived after charging:

	Group 2016 US\$'000	Group 2015 US\$'000
Depreciation of property, plant and equipment (note 12)	(42)	(40)
Auditors' remuneration (note 5)	(170)	(220)
Staff costs (note 6)	(1,541)	(1,699)
Share based payment remuneration (note 6)	(555)	(555)
Loss from investment in equity accounted joint venture (note 29)	-	(914)

5 Group Auditor's remuneration

Fees payable by the Group to the Company's auditor BDO and its associates in respect of the year:

	Group 2016 US\$'000	Group 2015 US\$'000
Fees for the audit of the annual financial statements	90	-
Auditing of accounts of associates of the Company	-	-
Other services – corporation tax compliance	59	-
	149	-

Fees payable by the Group to the Company's previous auditor Grant Thornton and its associates in respect of the year:

	Group 2016 US\$'000	Group 2015 US\$'000
Fees for the audit of the annual financial statements	-	104
Auditing of accounts of associates of the Company	21	9
Other services – corporation tax compliance	-	107
	21	220

6 Employees and Directors

Staff costs during the year	Group 2016 US\$'000	Group 2015 US\$'000
Wages and salaries	1,541	1,699
Social security costs	128	176
Pension costs	83	126
Share-based payments	555	555
	2,307	2,556

Payroll expenses were capitalized in the amount of US\$ 211,000 (2015: US\$ 302,000).

Average monthly number of people employed (including executive Directors)	Group 2016	Group 2015
Technical	13	14
Field operations	46	34
Finance	9	9
Administrative and support	22	21
	90	78

Notes to the Financial Statements (continued)

Directors' remuneration	Group 2016 US\$'000	Group 2015 US\$'000
Director's emoluments	525	549
Share-based payments	443	443
	968	992

The Directors are the key management personnel of the Company and the Group. Details of Directors' emoluments and interests in shares are shown in the Remuneration Committee Report. The highest paid director had emoluments totalling US\$240,000 (2015: US\$240,000).

7 Finance cost

	Group 2016 US\$'000	Group 2015 US\$'000
Loan interest payable	765	828
Unwinding of discount on provisions (note 20)	61	118
	826	946

8 Finance income

	Group 2016 US\$'000	Group 2015 US\$'000
Unwinding of discount of loan receivable from Baverstock (note 15)	235	215
Other	-	19
	235	234

9 Taxation

Analysis of charge for the year	Group 2016 US\$'000	Group* 2015 US\$'000
Current tax charge	1,124	1,749
Deferred tax charge	-	-
	1,124	1,749

	Group 2016 US\$'000	Group 2015 US\$'000
Loss on ordinary activities before tax	(4,249)	(1,869)
Tax on the above at the standard rate of corporate income tax in the UK 20% (2015: 21.5%)	(850)	(402)
<i>Effects of:</i>		
Non-deductible expenses	305	251
Effect of different tax rates overseas	-	499
Withholding tax on interest expense	1,124	1,126
Unrecognised tax losses carried forward	545	275
	1,124	1,749

* Refer to note 1.2 for details of the reclassification of taxation between the taxation charge and profit on discontinued activities in 2015.

Notes to the Financial Statements (continued)

10 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the income/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year including shares to be issued.

In order to calculate diluted earnings/(loss) per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares according to IAS33. Dilutive potential ordinary shares include share options granted to employees and directors where the exercise price (adjusted according to IAS33) is less than the average market price of the Company's ordinary shares during the period.

The calculation of income/(loss) per share is based on:

	2016	2015**
The basic weighted average number of ordinary shares in issue during the year*	937,191,981	914,698,721
The diluted average number of ordinary shares in issue during the year	945,591,981	924,586,221
The income/(loss) for the year attributable to owners of the parent from continuing operations (US\$'000)	(3,582)	(557)
The income/(loss) for the year attributable to owners of the parent from discontinued operations (US\$'000)	-	8,386

* Including shares to be issued from the day the funds were received for such shares.

** Refer to note 1.2 for details of the reclassification of taxation between the taxation charge and profit on discontinued activities in 2015 and its impact on the 2015 EPS for continuing activities and discontinued activities.

The loss per share from continuing operations for 2015 was previously stated at US cents 0.29 and the EPS from discontinued operations was previously stated at US cents 1.14.

Notes to the Financial Statements (continued)

11 Unproven oil and gas assets

COST	Group US\$'000
Cost at 1 January 2015	153,079
Additions	11,734
Sales from test production	(882)
Foreign exchange difference	(91,803)
Cost at 31 December 2015	72,128
Additions	10,470
Sales from test production	(997)
Foreign exchange difference	1,622
Cost at 31 December 2016	83,223
ACCUMULATED IMPAIRMENT	Group US\$'000
Accumulated impairment at 1 January 2015	36,985
Foreign exchange difference	(22,180)
Accumulated impairment at 31 December 2015	14,805
Foreign exchange difference	332
Accumulated impairment at 31 December 2016	15,137
Net book value at 1 January 2015	116,094
Net book value at 31 December 2015	57,323
Net book value at 31 December 2016	68,086

Notes to the Financial Statements (continued)

11 Unproven oil and gas assets (continued)

Unproven oil and gas assets represent license acquisition costs and subsequent exploration expenditure in respect of two licenses held by Kazakh group entities. The carrying values of those assets at 31 December 2016 were as follows: Beibars Munai LLP US\$ nil (2015: US\$ nil), BNG Ltd LLP US\$68,086,000 (2015: US\$57,323,000).

The Directors have carried out an impairment review of these assets on a cost pool level as detailed in note 2.1. No impairment indicators were identified for BNG.

As a result of military training activities the Group currently cannot access the Beibars license area which resulted in a force-majeure situation. Due to this ongoing force-majeure situation and the uncertainties surrounding the Beibars asset the carrying value remains fully impaired.

12 Property, plant and equipment

Following the commencement of commercial production in December 2012 the Group reclassified its Munaily assets from unproved oil and gas assets to proved oil and gas assets. The assets was impaired in 2013 and remains fully impaired based on an assessment of the value in use of the asset.

Group	Proved oil and gas assets	Motor Vehicles	Other	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Cost at 1 January 2015	47	135	524	706
Additions	-	-	30	30
Foreign exchange difference	-	(31)	(252)	(283)
Cost at 31 December 2015	47	104	302	453
Additions	-	45	19	64
Foreign exchange difference	-	4	7	11
Cost at 31 December 2016	47	153	328	528
Depreciation at 1 January 2015	47	78	226	351
Charge for the year	-	12	28	40
Foreign exchange difference	-	(38)	(95)	(133)
Depreciation at 31 December 2015	47	52	159	258
Charge for the year	-	13	29	42
Foreign exchange difference	-	2	3	5
Depreciation at 31 December 2016	47	67	191	305
Net book value at:				
01 January 2015	-	57	298	355
31 December 2015	-	52	143	195
31 December 2016	-	86	137	223

The net book value presented above relates only to BNG area.

Notes to the Financial Statements (continued)

13 Investments (Company)

Investments (equity and long term advances)	Company US\$'000 *(restated)
Cost	
At 1 January 2015	181,951
Additions	-
Receipt	(10,391)
At 31 December 2015	171,560
Reclassification from receivables	27,337
Receipt	(8,302)
At 31 December 2016	190,595
Impairment	
At 1 January 2015	64,253
Impairment	-
At 31 December 2015	64,253
Impairment	-
At 31 December 2016	64,253
<i>Net book value at:</i>	
31 December 2015	107,307
31 December 2016	126,342

As at 31 December 2016 the Company had invested US\$ 124,802,000 in equity shares of subsidiaries (2015: US\$ 124,775, 000) and US\$ 65,793,000 (2015: US\$ 46,785,000) in the long term advances to the subsidiaries. Impairment reserve relates to equity investments only. Refer to note 15 for long term advances impairments.

Direct investments

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2016	Effective holding and proportion of voting rights held at 31 December 2015	Registered address	Nature of business
Eragon Petroleum Limited	United Kingdom	59%	59%	5 New Street Square London EC4A 3TW	Holding Company
Eragon Petroleum FZE	Dubai	100%	100%	CN-135789, Jebel Ali, Dubai, UAE	Management Company
Beibars BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
Ravninnoe BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
Roxi Petroleum Kazakhstan LLP	Kazakhstan	100%	100%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Management Company

*Refer to note 1.2 and note 27 for details of the restatement.

Notes to the Financial Statements (continued)

13 Investments (continued)

Indirect investments held by Eragon Petroleum Limited

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2016	Effective holding and proportion of voting rights held at 31 December 2015	Registered address	Nature of business
Galaz Energy BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
BNG Energy BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
BNG Ltd LLP	Kazakhstan	99%	99%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Exploration Company
Munaily Kazakhstan LLP	Kazakhstan	99%	99%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Exploration Company

Indirect investments held by Beibars BV

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held of at 31 December 2016	Effective holding and proportion of voting rights held at 31 December 2015	Registered address	Nature of business
Beibars Munai LLP	Kazakhstan	50%	50%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Exploration Company

Beibars Munai LLP is a subsidiary as the Group is considered to have control over the financial and operating policies of this entity. Its results have been consolidated within the Group.

Notes to the Financial Statements (continued)

14 Inventories

	Group 2016 US\$'000	Group 2015 US\$'000
Materials and supplies	10	12
	10	12

15 Other receivables

	Group 2016 US\$ '000	Group 2015 US\$ '000	Company 2016 US\$ '000	Company 2015 US\$'000 (restated)
Amounts falling due after one year:				
Prepayments made	4,187	5,479	32	-
VAT receivable	3,551	3,040	-	50
Loan provided to Baverstock	-	2,919	-	-
Receivable from Baverstock due to royalty settlement	-	3,202	-	3,202
Intercompany receivables	-	-	2,696	49,376
	7,738	14,640	2,728	52,628
Amounts falling due within one year:				
Loan provided to Baverstock	3,154	-	-	-
Receivable from Baverstock due to royalty settlement	3,202	-	3,202	-
Prepayments made	116	87	2	2
Receivable under SPA (note 30)	1,602	1,827	-	-
Other receivables	416	182	-	-
	8,490	2,096	3,204	2

The VAT receivables relate to purchases made by operating companies in Kazakhstan and will be recovered through VAT payable resulting from sales to the local market and, after the commencement of oil production and its export from Kazakhstan, through cash refunds in accordance with Kazakh tax legislation.

The loan provided to Baverstock relates to the US\$10,000,000 facility provided by Galaz Energy BV (a subsidiary of the Company) to Baverstock exclusively for the repayment of Kvat Oraziman's loan received in July 2007 (note 26.1 (a)). The total amount outstanding at the reporting date was US\$5,406,000 (2015: US\$ 5,406,000) which represent US\$5,000,000 of principal and accrued interest until 01 January 2012. The loan is interest free and is repayable from future dividends receivable from BNG by Baverstock. The carrying value of the receivable has been adjusted to fair value to reflect the present value of the estimated cash flows discounted at 8%. As at 31 December 2016, the receivable has been classified as a current asset as it is due to be extinguished as part of the consideration for the merger, expected to be finalised in 2017 (note 28).

On 24 July 2015 the Company entered into an agreement with Canamens Limited and Sector Spesit IV to cancel future royalty payments due to them from production from Company's BNG asset in return for the issue of 46,661,654 fully paid Company's ordinary shares. That resulted in the revaluation and the cancellation of the derivative financial liability in the amount of US\$2.2 million and US\$4.6 million respectively, and recognition of the receivable from Baverstock in the amount of US\$3.2 million related to the Baverstock attributable 41% portion of the Company's royalty obligation. The receivable is recovered through future royalties arising on revenue from the BNG licence. As at 31 December 2016, the receivable has been classified as a current asset as it is due to be extinguished at US\$3,202,000 as part of the consideration for the merger, expected to be finalised in 2017 (note 28).

The current intercompany receivable bear interest rates between LIBOR + 2% and LIBOR + 7%.

Long-term advances to the subsidiaries in note 13 are shown net of provisions of US\$33.3 million (2015: US\$26.6 million). The movement of the bad debt allowance related to the long-term advances was as follows:

Denomination	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
As at 1 January	-	-	26,550	25,100
Charge	-	-	6,760	1,450
As at 31 December	-	-	33,310	26,550

Notes to the Financial Statements (continued)

16 Cash and cash equivalents

	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
Cash at bank and in hand	405	10,462	10	25

Funds are held in US Dollars, Sterling, Euros, Kazakh Tenge and other foreign currency accounts to enable the Group to trade and settle its debts in the currency in which they occur and in order to mitigate the Group's exposure to short-term foreign exchange fluctuations. All cash is held in floating rate accounts.

Denomination	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
US Dollar	51	10,415	3	22
Sterling	7	3	7	3
Kazakh Tenge	347	44	-	-
	405	10,462	10	25

17 Called up share capital

Group and Company

	Number of ordinary shares	US\$'000	Number of deferred shares	US\$'000
Balance at 1 January 2015	858,433,994	14,761	373,317,105	64,702
Share issue in exchange of cash provided by a shareholder	25,137,429	405	-	-
Share options exercised	5,712,500	87	-	-
Liability converted to equity (note 15)	46,661,654	726	-	-
Balance at 31 December 2015	935,945,577	15,979	373,317,105	64,702
Share options exercised	1,487,500	21	-	-
Balance at 31 December 2016	937,433,077	16,000	373,317,105	64,702

As at 31 December 2016 the Company issued total 244,670,973 ordinary shares in favour of Mr. Satylganov in exchange of US\$29,200,000 funding according to the US\$40 million funding agreement. As at 31 December 2016 US\$10.8million is still available under the US\$40million funding agreement.

Notes to the Financial Statements (continued)

18 Trade and other payables – current

	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
Trade payables	674	372	183	212
Taxation and social security	101	2,225	26	34
Accruals	225	212	195	180
Other payables	2,020	1,995	-	15
Advances received (deferred revenue)	2,421	165	-	-
CIT payable	202	763	202	763
	5,643	5,732	606	1,204

As at 31 December 2015 the Group has accrued US\$ 2,168,000 bonus related to the extended territory at the BNG oil field. That amount was paid to the tax authorities during 2016.

Other payables relate mainly to the payable for the purchase of Munaily oil field.

As at 31 December 2016 the Group has received a significant amount of prepayments from the oil traders in relation to increasing production on the BNG oil field.

Trade and other payables – non-current

	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
Intercompany payables	-	-	21,373	39,234
Taxation and social security	9,614	8,297	-	-
	9,614	8,297	21,373	39,234

Taxation and social security payable relate to withholding tax accrued on the interest expense.

19 Short-term borrowings

	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
Other borrowings	809	308	-	-
	809	308	-	-

Short-term loans provided by Kazakhstan based individuals and are repayable on demand. US\$809,000 (2015: US\$308,000) was provided by local individuals during 2007-2016 in the form of financial aid to Kazakhstan based entities for their work programs execution. Of the total amount borrowed by the Group at 31 December 2016 US\$809,000 (2015: US\$140,000) was payable to Kuat Oraziman (note 26.1 (c)). The loans are interest free.

Notes to the Financial Statements (continued)

20 Provisions

Group only	Employee holiday provision	Liabilities under Social Development Program	Abandonment fund	2015 Total
	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2015	154	3,982	231	4,367
Increase/(decrease) in provision	(21)	1,121	9	1,109
Paid in the year	-	(693)	-	(693)
Unwinding of discount	-	112	6	118
Foreign exchange difference	(71)	(987)	(106)	(1,164)
Balance at 31 December 2015	62	3,535	140	3,737
Non-current provisions	-	640	140	780
Current provisions	62	2,895	-	2,957
Balance at 31 December 2015	62	3,535	140	3,737

Group only	Employee holiday provision	Liabilities under Social Development Program	Abandonment fund	2016 Total
	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2016	62	3,535	140	3,737
Increase/(decrease) in provision	25	751	(3)	773
Paid in the year	(21)	(232)	-	(253)
Unwinding of discount	-	48	13	61
Foreign exchange difference	2	48	3	53
Balance at 31 December 2016	68	4,150	153	4,371
Non-current provisions	-	526	153	679
Current provisions	68	3,624	-	3,692
Balance at 31 December 2016	68	4,150	153	4,371

Liabilities and commitments in relation to Subsoil Use Contracts are disclosed below:

a) *Beibars Munai LLP*

During 2007 Beibars Munai LLP, a subsidiary undertaking, and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed a Contract for oil exploration within the block XXXVII-10 in Mangistauskaya oblast (Contract #2287). The contract term expired in January 2012 and the Group has applied to the Ministry of Oil and Gas for the extension of the Beibars exploration license, given the force majeure situation. The situation did not change as of 31 December 2016.

In accordance with the terms of the contract Beibars Munai LLP committed to the following:

- to invest at least 5% of annual capital expenditures on exploration during the exploration period on the professional training of Kazakh personnel involved in contractual operations;
- to invest US\$1,000,000 on the development of Astana during the second period of the Contract;
- to invest US\$1,000,000 on a social development of Mangystau region, in equal tranches over 5 years. The obligation was settled in 2007 only in the amount of US\$200,000;
- total amount of investments must be at least US\$22,362,000 during the exploration period;
- to pay a subscription bonus of US\$1,500,000 within 30 calendar days from the effective date of the Contract. The subscription bonus was paid in full;
- transfer of 1% of exploration costs to the liquidation fund maintained on a special deposit in any bank located on the territory of the Republic of Kazakhstan, on an annual basis.

The subsoil use rights are not unlimited in time, and each extension should be agreed before the respective subsoil use agreement or license expires. These rights may be cancelled by the authorised state bodies of the Republic of Kazakhstan if the Company fails to fulfill its contractual obligations.

The Group considers that Beibars Munai LLP has complied with the above obligations as it is in the state of force majeure (see note 11).

Notes to the Financial Statements (continued)

20 Provisions (continued)

b) *Munaily Kazakhstan LLP*

Munaily Kazakhstan LLP, a subsidiary, signed a contract # 1646 dated 31 January 2005 with the Ministry of Energy and Mineral Resources of RK (now the Ministry of Oil and Gas (MOG) for the exploration and extraction of hydrocarbons on Munaily deposit located in the Atyrau region.

The contract is valid for 25 years. On 13 July 2011 Munaily Kazakhstan LLP and a competent authority signed Addendum No. 5 to the Subsoil Use Contract (SSUC), which stipulates the oil production period to be 15 years to 2025 and approves the minimum work program for the production period.

In accordance with the terms of the contract and addendums Munaily Kazakhstan LLP remains committed to the following:

- Social development of Atyrau region – US\$600,000* over the period of the contract;
- To allocate US\$400,000* to the Astana city development program;
- Professional education of engaged Kazakhstan personnel – not less than 1% of total investments;
- Transferring, on an annual basis, 1% of production expenditures to a liquidation fund through a special deposit account in a bank located within the Republic of Kazakhstan; and
- To fund the minimum work program during the 15 year production period of US\$29,271,756;
- Once the production stage begins, to pay the remaining part of historical costs of US\$1,579,770 within 10 years in equal quarterly instalments.

*Unpaid amounts in respect of the above social obligations are included within liabilities for social programs above.

c) *BNG Ltd LLP*

BNG Ltd LLP a subsidiary, signed a contract #2392 dated 7 June 2007 with the Ministry of Energy and Mineral Resources of RK for exploration at Airshagyl deposit, located in Mangistau region. Under addendum No.1 dated 17 April 2008, the Contract Area was increased. The contract was valid for 4 years and expired on 7 June 2011. Addendum No. 6 to the Subsoil Use Contract for extension of exploration period up to June 2013 was obtained on 13 July 2011. On 16 July 2013 BNG Ltd LLP signed Addendum No. 7 extending the exploration period for two consecutive years until June 2015. On 22 June 2015 BNG Ltd LLP signed Addendum No. 9 extending the exploration period for three consecutive years until June 2018. On 24 December 2015 BNG Ltd LLP signed Addendum No.10 according to which the geological territory was extended by 140.6 sq kilometres.

In accordance with the terms of the contract and addendums, BNG Ltd LLP remains committed to the following:

- For the three-year extension period up to 2018 US\$700,000 per annum should be invested in the social development of the region;
- To fund minimum work program during the extended exploration period of US\$16,540,000
- Investing not less than 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract; and
- Transferring, on an annual basis, 1% of exploration expenditures to a liquidation fund through a special deposit account in a bank located within the Republic of Kazakhstan.

Notes to the Financial Statements (continued)

21 Borrowings

	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
Loan from Vertom	9,935	9,903	9,935	9,903
	9,935	9,903	9,935	9,903

On 29 September 2011 the Company entered into the loan facility with Vertom International NV ("Vertom") whereby Vertom agreed to lend up to US\$5 million to the Company with an associated interest of 12% per annum. The Company has offered Vertom security over its investments in its operating assets in respect to this loan facility. On 30 April 2012 the Group extended the term of the loan facility arrangement with Vertom for further two years to 30 April 2014 and at the same time increased the facility amount to US\$7 million. On 28 June 2013 the term of the loan facility was extended until 30 April 2016. On 26 June 2015 the term of the loan facility was extended until 30 April 2018. The loan extension represented a substantial modification of the terms of the existing financial liability and was accounted for as an extinguishment of the original financial liability and recognition of a new financial liability in 2015. The loan is due to be converted to the Company's shares during 2017 subject to the finalization of the merger with Baverstock (note 28).

22 Deferred tax

Deferred tax liabilities comprise:

	Group 2016 US\$'000	Group 2015 US\$'000
Deferred tax on exploration and evaluation assets acquired	7,748	7,485
	7,748	7,485

The Group recognises deferred taxation on fair value uplifts to its oil and gas projects arising on acquisition. These liabilities reverse as the fair value uplifts are depleted or impaired.

The movement on deferred tax liabilities was as follows:

	Group 2016 US\$'000	Group 2015 US\$'000
At beginning of the year	7,485	11,164
Foreign exchange	263	(3,679)
	7,748	7,485

As at 31 December 2016 the Group has accumulated deductible tax expenditure related to its Kazakhstan assets of approximately US\$118 million (2015: US\$106 million) available to carry forward and offset against future profits. This represents an unrecognised deferred tax asset of approximately US\$23.5 million (2015: US\$21 million).

23 Share option scheme

During the year the Group and the Company had in issue equity-settled share-based instruments to its Directors and certain employees. Equity-settled share-based instruments have been measured at fair value at the date of grant and are expensed on a straight-line basis over the vesting period, based on an estimate of the shares that will eventually vest. Options generally vest in four equal tranches over the two years following the grant.

The options were issued to Directors and employees as follows:

	Number of options granted	Number of options expired	Options exercised	Total options outstanding	Weighted average exercise price in pence (p) per share
As at 31 December 2015	85,708,226	(33,107,634)	(8,412,500)	44,188,092	19
Directors	-	-	-	-	-
Employees and others	2,750,000	-	(1,487,500)	1,262,500	20
As at 31 December 2016	88,458,226	(33,107,634)	(9,900,000)	45,450,592	20

31,600,592 outstanding options as at 31 December 2016 are exercisable.

The range of exercise prices of share options outstanding at the year end is 4p – 65p (2015: 4p – 65p). The weighted average remaining contractual life of share options outstanding at the end of the year is 4.9 years (2015: 5.5 years).

Notes to the Financial Statements (continued)

	As at 02 September 2016	As at 8 November 2016	As at 25 September 2014
Total number of options	1,750,000	1,000,000	12,200,000
Fair value at measurement date	£0.11	£0.11	£ 0.17
Exercise price	£0.20	£0.20	£0.20
Volatility	80%	80%	80%
Probability of vesting condition (admission)	3 years	3 years	3 years
Expected life of warrants	5 years	5 years	5 years
Risk free rate	1.10%	1.10%	2.50%

24 Derivative financial liability and warrants

Derivative liability - royalty

During 2009 the Company entered into a sale and purchase agreement to dispose of 35% of its interest in BNG Ltd LLP to Canamens BNG BV ("Canamens"). The deal subsequently was terminated on 10 May 2011, the Group received back its 35% interest in BNG Ltd LLP from Canamens. In return for the reassignment of the loans the Company agreed to pay Canamens a royalty equivalent to 1.5% of the future gross revenues generated from the BNG operating asset. The fair value of the royalty payable at 31 December 2014 comprised US\$6.7 million.

On 24 July 2015 the Company entered into an agreement with Canamens Limited and Sector Spesit IV to cancel future royalty payments due. That resulted to the revaluation and the cancellation of the derivative financial liability in the amount of US\$2.2 million and US\$4.6 million respectively, and recognition of the receivable from Baverstock in the amount of US\$3.2 million related to the Baverstock portion of the Company's royalty obligation (note 15).

Equity - warrants

The Company has 7.5 million warrants valid until 21 May 2017 that are recognised in equity in the amount of US\$1,779 thousand.

The total number of warrants that remained outstanding at the yearend was 7,500,000 (2015: 7,500,000). They were accounted in other reserves.

Notes to the Financial Statements (continued)

25 Financial instrument risk exposure and management

In common with all other businesses, the Group and Company are exposed to risks that arise from its use of financial instruments. This note describes the Group and Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

There have been no substantive changes in the Group or Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

Principal financial instruments

The principle financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

Financial assets	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000 (restated)
Intercompany receivables	-	-	2,696	49,376
Loan provided to Baverstock	3,154	2,919	-	-
Receivable from Baverstock due to royalty settlement	3,202	3,202	3,202	3,202
Receivable under SPA (note 30)	1,602	1,827	-	-
Other receivables	416	182	-	-
Restricted use cash	283	271	-	-
Cash and cash equivalents	405	10,462	10	25
	9,062	18,863	5,908	52,603

Financial liabilities	Group 2016 US\$'000	Group 2015 US\$'000	Company 2016 US\$'000	Company 2015 US\$'000
Trade and other payables	2,919	2,579	378	407
Other payables - non-current	-	-	21,373	39,234
Borrowings – current	809	308	-	-
Borrowings - non-current	9,935	9,903	9,935	9,903
	13,663	12,790	31,686	49,544

The Baverstock receivable due to royalty settlement was initially measured at fair value based on the Baverstock share of the royalty obligations settled through the issue of the Company's shares in 2015 (note 24). As at 31 December 2016 the fair value of the asset has been measured with reference to the value attributed to the receivable as part of the Baverstock merger as detailed in note 28.

During 2016 and 2015 the movement in Group and Company's derivative financial liabilities were as follows:

Derivative Financial Liability	2016 \$'000	2015 \$'000
Balance at the beginning of the year	-	6,790
Change in value taken to the Profit or Loss	-	(2,183)
Settled during the year	-	(4,607)
Balance at 31 December	-	-

Principal financial instruments

The principal financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

- other receivables
- cash at bank
- trade and other payables
- borrowings

Notes to the Financial Statements (continued)

25 Financial instrument risk exposure and management (continued)

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group and Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group and Company's finance function. The Board receives regular reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group and Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk arises principally from the Group's other receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

When commercial exploitation commences sales will only be made to customers with appropriate credit rating. Sales during test production are made on prepayment base thereby eliminating credit risk. The Group hold amounts due in respect of the sale of Galaz of US\$1.6 million which are past due but not impaired based on confirmations received from the counterparty of settlement in due course.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

Capital

The Company and Group define capital as share capital, share premium, deferred shares, other reserves, retained deficit and borrowings. In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or the issue of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

The Group's gearing ratio as at 31 December 2016 was 22% (2015:21%).

There has been no other significant changes to the Group's Management objectives, policies and processes in the year.

Liquidity risk

Liquidity risk arises from the Group and Company's Management of working capital and the amount of funding committed to its exploration programme. It is the risk that the Group or Company will encounter difficulty in meeting its financial obligations as they fall due.

The Group and Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to raise funding through equity finance, debt finance and farm-outs sufficient to meet the next phase of exploration and where relevant development expenditure.

The Board receives cash flow projections on a periodic basis as well as information regarding cash balances. The Board will not commit to material expenditure in respect of its ongoing exploration programmes prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes.

For maturity dates of financial liabilities as at 31 December 2016 and 2015 see table below. The amounts are contractual payments and may not tie to the carrying value:

	On Demand	Less than 3 months	3-12 months	1- 5 years	Over 5 years	Total
Group 2016 US\$'000	809	2,919	-	10,300	-	14,028
Group 2015 US\$'000	308	2,579	-	14,103	-	16,990
Company 2016 US\$'000	-	378	-	10,300	30,000	40,678
Company 2015 US\$'000	-	407	-	14,103	58,066	72,561

Interest rate risk

The majority of the Group's borrowings are at fixed rate. As a result the Group is not exposed to the significant interest rate risk.

Notes to the Financial Statements (continued)

Currency risk

The Group and Company's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily US\$ and Kazakh Tenge) in that currency. Where the Group or Company entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

In order to monitor the continuing effectiveness of this policy, the Board receives a periodic forecast, analysed by the major currencies held by the Group and Company.

25 Financial instrument risk exposure and management (continued)

The Group and Company is primarily exposed to currency risk on purchases made from suppliers in Kazakhstan, as it is not possible for the Group or Company to transact in Kazakh Tenge outside of Kazakhstan. The finance team carefully monitors movements in the US\$/Kazakh Tenge rate and chooses the most beneficial times for transferring monies to its subsidiaries, whilst ensuring that they have sufficient funds to continue its operations. The currency risk relating to Tenge is significant.

In the event that Kazakhstani Tenge devalues against the US\$ by 30% the Group would incur foreign exchange losses in the amount of US\$48 million (2015: US\$48 million) that would be reflected in other comprehensive income. The impact of such a devaluation on the translation of monetary assets and liabilities held in Kazakhstan and denominated in non-Tenge currencies would be exchange losses recorded in the statement of changes in equity of US\$48 million (2015: US\$48 million).

26 Related party transactions

The Company has no ultimate controlling party.

26.1 Loan agreements

a) *Loan to Baverstock*

In August 2010 Galaz Energy BV (a subsidiary of the Company) provided Baverstock GmbH (holds 41% interest in Eragon) with a loan facility of up to US\$10,000,000, it was initially at LIBOR +7%, from 01 January 2012 the loan is interest free. The amounts borrowed under this loan agreement were to be used exclusively for the repayment of Kuat Oraziman's US\$10,000,000 loan received in July 2007. The facility is to be repaid through future dividends receivable by Baverstock from Eragon. In December 2010 the first tranche of US\$5,000,000 under the facility agreement was transferred to Kuat Oraziman directly by Galaz Energy BV to be repaid by Baverstock (Kuat Oraziman is a main shareholder in Baverstock).

b) *Receivable from Baverstock due to royalty*

On 24 July 2015 the Company entered into an agreement with Canamens Limited and Sector Spesit IV to cancel future royalty payments due to them from production from Company's BNG asset in return for the issue of 46,661,654 fully paid Company's ordinary shares. That resulted to cancellation of the derivative financial liability in the amount of US\$6.8 million and recognition of the receivable from Baverstock in the amount of US\$3.2 million related to the Baverstock portion of the Company's royalty obligation (note 15). As at 31 December 2016 the fair value of the receivable has been measured with reference to the value attributed to the receivable as part of the Baverstock merger as detailed in note 28.

c) *Other loans payable to Kuat Oraziman*

The Company had other loans outstanding as at 31 December, 2016 and 2015 with Kuat Oraziman, details of which have been summarised in the note 19. The loans provided are interest free.

d) *Loan payable to Vertom*

During the year ended 31 December 2011 the Company entered into two loan facilities with Vertom International NV, details of which have been summarised in note 21. The loan payable at 31 December 2016 was US\$9,935,000 (2015: US\$9,903,000). A director of the Company Kuat Oraziman is a director of and holds 100% of the issued share capital of both Vertom International N.V. ("Vertom") and Vertom International BV. Interest accrued for the year is US\$ 765,000 (2015: US\$ 776,000).

e) *US\$40 million funding agreement*

During 2015 the Company received US\$3,000,000 from Mr. Kairat Satylganov, Company's shareholder and CFO, according to the US\$40 million funding agreement.

26.2 Key management remuneration

Key management comprises the Directors and details of their remuneration are set out in note 6.

26.3 Purchases

During 2016 the Group purchased drilling services from the related party STK Geo LLP, the company registered in Kazakhstan, which is owned by the member of Kuat Oraziman's family, in the amount of US\$4.4 million (2015: US\$4.8 million). These expenses were capitalized to unproven oil and gas assets. As at year end the Group has prepayments made in the amount of US\$2.4 million (2015: US\$4.9 million) and trade receivables in the amount of US\$69,300 (2015: US\$67,900) in relation to these drilling services.

Notes to the Financial Statements (continued)

27 Restatement

The Parent company statement of financial position as at 31 December 2015 and 1 January 2015 as well as Parent statement of changes in equity for the year ended 31 December 2015 and 1 January 2015 have been restated. Interest was incorrectly accrued in respect of several non-current advances provided to the subsidiary from 1 January 2012 onwards. The prior year comparatives have been restated accordingly to exclude this accrued interest.

In addition, in order to properly reflect the nature of the advances provided by the Parent company, which are in substance an equity investment and formed part of the net investment in subsidiaries, the relevant non-current intercompany receivables have been reclassified as part of investments in subsidiaries.

For the reconciliation between the previously reported financial position for the years ended 31 December 2015 and 31 December 2014 and the restated financial position refer to note 27. As a result of the restatement, the Parent company's retained loss has been increased from US\$ 115,968,000 to US\$ 134,439,000 at 31 December 2015 and the profit and total comprehensive income for 2015 of US\$ 2,562,000 has been restated to a loss and total comprehensive expense of US\$ 1,343,000.

The reconciliation between the previously reported financial position for the years ended 31 December 2015 and 1 January 2015 and the restated financial position are as follows:

	31-Dec-15	Adjustment	31 December 2015 (restated)
	US\$'000	US\$'000	US\$'000
<i>Investments in subsidiaries</i>	60,522	46,785	107,307
<i>Other receivables</i>	117,884	(65,256)	52,628
<i>Non-current assets</i>	178,406	(18,471)	159,935
<i>Current assets</i>	27	-	27
<i>Non-current liabilities</i>			
<i>Borrowings</i>	(9,903)		(9,903)
<i>Other payables</i>	(39,234)		(39,234)
<i>Current liabilities</i>	(1,204)	-	(1,204)
Net assets	128,092	(18,471)	109,621
<i>Share capital, premium and deferred shares</i>	227,345	-	227,345
<i>Other reserves</i>	16,715	-	16,715
<i>Retained deficit</i>	(115,968)	(18,471)	(134,439)
Total equity	128,092	(18,471)	109,621
Profit/(loss) for the year	2,562	(3,905)	(1,343)

	1 Jan 2015	Adjustment	1 Jan 2015 (restated)
	US\$'000	US\$'000	US\$'000
<i>Investments in subsidiaries</i>	60,522	57,176	117,698
Other receivables	121,254	(71,742)	49,512
<i>Non-current assets</i>	181,776	(14,566)	167,210
<i>Current assets</i>	140	-	140
<i>Non-current liabilities</i>			
<i>Borrowings</i>	(9,075)		(9,075)
<i>Other payables</i>	(52,953)		(52,953)
<i>Current liabilities</i>	(6,121)	-	(6,121)
Net assets	113,767	(14,566)	99,201
<i>Share capital, premium and other reserve</i>	216,137	-	216,137
<i>Other reserves</i>	16,715	-	16,715
<i>Retained deficit</i>	(119,085)	(14,566)	(133,651)
Total equity	113,767	(14,566)	99,201

Notes to the Financial Statements (continued)

28 Events after the reporting period

Baverstock merger

On 24 March 2017 the Company's shareholders voted to approve the merger with Baverstock (the company that owns 41% in Eragon Petroleum Limited) subject to satisfaction of conditions precedent including approval of the transaction by the Kazakh authorities. On May 12 2017 the Company announced that approval had been received from the Kazakh Authority. Under the terms of the merger 651,436,544 new Caspian Sunrise shares representing 41% of the then enlarged share capital will be issued to the Baverstock quotaholders in return for the Company acquiring 40.59% of BNG Ltd LLP, so that in aggregate the enlarged Group will have a 99% interest in the BNG Contract Area.

The number of shares issued as consideration was subject to adjustments to the number of shares to reflect amounts receivable by the Group from Baverstock, together with adjustments to the number of shares for liabilities which are due to be shared with Baverstock as a result of the merger. As such, the receivables will be extinguished as part of the merger and form part of the effective consideration for the asset. The Company fair valued its receivables due from Baverstock based on the terms of the merger.

Also approved by independent shareholders was the capitalisation of approximately US\$10.1 million due to Vertom (expected value of the loan at the merger date), a company controlled by Kuat Oraziman, to be satisfied upon completion of the Baverstock Merger by the issue of a further new Caspian Sunrise shares, following which the Group will be free of material long term debt with only short-term financing from local traders based upon existing production.

The merger with Baverstock is expected to be finalised by 30 June 2017.

29 Discontinued operation in equity accounted joint venture

The Company changed its accounting policy on joint ventures from 1 January 2014 following the introduction of IFRS 11 Joint arrangements. The joint venture agreements and structures for Galaz and Company LLP provided the Company with interests in the net assets of Joint venture, rather than interests in its underlying assets and obligations. Accordingly, under IFRS 11, the group's share of joint venture were accounted for using the equity method rather than proportionately consolidated, from the beginning of the earliest period presented.

On 10 February 2015 Galaz Energy BV entered into a SPA with Netherlands Sinian Investment BV ("SI BV") for the sale of its residual 58% interest in Galaz and Company LLP, resulting in a profit on disposal before tax of US\$18.7million as disclosed in Note 30. The transaction was finalized on 20 May 2015.

Set out below is the summarised financial information for Galaz and Company LLP which was accounted for using the equity method up to 20 May 2015 (amounts stated at 58% that represent Group's interest in Galaz and Company LLP).

	Year ended 31 December 2016	Year ended 31 December 2015
	US\$'000	US\$'000
Non-current assets	-	-
Current assets	-	-
Total assets	-	-
Non-current liabilities	-	-
Current liabilities	-	-
Total liabilities	-	-
Equity attributable to owners of the parent	-	-
Non-controlling interests	-	-
Expenses	-	(914)
Loss after tax	-	(914)

Notes to the Financial Statements (continued)

29. Discontinued operation in equity accounted joint venture (continued)

Reconciliation of the summarized financial information presented to the carrying amount of the group's interest in the Galaz and Company LLP joint venture:

	Year ended 31 December 2016	Year ended 31 December 2015
	US\$'000	US\$'000
Opening net assets	-	7,872
Loss for the period	-	(914)
Other comprehensive loss	-	289
Closing net assets	-	(7,247)
Carrying value	-	-
Total comprehensive loss for the year attributable to owners of the parent	-	-
Total comprehensive loss for the year attributable to NCI	-	(369)
Total comprehensive loss for the year	-	(256)

30 Galaz disposal

On 10 February 2015 Galaz Energy BV entered into a SPA with Netherlands Sinian Investment BV (part of consortium led by Xinjiang Zhudong Petroleum Technology Co., a Company listed on the Shenzhen Stock Exchange in China) for the sale of its 58% of the equity in Galaz and Company LLP for US\$29.2 million.

This transaction completed on 20 May 2015. Consequently as a result of the transaction Roxi lost its share in Galaz and Company LLP.

Up to the date of disposal, Galaz and Company LLP was treated as an investment in equity accounted joint venture.

The gain on disposal of Galaz and Company LLP was determined as follows:

	At date of disposal US\$'000
Total consideration under SPA	29,232
Adjustment for net working capital position at the date of disposal	(966)
Total consideration after adjustment for net working capital position	28,266
Net assets disposed	(7,247)
Less release of cumulative translation reserve	(2,361)
Gain on disposal recognised in the income statement	18,658
Loss for the period – note 29	(914)
Gain on disposal net of losses	17,744
Taxation	(3,531)
Gain on disposal net of taxation	14,213
Net cash inflow	22,908

The US\$2,361,000 release of cumulative translation reserves arose from the disposal of Galaz B.V. 58% interest in Galaz and Company LLP to SI BV. This represents the previously capitalised translation losses attributed to the interest sold, written off during 2015.

Of the net US\$28,266,000 purchase consideration US\$3,531,000 was withheld by SI BV in order to pay withholding tax on the capital gain that arose in Galaz Energy BV. Purchase consideration in the amount of US\$22,908,000 was received during 2014 and 2015. US\$225,000 was withheld based on the agreement during 2016. The residual part of the purchase consideration net of withhold amounts of US\$1,602,000 is expected to be received by the end of 2017. This amount is presented in other receivables line of Consolidated Statement of Financial Position.