

Company number: 5966431

Roxi Petroleum Plc

Annual report and financial statements
for the year ended
31 December 2013

Roxi Petroleum Plc
Annual Report and Accounts 2013

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Roxi Petroleum Plc

Annual Report and Accounts 2013

Directors	Mr C Carver (Executive Chairman) Mr K Oraziman (Chief Executive Officer) Mr Kairat Satylganov (Chief Financial Officer) Lord Limerick (Non Executive Director) Mr J Hyunsik (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	Capita Registrars Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA
Principal Banker	Citibank Kazakhstan Park Palace, Building A, 2nd Floor, 41 Kazibek Bi Str., Almaty, 050010 Kazakhstan

Strategic Report

The Directors present their strategic report on the Group for the year ended 31 December 2013.

Introduction

The requirement for a strategic report was introduced for all accounting periods ending on or after 30 September 2013 and therefore this is the first Roxi annual report to comply with the requirement.

The strategic report comprises five sections, namely; the Group's objectives; the Group's strategy; the Group's business model; a review of the Group's business using key performance indicators; and the principal risks and uncertainties facing the business.

In previous periods the last two of these sections were included in the Directors' report.

Objectives

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

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 have the greatest experience.

In the short term the Group will seek to maximise production from the existing producing wells at each of its three principal Contract Areas (BNG, Galaz and Munaily).

Business model

The Group seeks to increase shareholder value by developing wells, targeting new prospects and seeking acquisitions of new Contract Areas. In particular the Group hopes to bring on significant production from the wells to be drilled as part of the already commenced BNG drilling campaign. The Group will also seek to exploit the opportunities from the extension to the Galaz Contract Area, which was secured in 2011.

Now that the core assets are established and their short-term development funded 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's oil and gas market where they wish to have a well placed local partner.

Review of the Group's business using key performance indicators

The Company's shares were admitted to trading on AIM in May 2007, when the Company raised US\$78 million by way of an equity placing.

In 2008, the Company acquired a controlling 59 percent interest in Eragon Petroleum PLC, which owned interests in the BNG, Galaz and Munaily Contract Areas.

Since 2008, Roxi has undertaken extensive preparatory and development work at these Contract Areas, acquiring and evaluating seismic data over in excess of fourteen hundred square kilometres. Based on the outcome of the seismic evaluations numerous wells have been drilled across the Group's assets.

This work has been funded in part by the original equity investment and in part from the proceeds of a number of farm-ins to the Company's assets. In 2013 the Company secured a US\$40 million equity commitment by Kairat Satylganov, of which to date US\$24.5 million has been drawn. The Group is now capable of producing oil from each of its three principal assets, BNG, Galaz and Munaily.

The Key Performance Indicators are:

- Funds available to meet work programme commitments and to meet the general and Administrative costs of the Group
- Production of oil per well and field measured in barrels of oil per day equivalents (bopd)
- Reserves measured by the Kazakh authorities and adjusted after review by international experts to those classifications used by the Society of Petroleum Engineers

Strategic Report (continued)

The principal and other risks and uncertainties facing the business

The Company and the Group is 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

The Group continually monitors the financing arrangements to ensure the continuation of the operational activities. The Group has secured adequate financing arrangements for its planned operational activities for the next 12 months.

Exploration risk

There is no assurance that the Group's exploration activities will be successful. Accordingly, the Group seek 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 may 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 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.

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 Company 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 Company activities would be affected.

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

Business performance overview

The year under review began with the announcement of a US\$40 million equity fund facility provided by Kairat Satylganov, who subsequently became the Company's Chief Financial Officer. The facility, of which US\$24.5 million has to date been drawn at a conversion price of 7.41p per share, has allowed the Company to continue its successful shallow drilling campaign at BNG and to commence the deep drilling at BNG.

In the period under review Roxi drilled 3 wells (2 wells at BNG and 1 well at Galaz). Since the period end one further well has been drilled at Galaz and one well is in progress at BNG. There are 15 wells across Roxi's 3 principal Contract Areas capable of producing oil. The aggregate production possible is currently 2,900 bopd (1,212 net to Roxi).

Strategic Report (continued)

Work programme

In the remainder of 2014 Roxi plans to drill a further 5 shallow wells at BNG and one deep well at Galaz. In the first 6 months of 2015, Roxi plans to drill a further deep well at BNG.

Reserves and resources

In Q3 2014, following completion of testing at Wells 143, 805, 806 and 136 the Company plans to commission work on a revised reserves and resources base at BNG.

Renewal of principal licences

In July 2013, the BNG licence, which expired earlier in the year, was successfully extended for a further two years to 6 June 2015. In May 2013 the Galaz licence, which also expired earlier in the year was successfully extended up to 14 May 2014. A further 2 year extension has been applied for and is expected to be granted shortly.

The license at Munaily is a full production license, with an expiry term of 11 years where production can be sold at export prices. However, the relatively low production volumes means that the advance oil sales at Munaily to date have been conducted nearer domestic prices with the proceeds used to fund the drilling of two additional wells required under the agreed work programme.

Trading

Roxi is now in the enviable position of having for the first time day to day production cash flow greater than its day to day general and administrative costs with its development costs for the next 12 months funded.

Our assets

	% Interest At 1.1. 2013	% Interest At 31.12.2012
BNG Ltd LLP	58.41	58.41
Galaz and Company LLP	34.22	34.22
Munaily Kazakhstan LLP	58.41	58.41
BeibarsMunai LLP	50.00	50.00

Strategic Report (continued)

BNG

Background

The BNG Contract Area is located in the west of Kazakhstan 40 kilometres southeast of Tengiz on the edge of the Mangistau Oblast, covering an area of 1,561 square kilometres of which 1,376 square kilometres has 3D seismic coverage acquired in 2009 and 2010. Roxi resumed full control of BNG Ltd LLP in the second quarter of 2011 after the announcement of Canamens's withdrawal from the contract.

Our development approach

The BNG Contract Area is approximately the size of the area bounded by the UK's M25 motorway around London. The Contract Area has both shallow and deep prospects, which Roxi is keen to develop. Following our US\$40 million equity funding commitment in January 2013, we are funded for both shallow and deep drilling.

Geology

In January 2011, BNG engaged Gaffney Cline & Associates ("GCA") to undertake a technical audit of the BNG license 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 risks 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 BNG 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.

Shallow wells

BNG's shallow wells are located in the Yelemes portion of the BNG block. They extend over an area of 800 sq. km. and are focused on proving the extent of a number of promising horizons.

Well 805

Well 805, which was drilled in 2010 to a total depth of 2,505 meters tested two hydrocarbon-bearing zones between 1,965 meters and 2,230 meters at the rate of 150 bopd and 226 bopd with sucker-rod pump respectively. In April 2013, further testing took place at Well 805 at gross rates of 120 bopd. In June 2014 we announced the interval between 1,960 and 1972 meters had been perforated and tested with a flow rate of 90 bopd using a 2mm choke.

Well 54

Well 54 was drilled in Soviet times to a depth of 3,000 meters and re-tested in 2010. It is currently producing at the rate of 110 bopd (64 bopd net to Roxi)

Well 806

Well 806 was also drilled in 2010 to a total depth of 2,557 meters. In November 2013 this well was tested at intervals at 1,985, 1,998 and 2,022 meters. Once the existing plugs have been removed the plan is to start long term testing of the three intervals. In June 2014 we announced the interval between 2,022 and 2,032 meters had been perforated and has tested with a flow rate of 90 bopd using a 2mm choke.

Well 143

Well 143, which was the first of the shallow wells for 2013, was spudded on 1 April 2013, on the MJ-F structure located towards the North of South Yelemes field at BNG. The total depth of the well was planned to be 2,500 meters. This exploration initially targeted Jurassic Callovian sands at a depth of 2,170 meters with a secondary objective in the Cretaceous Valanginian limestone at a depth of 1,935 meters.

As the middle Jurassic section is also expected to be within 4-way dip closure in the MJ-F structure as well as the top Jurassic section, Roxi decided to drill continuously to 2,750 meters, 250 meters deeper than the original planned depth. The well reached the total depth of 2,750 meters in June 2013, and at that time wireline logging was run. Interpretation of these results has been encouraging with three main intervals of interest were identified, at 2,193, 2,216 and 2,692 meters. Additionally, a fourth interval of interest at 2,088 meters has been identified from the core samples and will now be tested.

The interval between 2,704 and 2,714 meters has been perforated and tested water with traces of oil. The other intervals will be tested in the coming weeks. Should Well 143 test positively Roxi believes it could significantly extend the horizon already being produced from by Wells 805 and 54.

Strategic Report (continued)

Well 807

Well 807 was drilled between September 2013 and November 2013 to a depth of 2,500 meters and is targeting Cretaceous Limestone and Jurassic Sandstone. The well is being prepared for testing at 5 separate levels.

Deep Wells

Airshagyl 5

Airshagyl 5 is the name given to the deep well spudded in July 2013, which is to be drilled to a total depth of 4,700 meters targeting the Permian formation at 4,120 meters and the Carboniferous formation at 4,390 meters.

At the date of this report drilling has reached a depth of 4,081 meters and has successfully drilled through the salt layer. Casing is being set at present and the final stage of drilling below the salt layer to the total depth of 4,700 meters is expected to recommence shortly with initial test results expected by the end of June.

It has taken significantly longer than planned to drill this well. This is due to a combination of an exceptionally cold winter, issues with tubing, difficult rock conditions and greater pressure at lower depths than anticipated. While these delays are frustrating, shareholders are reminded that BNG has a turn-key basis drilling contract for this well and will therefore not be subject to any direct cost overruns stemming from these drilling delays.

Oil sales at BNG

BNG has entered into a pre-sale agreement to sell this oil and will use the proceeds to further develop the South Yelemes portion of the BNG Contract Area.

Drilling programme

The BNG drilling programme for the rest of 2014 is to drill a further 5 shallow wells and in the first half of 2015 a further two deep wells.

Operator status

BNG Ltd LLP, of which Roxi owns 58.41%, has been the operator at BNG since 2011.

Galaz

The Galaz block is located in the Kyzylorda Oblast in central Kazakhstan. The Contract Area was extended on 10 January 2011 to 179 square kilometres and now includes significant exploration upside on the east side of the Karatau fault system, as well as the NW Konys development.

Pilot production commenced on 19 January 2012 following approval of the NW Konys Pilot Production Plan from the Ministry of Oil and Gas, with emissions and flaring permits received from the relevant authorities.

The operator is LGI, the Korean multi-national, which has invested US\$34.4 million by way of loans into the project and paid a further US\$15.6 million in return for 40 per cent of the asset. A total of 30 square kilometres 3D seismic has been acquired and processed.

The wells

Since 2008 15 wells have been drilled at Galaz, a significant number of which are or indicate they will be commercial.

Well NK-3

Well NK-3 was drilled in November 2008 to a depth of 1,397 meters and is producing at the rate of 230 bopd (79 net to Roxi)

Well NK-5

Well NK-5 was drilled in December 2008 to a depth of 1,406 meters and is producing at the rate of 330 bopd (113 net to Roxi).

Well NK-7

Well NK-7 was drilled between April and May 2012 to a depth of 1,361 meters. Two horizons were tested with the J-0-1 horizon of upper Jurassic producing on a test basis at the rate of 240 bopd using 3mm choke. During testing of the M-II horizon of lower Cretaceous test production was at the rate of 230 bopd using 5mm choke and 260 bopd using 7mm choke. The well is currently producing at the rate of 340 bopd (116 net to Roxi).

Strategic Report (continued)

Well NK-8 (previously NK-14)

Well NK-8 was drilled in July 2012 to a depth of 1,390 meters. Three horizons were tested. During testing of the J-0-2 horizon of upper Jurassic period no inflow of oil was detected. During testing of the J-0-1 horizon of upper Jurassic tested at the rate of 160 bopd using a 5mm choke, 204 bopd using a 6 mm choke, and 282 bopd using a 7 mm choke. During testing the M-II horizon of lower Cretaceous tested at the rate of 226 bopd using a 5mm choke and 308 bopd using a 7mm choke. The well is currently not producing due to a high water cut. Isolation works are in process.

Well NK-9

Well NK-9 was drilled between October and November 2012 to a depth of 1,390 meters. After drilling 4 horizons were tested. The Jurassic deep channel and J-0-2 formation failed to detect oil. The J-0-1 horizon of the upper Jurassic period tested at the rate of 270 bopd using a 6mm choke. The M-II horizon of the lower Cretaceous tested at the rate of 290 bopd using a 7mm choke. The well is currently not producing due to a high water cut. Isolation works are in process.

Well NK-12

Well NK-12 was drilled in December 2012 to a depth of 1,400 meters and has produced on a test basis at the rate of 117 bopd (40 bopd net to Roxi) using a 8mm choke size. Production was interrupted by water leaks. The plan is for the well to resume production once the water leaks are repaired.

Well NK-14

Well NK-14 was drilled between January and March 2014 to a depth of 1,500 meters. Well logging has been completed and two intervals of interest between 1,290 and 1,295 meters have been identified and tested in the Aryskumskiy horizon, and failed to detect oil. Testing of the second interval is in process.

Well NK-24

Well NK-24 was drilled between February and April 2014 with a total depth of 1,650 meters. The well is targeting Jurassic and Cretaceous reservoirs.. Importantly, NK-24 is the first well to be located on the Galaz extension area.

At the date of this report aggregate gross pilot production from three wells (NK-3, NK-5 & NK-7) is running at 900 bopd (308 bopd net to Roxi). Following workovers pilot production is expected to commence later this year from Wells NK-4, NK6, NK-9, NK-12 and NK-27 potentially leading to a significant increase in production from Galaz. Roxi's share of costs of the drilling work at Galaz is largely funded by oil sales from existing wells.

Well NK-31

In June 2014 Well NK-31 was spudded and is to be drilled to a Total Depth of 2,500 meters targeting Middle Jurassic. The well is expected to reach its Total Depth by the end of July 2014. Well NK-31 will be the deepest of the wells drilled to date at Galaz and is being drilled on the main Contract Area.

Munaily

The Munaily field is located in the Atyrau Oblast 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. Roxi 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.

In March 2013, Roxi issued 22,654,731 of new Roxi shares at 7.4p to satisfy a US\$2.5 million repayment of sums advanced by a potential purchaser of the asset.

It remains Roxi's intention to sell this asset when circumstances permit.

Beibars

Roxi acquired a 50 per cent interest in Beibars Munai LLP in 2007, 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 license 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 Roxi operates a care and maintenance administrative budget on the project.

The Company expects to resolve the access issue with the army in due course and then seek farm-in partners to explore the Beibars Contract Area.

Strategic Report (continued)

Reserves and Resources

Set out below are the Group's historic reserves, which have not been updated for several years. Roxi intends to update these numbers later in the year following the completion of further testing at BNG wells 143 and 807.

	Contract Area	Prospect gross Mbbls	Roxi net Mbbls	Interest %
Galaz	Proven	7.2	2.5	34.22
Galaz	Probable	7.5	2.6	34.22
BNG	Contingent Resources (best)	12.7	7.4	58.41
BNG	Prospective Resources (best)	904.0	528.0	58.41

Finance

Funding

In January 2013, Roxi concluded a US\$40 million equity facility with Mr. Kairat Satylganov, the proceeds of which have been targeted at the development of our flagship asset BNG. Under the arrangements negotiated with Mr. Satylganov, who has subsequently joined the board in an executive capacity as Group Chief Financial Officer, Roxi can call for funding in exchange for the issue of new Roxi shares at 7.41p per share.

To date we have called and received US\$24.5 million, which has provided the bulk of the funding to date for the 2013 drilling campaign at BNG.

Cash generation from existing assets

Roxi is now in the position on a day-to-day basis of generating more cash from oil sales than it spends on its general and administrative expenses. In consequence Roxi can now choose the pace at which it wishes to develop its assets within the framework of licensed work programmes in the knowledge that it has its day-to-day costs and work programme commitments covered.

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

Financial statements

The loss before taxation for 2013 was some US\$11.2 million (2012: US\$7.8 million), reflecting the extensive drilling campaign at BNG and to a lesser extent at Galaz.

Board changes and responsibilities

In February 2013, we were delighted to welcome Kairat Satylganov to the Board as Chief Financial Officer. He has extensive experience at senior levels of Kazakh enterprises having been Chairman of two of the largest Kazakh banks and Chairman of a large Kazakh investment fund. His experience will be invaluable in steering Roxi to future success.

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

Edmund Limerick is the Company's senior non-executive director, and chairman of the audit and remuneration committees. On 1 January 2014, Hyunsik Jang, previously COO with responsibility for technical and geological matters in Kazakhstan, became a non-executive director.

Staffing

The core staff located in Kazakhstan is now 122 employees, all of whom are Kazakh nationals. As in previous years I would like to thank our employees for their sustained hard work and commitment.

Strategic Report (continued)

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. In 2013 Roxi, made significant contributions to:

- The Mangistau regional social obligation fund US\$600,000 (BNG).
- The Kyzylorda region social fund US\$600,000 (Galaz).

These contributions, while mandatory, help secure the good standing of the Company with the local regional authorities and with centrally based regulators. Roxi is pleased to have assisted in the developments of these projects.

Environmental

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

Kazakhstan

During 2013 sentiment seems to have changed toward investment in the Kazakh oil and gas sector. We received several unsolicited expressions of interest in co-investing from companies in countries that in recent years have not been interested in Kazakhstan.

The combination of proved reserves, a workable regulatory system and a huge market next door in China now connected by pipeline makes Kazakhstan an obvious place to seek to make oil and gas investments.

Current trading and prospects

The Group's sales of oil on a day-to-day basis now exceed the general and administrative expenses.

Roxi's management expect production levels to continue to increase as existing wells are worked-over and their flow rates improved and new wells brought on stream. Provided the production levels continue to increase as planned the Group will be able to generate sufficient funding to enable it to continue with the planned development at BNG and Galaz and meets its working programme obligations. This, coupled with the remaining funds available to draw down from the Kairat Satylganov's equity investment, will provide sufficient funding for the Group for the next 12 months.

Key Objectives

In the 2013 annual report we set ourselves a number of objectives including: the renewal of the BNG and Galaz licenses; increasing production from both BNG and Galaz blocks; and reducing general and administrative expenditure to below US\$ 6 million per annum. All of these have been achieved.

We have not yet reached production at the rate of 2000 bopd net to Roxi which we hoped for this time last year. Despite having a number of acquisitions under review we have yet to find one compelling enough to seek to dilute Roxi shareholders interest in BNG and Galaz.

For the coming year we set just one objective, which is to increase production from our existing assets to a rate of 2,300 bopd.

The Strategic Report was approved and authorised by the Board for issue on 5 June 2014 and signed on its behalf by

Clive Carver

Chairman of the Board

5 June 2014

Qualified Person

Mr. Nurlybek Ospanov, Roxi's senior geologist 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

Proven Reserves

Proved Reserves 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 2013.

Results and dividends

The consolidated statement of profit or loss is set out on page 18 and shows the loss for the year. The Directors do not recommend the payment of a dividend (2012: US\$ nil). The position, performance and future development of the Group are discussed in the Strategic Report.

Events after the reporting period

Other than as disclosed in this annual report, including note 28 to the financial statements, there have been no material events between 31 December 2013 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 e-mail updates and access to the Company's website.

Directors' indemnity provision

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. The Group did however, as required by the terms of the Company's work programmes, make extensive social contributions to projects in Kazakhstan as set out in more detail in the Strategic Report.

Directors and Directors' interests

The Directors of the Company who served during the year and were appointed subsequently were:

Clive Carver	Non-executive chairman until 31 May 2012 Executive Chairman and Chief Financial Officer between 1 June 2012 and until 10 February 2013 Executive Chairman from 11 February 2013
Kuat Oraziman	Executive Director until 31 May 2012 Chief Executive Officer from 1 June 2012
Kairat Satylganov	Appointed Chief Financial Officer from 11 February 2013
Hyunsik Jang	Chief Operating Officer from 18 June 2010 to 31 December 2013 Non-Executive Director from 1 January 2014
Edmund Limerick	Non-Executive Director from 1 February 2010

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

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

Directors' report (*continued*)

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 26 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 Company'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

The Company's auditors, 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 and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 will continue in business.

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

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 on-going integrity of the financial statements contained therein.

The Directors' report was approved by the Board for issue on 5 June 2014 and signed on its behalf by

Clive Carver

Chairman of the Board

5 June 2014

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 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	1 June 2012
Kuat Oraziman	1 April 2007	27 June 2011
Kairat Satylganov	11 February 2013	11 February 2013
Non Executive		
Edmund Limerick	1 February 2010	22 May 2013
Hyunsik Jang	1 January 2014	1 January 2014

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	2013 Salary/fees	2013 Benefits	2013 Total	2012 Total
Clive Carver	240,000	-	240,000	207,370
Edmund Limerick	46,890	-	46,890	47,541
David Wilkes	-	-	-	510,276
Hyunsik Jang	207,312	75,215	282,527	333,675
Kuat Oraziman	145,105	10,758	155,863	289,466
Kairat Satylganov	138,800	7,570	146,370	-
Sub-Total	778,107	93,543	871,650	1,388,328
Share-based payments	-	-	-	215,000
Total	778,107	93,543	871,650	1,603,328

Bonus schemes

The Company has a bonus scheme for the executive Directors and senior management team. No bonuses are payable in respect of the year to 31 December 2013 (2012: nil).

Remuneration Committee Report (*continued*)

Share options

The current interests as at approval of accounts of the current Directors and as at 31 December 2013 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
Hyunsik Jang	4,200,000	4p	14 December 2021
Edmund Limerick	1,200,000	4p	14 December 2021

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

Directors	Granted	Exercise Price	Expiry date
Clive Carver	538,264	12p	14 August 2019
Kuat Oraziman	269,132	12p	14 August 2019
Hyunsik Jang	750,000	12p	22 June 2020
Edmund Limerick	200,000	12p	15 February 2020

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 Roxi Petroleum Plc

Edmund Limerick

Chairman of Remuneration Committee

5 June 2014

Report on Corporate Governance

In common with the Board's commitment to apply best practice corporate governance procedures and with reference to the UK Corporate Governance Code ("the Code") on corporate governance the Board has prepared the following report. As an AIM company there is no requirement to comply with the Code but the Company has adopted the following corporate governance procedures which the Directors believe demonstrates good corporate governance for the size of the Group.

Board of Directors

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

Clive Carver	Executive Chairman
Kuat Oraziman	Chief Executive Officer
Kairat Satylganov	Chief Financial Officer
Hyunsik Jang	Non-Executive Director
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 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 12 times and 6 times during 2013 and 2012 respectively, with the following attendance:

	2013	2012
C Carver	12	6
E Limerick	11	6
D Wilkes	-	4
K Oraziman	12	5
H S Jang	10	5
K Satylganov	4	-

The Board has established the following committees:

Audit Committee

The audit 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 Company including the terms of engagement of the Group's auditors and, in consultation with the auditors, the scope of the audit.

The audit 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 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 Company'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 ROXI PETROLEUM PLC

We have audited the financial statements of Roxi Petroleum Plc for the year ended 31 December 2013 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements 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 Financial Reporting Council's (FRC'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 FRC'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 the Parent Company's affairs as at 31 December 2013 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic and Directors' Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Anne Sayers (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

5 June 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Profit or Loss

		Year to 31 December 2013 \$'000	Year to 31 December 2012 \$'000
	Notes		
Revenue		3,908	2,715
Cost of sales		(3,617)	(2,687)
Gross profit		291	28
Share-based payments		-	(216)
Other administrative expenses		(7,180)	(7,256)
Total administrative expenses		(7,180)	(7,472)
Operating loss	4	(6,889)	(7,444)
Finance cost	7	(4,473)	(956)
Finance income	8	140	623
Loss before taxation		(11,222)	(7,777)
Tax charge	9	(1,975)	(2,587)
Loss after taxation		(13,197)	(10,364)
Loss attributable to owners of the parent		(9,637)	(7,843)
Loss attributable to non-controlling interest		(3,560)	(2,521)
		(13,197)	(10,364)
Basic and diluted loss per ordinary share (US cents)	10	(1.22)	(1.29)

All of the results of the Group during the year relate to continuing activities.

The notes on pages 22 to 50 form part of these financial statements.

Consolidated Statement of Profit or Loss and other comprehensive income

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Loss after taxation	(13,197)	(10,364)
Other comprehensive income:		
Exchange differences on translating foreign operations*	(2,375)	(1,899)
Total comprehensive loss for the year	(15,572)	(12,263)
Total comprehensive loss attributable to:		
Owners of parent	(11,710)	(9,656)
Non-controlling interest	(3,862)	(2,607)

*Items which may be reclassified to the statement of profit or loss

The notes on pages 22 to 50 form part of these financial statements

Consolidated Statement of Changes in Equity

	Share capital \$'000	Share premium \$'000	Shares to be issued \$'000	Deferred shares \$'000	Cumulative translation reserve \$'000	Other reserves \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Total equity as at 1 January 2013	10,777	111,276	-	64,702	(4,388)	(583)	(124,952)	56,832	39,770	96,602
Loss after taxation	-	-	-	-	-	-	(9,637)	(9,637)	(3,560)	(13,197)
Exchange differences on translating foreign operations	-	-	-	-	(2,073)	-	-	(2,073)	(302)	(2,375)
Total comprehensive loss for the year	-	-	-	-	(2,073)	-	(9,637)	(11,710)	(3,862)	(15,572)
Arising on share issues	2,361	15,139	-	-	-	-	-	17,500	-	17,500
Conversion of debts to equity	337	2,163	-	-	-	-	-	2,500	-	2,500
Funds received for shares to be issued	-	-	5,000	-	-	-	-	5,000	-	5,000
Total equity as at 31 December 2013	13,475	128,578	5,000	64,702	(6,461)	(583)	(134,589)	70,122	35,908	106,030

	Share capital \$'000	Share premium \$'000	Shares to be issued \$'000	Deferred shares \$'000	Cumulative translation reserve \$'000	Other reserves \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Total equity as at 1 January 2012	10,777	111,276	-	64,702	(2,575)	(583)	(117,325)	66,272	42,377	108,649
Loss after taxation	-	-	-	-	-	-	(7,843)	(7,843)	(2,521)	(10,364)
Exchange differences on translating foreign operations	-	-	-	-	(1,813)	-	-	(1,813)	(86)	(1,899)
Total comprehensive loss for the year	-	-	-	-	(1,813)	-	(7,843)	(9,656)	(2,607)	(12,263)
Arising on employee share options	-	-	-	-	-	-	216	216	-	216
Total equity as at 31 December 2012	10,777	111,276	-	64,702	(4,388)	(583)	(124,952)	56,832	39,770	96,602

Reserve	Description and purpose
Share capital	The nominal value of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Shares to be issued	Amount received in respect of shares which are yet to be issued
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
Other reserves	Fair value of warrants issued and capital contribution arising on discounted loans
Retained earnings	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 22 to 50 form part of these financial statements.

Parent Company Statement of Changes in Equity

	Share capital \$'000	Share premium \$'000	Shares to be issued \$'000	Deferred shares \$'000	Other reserves \$'000	Retained earnings \$'000	Total equity \$'000
Total equity as at 1 January 2013	10,777	111,276	-	64,702	16,715	(94,112)	109,358
Total comprehensive loss for the year	-	-	-	-	-	(24,876)	(24,876)
Arising on share issues	2,361	15,139	-	-	-	-	17,500
Conversion of debts to equity	337	2,163	-	-	-	-	2,500
Funds received for shares to be issued	-	-	5,000	-	-	-	5,000
Total equity as at 31 December 2013	13,475	128,578	5,000	64,702	16,715	(118,988)	109,482

	Share capital \$'000	Share premium \$'000	Shares to be issued \$'000	Deferred shares \$'000	Other reserve \$'000	Retained earnings \$'000	Total equity \$'000
Total equity as at 1 January 2012	10,777	111,276	-	64,702	1,779	(87,624)	100,910
Total comprehensive loss for the year	-	-	-	-	-	(6,704)	(6,704)
Arising on fair value of a loan	-	-	-	-	14,936	-	14,936
Arising on employee share options	-	-	-	-	-	216	216
Total equity as at 31 December 2012	10,777	111,276	-	64,702	16,715	(94,112)	109,358

Reserve	Description and purpose
Share capital	The nominal value of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Shares to be issued	Amount received in respect of shares which are yet to be issued
Deferred shares	The nominal value of deferred shares issued
Other reserves	Fair value of warrants issued and capital contribution arising on discounted loans
Retained earnings	Cumulative losses recognised in the profit or loss

The notes on pages 22 to 50 form part of these financial statements.

Consolidated and Parent Company Statements of Financial Position

Company number 5966431	Notes	Group 2013 \$'000	Company 2013 \$'000	Group 2012 \$'000	Company 2012 \$'000
Assets					
Non-current assets					
Unproven oil and gas assets	11	151,244	-	146,412	-
Property, plant and equipment	12	1,345	-	2,977	-
Investments in subsidiaries	13	-	60,522	-	85,522
Deferred tax asset	23	786	786	2,121	2,121
Other receivables	16	13,868	110,078	15,592	83,081
Restricted use cash		505	-	488	-
Total non-current assets		167,748	171,386	167,590	170,724
Current assets					
Inventories	15	2,488	-	1,109	-
Other receivables	16	473	58	489	52
Cash and cash equivalents	17	3,227	1,093	917	30
Total current assets		6,188	1,151	2,515	82
Total assets		173,936	172,537	170,105	170,806
Equity and liabilities					
Capital and reserves attributable to equity holders of the parent					
Share capital	18	13,475	13,475	10,777	10,777
Share premium		128,578	128,578	111,276	111,276
Shares to be issued		5,000	5,000	-	-
Deferred shares	18	64,702	64,702	64,702	64,702
Other reserves		(583)	16,715	(583)	16,715
Retained earnings		(134,589)	(118,988)	(124,952)	(94,112)
Cumulative translation reserve		(6,461)	-	(4,388)	-
		70,122	109,482	56,832	109,358
Non-controlling interests		35,908	-	39,770	-
Total equity		106,030	109,482	96,602	109,358
Current liabilities					
Trade and other payables	19	4,556	4,223	6,231	4,762
Short - term borrowings	20	1,454	500	8,523	500
Current provisions	21	3,046	-	2,944	-
Total current liabilities		9,056	4,723	17,698	5,262
Non-current liabilities					
Borrowings	22	31,580	8,248	30,174	7,420
Deferred tax liabilities	23	14,019	-	14,296	-
Non-current provisions	21	1,193	-	737	-
Derivative financial liability	25	5,248	5,248	5,248	5,248
Other payables	19	6,810	44,836	5,350	43,518
Total non-current liabilities		58,850	58,332	55,805	56,186
Total liabilities		67,906	63,055	73,503	61,448
Total equity and liabilities		173,936	172,537	170,105	170,806

These financial statements were approved and authorised for issue by the board of Directors on 5 June 2014 and were signed on its behalf by:

Clive Carver

Chairman of the Board

The notes on pages 22 to 50 form part of these financial statements.

Consolidated and Parent Company Statements of Cash Flows

	Notes	Group 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
Cash flows from operating activities					
Cash received from customers		3,086	4,281	-	-
Payments made to suppliers for goods and services		(4,978)	(6,285)	(1,137)	(1,422)
Net cash flow from operating activities		(1,892)	(2,004)	(1,137)	(1,422)
Cash flows from investing activities					
Purchase of property, plant and equipment	12	(440)	(1,128)	-	-
Additions to unproven oil and gas assets	11	(13,380)	(11,064)	-	-
Transfers to/from restricted use cash		(17)	(100)	-	-
Issue of loans to joint venture		(141)	(195)	-	-
Issue of financial aid and loans to subsidiaries		-	-	(20,300)	(3,730)
Net cash flow from investing activities		(13,978)	(12,487)	(20,300)	(3,730)
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital and shares to be issued		22,500	-	22,500	-
Repayment of borrowings		(4,320)	(1,645)	-	-
New loans received		-	10,387	-	4,115
Loans to joint venture from partners		-	4,826	-	-
Net cash from financing activities		18,180	13,568	22,500	4,115
Net increase in cash and cash equivalents		2,310	(923)	1,063	(1,037)
Cash and cash equivalents at beginning of year		917	1,840	30	1,067
Cash and cash equivalents at end of year	17	3,227	917	1,093	30

The notes on pages 22 to 50 form part of these financial statements.

Notes to the Financial Statements

General

Roxi Petroleum 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, EC3A 3TW. These consolidated financial statements were authorised for issue by the Board of Directors on 5 June 2014.

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 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 financial statements have been prepared on a going concern basis based upon projected future cash flows and planned work programmes.

On 8 January 2013 the Company secured an additional US\$40 million equity investment of which US\$24.5 million has been drawn. The Directors consider that, provided income from production rises in line with managements expectations, this will be sufficient to cover the expenses of running the Group's business for the foreseeable future.

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 loss on ordinary activities after tax of US\$24,876 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 New and revised standards and interpretations applied

A number of new standards and amendments to existing standards and interpretations were applicable from 1 January 2013. The adoption of these amendments did not have a material impact on the Group's financial statements for the year ended 31 December 2013.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.2 New and revised standards and interpretations applied (continued)

The following standards, amendments and interpretations are not yet effective and have not been earlier adopted:

	Standard	Effective date
IFRS 10	Consolidated financial statements	1 January 2014
IFRS 11	Joint arrangements	1 January 2014
IFRS 12	Disclosure of interest in other entities	1 January 2014
IAS 27 (Amendment 2011)	Separate financial statements	1 January 2014
IAS 28 (Amendment 2011)	Investments in associates and joint ventures	1 January 2014
IAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 (Amendment)	Recoverable amounts disclosures for non-financial assets	1 January 2014
IAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRS 9	Financial Instruments	To be confirmed
IAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	1 January 2014*
IFRIC 21	Interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets on the accounting for levies imposed by governments.	1 January 2014*
Annual Improvements to IFRSs	2010-2012 Cycle	1 January 2014*
Annual Improvements to IFRSs	2011-2013 Cycle	1 January 2014*

* Not yet endorsed by EU.

The Group has evaluated the impact of IFRS 11 which requires a joint venturer to account for jointly controlled entities as an investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures. Currently, the Group accounts for its investment in the jointly controlled entities using the proportionate consolidation method by combining its share of each of the assets, liabilities, income and expenses of the jointly controlled entities with the similar items, line by line, in the consolidated financial statements. From 1 January 2014 the Group will adopt IFRS 11 which will result in the Group's share of its joint venture being disclosed as a single line item as 'investment in equity accounted joint venture' on the consolidated statement of financial position measured at the aggregate of the carrying amounts of the assets and liabilities that had been previously proportionately consolidated, with the movement in its share of the net assets being accounted for in the statement of profit or loss as 'share of the post-tax profits/losses of equity accounted joint venture'. In the consolidated cash flow statement, the Group's cash flows from the joint venture will be disclosed separately.

Refer to note 14 for details of the investment in joint venture.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.3 Basis of consolidation

Subsidiary undertakings are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. 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 controlled entities, it accounts for its interests using proportionate consolidation. The share of each of the jointly controlled entity's assets, liabilities, income and expenses are combined on a line-by-line basis with those of the Group. The results of joint ventures are included from the effective dates of acquisition and up to the effective dates of disposal.

Profits and losses arising on transactions between the Group and jointly controlled entities are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the jointly controlled entity arising on the transaction.

The Group includes the assets it controls, its share of any income and the liabilities and expenses of jointly controlled operations and jointly controlled assets in accordance with the terms of the underlying contractual arrangement.

1.4 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.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.5 Foreign currency translation

1.5.1 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 ("USD"), 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 and Galaz and Company LLP being jointly controlled entities, undertake their activities in Kazakhstan and the Kazakh Tenge is the functional currency of these entities. The functional currency for the Company, RS Munai BV, Beibars BV, Ravninnoe BV, Galaz Energy BV and BNG Energy BV is USD as the significant transactions and assets and liabilities of these companies are in USD.

1.5.2 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.

1.5.3 Consolidation

For the purpose of consolidation all assets and liabilities of Group entities with a functional currency that is not USD 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 equity (the "cumulative translation reserve").

1.6 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.

1.7 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)

1.8 Unproven oil and gas assets

The Group accounts 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 this accounting, costs of exploring for and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cost centres. Such cost centres are based on license areas and the Group currently has four such cost centres. This method of accounting is commonly referred to as 'full cost'.

Exploration and evaluation costs are initially capitalised within 'Intangible assets'. Such exploration and evaluation costs may 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.

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 within the Group's cost centres in respect of each license area.

Exploration and unproven intangible assets related to each exploration license/prospect are not amortised but are carried forward until the existence (or otherwise) of commercial reserves have been determined.

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 as 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 IAS 16 "Property Plant and Equipment" and are depleted on unit of production bases 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.

Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. Where the exploration and evaluation assets concerned fall within the scope of an established cost centres, the exploration and evaluation assets are tested for impairment together with all development and production assets associated with that cost centre, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of the commercial reserves. Where the exploration and evaluation assets to be tested fall outside the scope of any established cost centre, there will generally be no commercial reserves and the exploration and evaluation assets concerned will generally be written off in full. Any impairment loss is recognised in the profit or loss as impairment and separately disclosed.

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)

1.9 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 property, plant and equipment and 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.

1.10 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.

1.11 Property, plant and equipment

All property, plant and equipment assets are stated at cost or fair value on acquisition less 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 |
| - buildings | over 10 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.

1.12 Investments (Company)

Non-current asset investments in subsidiary undertakings are shown at cost less allowance for impairment.

1.13 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.

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, profit oil royalty, and warrants. 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 royalty and warrants are recognised and measured at fair values through profit or loss.

There are long-term loans between Group entities and from related parties which bear interest at a rate lower than that which the Directors consider the Group would bear if the facility had been granted by a third party. Such borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Fair value is calculated by discounting the non-current borrowings and receivables using a market rate of interest.

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.

1.14 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)

1.15 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.

1.16 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.

1.17 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.

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.

1.18 Warrants

The warrants are separated from the host contract as their risks and characteristics are not closely related to those of the host contracts. Due to the exercise price of the warrants being 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.

1.19 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.

1.20 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.

1.21 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 one operating segment being oil exploration and production in Kazakhstan.

1.22 Interest receivable and payable

Interest income and expense are recognised using the effective interest rate method.

1.23 Accounts not presented in sterling

For reference the year end exchange rate from sterling to US\$ was 1.65 (2012: 1.62) and the average rate during the year was 1.56 (2012: 1.58).

Notes to the Financial Statements (continued)

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 centres, and are assessed for impairment on a concession basis when circumstances suggest that the carrying amount may exceed its recoverable value and, therefore, there is a potential risk of an impairment adjustment. This assessment involves judgment as to: (i) the likely future commerciality of the asset and when such commerciality should be determined; (ii) future revenues and costs pertaining to any concession based on prospective and contingent resources; and (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

2.2 Income taxes

The Group has significant carried forward tax losses in several jurisdictions. Significant judgement is required in determining deferred tax assets based on an assessment of the probability that taxable profits will be available against which carried forward losses can be utilised.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the profit or loss in the period in which such a determination is made.

2.3 Decommissioning

Provision has been made in the accounts for future decommissioning costs to plug and abandon wells. 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.

2.4 Share-based payment compensation

In order to calculate the charge for share-based payment 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 24.

2.5 Profit oil royalty liability

The profit oil royalty liability is initially recognised at the fair value based on the Management's assessment and is accounted as a derivative financial liability at fair value through profit or loss on the basis that future amount of royalty payable will change depending on the oil field production levels and the future oil prices. The Group revalues its royalty position annually with changes in fair values recognised in the profit or loss.

3 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 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.

Notes to the Financial Statements (continued)

4 Operating loss

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

	2013 \$'000	2012 \$'000
Depreciation of property, plant and equipment (note 12)	601	301
Auditors' remuneration (note 5)	181	193
Staff costs (note 6)	2,971	4,326
Share based payment remuneration (note 6)	-	216
Loss on disposal	232	665

5 Group Auditor's remuneration

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

	2013 \$'000	2012 \$'000
Fees for the audit of the annual financial statements	150	151
Auditing of accounts of associates of the Company	26	18
Other services – corporation tax compliance	5	24
	181	193

6 Employees and Directors

Staff costs during the year including Directors	Group 2013 \$'000	Group 2012 \$'000
Wages and salaries	2,544	3,767
Social security costs	257	359
Pension costs	170	200
Share-based payments	-	216
	2,971	4,542
Average monthly number of people employed (including executive Directors)	Group 2013	Group 2012
Technical	30	25
Field operations	37	24
Finance	14	13
Administrative and support	31	29
	112	91
Directors' remuneration	Group 2013 \$'000	Group 2012 \$'000
Director's emoluments	872	1,388
Share-based payments	-	215
	872	1,603

The Directors are the key management personnel of the Company and the Group. Details of Directors' emoluments are shown in the Remuneration Committee Report. The highest paid director had emoluments totalling US\$282,527 (2012: US\$510,276). For further details on Directors emoluments see note 27.2.

Notes to the Financial Statements (continued)

7 Finance cost

	Group 2013 \$'000	Group 2012 \$'000
Loan interest payable	1,385	774
Discounting of loan receivable from Baverstock (note 16)	2,902	-
Unwinding of discount on provisions (note 21)	186	182
	4,473	956

8 Finance income

	Group 2013 \$'000	Group 2012 \$'000
Interest income on financing provided to jointly controlled entities	-	143
Revaluation of warrants (note 25)	-	76
Other	140	404
	140	623

9 Taxation

Analysis of charge for the year	Group 2013 \$'000	Group 2012 \$'000
Current tax charge	(640)	(1,266)
Deferred tax charge	(1,335)	(1,321)
	(1,975)	(2,587)

	Group 2013 \$'000	Group 2012 \$'000
Loss on ordinary activities before tax	11,222	7,777
Tax on the above at the standard rate of corporate income tax in the UK 23.25% (2012: 24.5%)	2,609	1,905
<i>Effects of:</i>		
Non deductible expenses	(981)	(1,386)
Return of capital gain tax *	1,030	-
Effect of different tax rates overseas	(673)	(440)
Withholding tax on interest	(1,649)	(1,256)
Unrecognised tax losses carried forward	(2,311)	(1,410)
	(1,975)	(2,587)

*The amount was repaid by Tax Committee of Kazakhstan to BNG Ltd LLP during 2013 as a part repayment of capital gain withholding tax paid in 2009-2010 relating to the SPA with Canamens that was terminated in May 2011.

Notes to the Financial Statements (continued)

10 Loss per share

Basic loss per share is calculated by dividing the 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 loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares include share options granted to employees and Directors where the exercise price is less than the average market price of the Company's ordinary shares during the year. During the year the potential ordinary shares were anti-dilutive and therefore diluted earnings per share has not been calculated. At the reporting date there were 71,821,429 (2012: 71,821,429) potential ordinary shares consisting of share options and warrants (notes 24 and 25).

The calculation of loss per share is based on:

	2013	2012
The basic weighted average number of ordinary shares in issue during the year*	789,612, 894	609,590,281
The loss for the year attributable to owners of the parent (US\$'000)	(9,637)	(7,843)

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

11 Unproven oil and gas assets

COST	Group \$'000
Cost at 1 January 2012	229,250
Additions	8,966
Sales from test production	(2,687)
Disposals	(632)
Transfer to PP&E	(6,528)
Foreign exchange difference	(3,700)
Cost at 31 December 2012	224,669
Additions	10,133
Sales from test production	(3,402)
Foreign exchange difference	(3,481)
Cost at 31 December 2013	227,919
ACCUMULATED IMPAIRMENT	Group \$'000
Accumulated impairment at 1 January 2012	84,575
Transfer to PP&E	(5,003)
Foreign exchange difference	(1,315)
Accumulated impairment at 31 December 2012	78,257
Foreign exchange difference	(1,582)
Accumulated impairment at 31 December 2013	76,675
Net book value at 1 January 2012	144,675
Net book value at 31 December 2012	146,412
Net book value at 31 December 2013	151,244

Notes to the Financial Statements (continued)

11 Unproven oil and gas assets (continued)

Unproven oil and gas assets represent license acquisition cost and subsequent exploration expenditure in respect of four licenses held by Kazakh group entities. The carrying values of those assets at 31 December 2013 were as follows: Beibars Munai LLP US\$ nil (2012: US\$ nil), BNG Ltd LLP US\$101,265,000 (2012: US\$93,970,000), Galaz and Company LLP 58% share US\$49,979,000 (2012 58% share: US\$52,442,000).

The Directors have carried out an impairment review of these assets. In carrying out this review the Directors have taken into account the potential net present values of expected future cash flows and values implied by farm-in agreements/sale and purchase agreements ("SPA") entered into in the previous years. The Directors consider the values implied by the third party transactions related to BNG Ltd LLP and Galaz and Company LLP disposals to be the best indicator of value currently available. Accordingly where the value implied by these SPAs is below the net book value, a provision has been made to reduce the carrying value of that asset to the value implied by the relevant SPA.

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 Directors made a full provision against this asset in the prior year.

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.

Group	Proved oil and gas assets \$'000	Motor vehicles \$'000	Buildings \$'000	Other \$'000	Total \$'000
Cost at 1 January 2012	-	275	185	774	1,234
Additions	-	53	83	992	1,128
Disposals	-	(114)	-	(25)	(139)
Transfer from unproven oil and gas assets	1,525	-	-	-	1,525
Foreign exchange difference	-	(2)	(5)	(13)	(20)
Cost at 31 December 2012	1,525	212	263	1,728	3,728
Additions	26	51	122	241	440
Disposals	-	(16)	-	(503)	(519)
Reclassifications	-	-	-	23	23
Impairment	(1,200)	-	-	-	(1,200)
Foreign exchange difference	(29)	(5)	(6)	(31)	(71)
Cost at 31 December 2013	322	242	379	1,458	2,401
Depreciation at 1 January 2012	-	97	-	473	570
Charge for the year	2	43	28	228	301
Disposals	-	(80)	-	(26)	(106)
Foreign exchange difference	-	(1)	(2)	(11)	(14)
Depreciation at 31 December 2012	2	59	26	664	751
Charge for the year	282	97	106	116	601
Disposals	(29)	(10)	-	(248)	(287)
Foreign exchange difference	-	(1)	(1)	(7)	(9)
Depreciation at 31 December 2013	255	145	131	525	1,056
<i>Net book value at:</i>					
1 January 2012	-	178	185	301	664
31 December 2012	1,523	153	237	1,064	2,977
31 December 2013	67	97	248	933	1,345

Notes to the Financial Statements (continued)

13 Investments (Company)

Investments	Company \$'000
Cost	
At 1 January 2012	124,775
Additions	-
Disposals	-
At 31 December 2012	124,775
Additions	-
Disposals	-
At 31 December 2013	124,775
Impairment	
At 1 January 2012	31,253
Impairment	8,000
At 31 December 2012	39,253
Impairment	25,000
At 31 December 2013	64,253
<i>Net book value at:</i>	
1 January 2012	93,522
31 December 2012	85,522
31 December 2013	60,522

Notes to the Financial Statements (continued)

13 Investment (Company) (continued)

Direct investments

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2013	Effective holding and proportion of voting rights held at 31 December 2012	Nature of business
Eragon Petroleum Limited	United Kingdom	59%	59%	Holding Company
RS Munai BV	Netherlands	100%	100%	Holding Company
Beibars BV	Netherlands	100%	100%	Holding Company
Ravninnoe BV	Netherlands	100%	100%	Holding Company
Roxi Petroleum Services LLP	Kazakhstan	100%	100%	Management
Roxi Petroleum Kazakhstan LLP	Kazakhstan	100%	100%	Company
Ada BV	Netherlands	100%	100%	Dormant
Ada Oil BV	Netherlands	100%	100%	Dormant

Indirect investments held by Eragon Petroleum Limited

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2013	Effective holding and proportion of voting rights held at 31 December 2012	Nature of business
Galaz Energy BV	Netherlands	100%	100%	Holding Company
BNG Energy BV	Netherlands	100%	100%	Holding Company
Galaz and Company LLP*	Kazakhstan	58%	58%	Exploration Company
BNG Ltd LLP	Kazakhstan	99%	99%	Exploration Company
Munaily Kazakhstan LLP	Kazakhstan	99%	99%	Exploration Company

*Galaz and Company LLP is a jointly controlled entity and it has been proportionately consolidated within the Group (note 14).

Indirect investments held by RS Munai BV and Beibars BV

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2013	Effective holding and proportion of voting rights held at 31 December 2012	Nature of business
RS Munai LLP	Kazakhstan	50%	50%	Exploration Company
Beibars Munai LLP	Kazakhstan	50%	50%	Exploration Company

RS Munai LLP and Beibars Munai LLP are subsidiary undertakings as the Group is considered to have control over the financial and operating policies of these entities. Their results have been consolidated within the Group.

Notes to the Financial Statements (continued)

14 Jointly controlled entity

From 20 January 2011, the Group has a 58% interest in the jointly controlled entity Galaz and Company LLP which has been accounted for using the proportionate consolidation method. The following amounts have been recognised in the consolidated financial statements relating to this jointly controlled entity.

	2012
	\$'000
Non-current assets	55,294
Current assets	722
Total assets	56,016
Non-current liabilities	28,839
Current liabilities	8,283
Total liabilities	37,122
Expenses	(1,500)
Loss after tax	(1,500)

	2013
	\$'000
Non-current assets	52,639
Current assets	201
Total assets	52,840
Non-current liabilities	29,378
Current liabilities	7,265
Total liabilities	36,643
Expenses	(2,183)
Loss after tax	(2,183)

Galaz and Company LLP's contingent liabilities and capital commitments are disclosed in note 21.

15 Inventories

	Group 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
Materials and supplies	2,488	1,109	-	-
	2,488	1,109	-	-

Materials and supplies are principally comprised of concrete slabs, goods and some tubing to be used in the exploration and development of the Group's oil and gas properties in Kazakhstan. All amounts are held at the lower of cost and net realisable value.

16 Other receivables

	Group 2013 \$ '000	Group 2012 \$ '000	Company 2013 \$ '000	Company 2012 \$'000
Amounts falling due after one year:				
Advances paid	1,096	285	-	-
Intercompany receivables	-	-	110,068	83,081
VAT receivable	5,685	5,058	-	-
Loan provided to Baverstock	2,504	5,807	-	-
Amounts due from joint venture	4,583	4,442	-	-
Other receivables	-	-	10	-
	13,868	15,592	110,078	83,081
Amounts falling due within one year:				
Advances paid	106	354	11	39
Other receivables	367	135	47	13
	473	489	58	52

Deferred tax asset relates to tax losses carried forward in the Company books as disclosed in note 23.

VAT receivable relates to purchases made by operating companies in Kazakhstan and will be recovered after the commencement of oil production and its export from Kazakhstan (note 27.2).

At 31 December of 2013 and 2012 amounts due from the joint venture relate to Galaz and Company LLP and bear interest rate LIBOR+2%.

Intercompany receivables are shown net of provisions of US\$23.6 million (2012: US\$20.7 million), and bear interest rates between LIBOR + 2% and LIBOR + 7%.

The loan provided to Baverstock relates to the US\$10,000,000 facility provided by Galaz Energy BV to Baverstock exclusively for the repayment of Kuat Oraziman's loan received in July 2007 (note 27.1 (a)). The total amount outstanding at the reporting date was US\$5,406,000 (2012: US\$5,807,000) which represent US\$5,000,000 of principal and accrued interest. The loan was restructured in August 2013 and bears no interest from 31 December 2011 and is repayable from future dividends receivable by Baverstock. The carrying value of the receivable has been adjusted to reflect the present value of the estimated cash flows discounted at 8%.

Notes to the Financial Statements (continued)

17 Cash and cash equivalents

	Group 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
Cash at bank and in hand	3,227	917	1,093	30

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 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
US Dollar	1,144	200	1,094	25
Sterling	(1)	5	(1)	5
Kazakh Tenge	2,084	731	-	-
Euro	-	(19)	-	-
	3,227	917	1,093	30

18 Share capital

Group and Company

	Number of ordinary shares	\$'000	Number of deferred shares	\$'000
Balance at 31 December 2011 and 31 December 2012	609,590,281	10,777	373,317,105	64,702
Share issue in exchange of cash provided by a shareholder	146,635,001	2,361	-	-
Borrowings converted to equity (Note 20)	22,654,731	337	-	-
Balance at 31 December 2013	778,880,013	13,475	373,317,105	64,702

US\$22,500,000 was provided during 2013 by Mr. Kairat Satylganov according to the US\$40million funding agreement. As at 31 December 2013 the Company issued 146,635,001 ordinary shares in exchange of US\$17,500,000 funding, the remaining amount of ordinary shares (41,895,714 in exchange of US\$5,000,000) were issued during 2014.

Notes to the Financial Statements (continued)

19 Trade and other payables – current

	Group 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
Trade payables	636	1,503	143	317
Taxation and social security	128	417	23	9
Accruals	523	220	191	205
Other payables	1,969	2,525	11	-
Intercompany payables	-	-	3,855	4,231
Deferred income	1,300	1,566	-	-
	4,556	6,231	4,223	4,762

Trade and other payables – non-current

	Group 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
Intercompany payables	-	-	44,836	43,518
Taxation and social security	6,810	5,350	-	-
	6,810	5,350	44,836	43,518

Notes to the Financial Statements (continued)

20 Short-term borrowings

	Group 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
Loan from Bakmura/KNOC (a)	-	4,312	-	-
Loan from Raditie (b)	-	2,500	-	-
Other borrowings (c)	1,454	1,711	500	500
	1,454	8,523	500	500

- (a) On 19 March 2012, BNG Energy BV entered into an SPA with Bakmura LLP, a wholly owned subsidiary of KNOC Kaz B.V., which in turn is wholly owned by KNOC, for the sale of 35% of the interest in the BNG Contract Area for an initial cash consideration of US\$5 million plus an obligation to fund a further US\$25 million of the BNG work programme. Under the terms of SPA Bakmura provided a US\$6 million loan to the Group at an interest rate of LIBOR+2% to finance the BNG Contract Area operations until the completion of the SPA. In November 2012 the transaction was terminated. Consequently the Group partially repaid the loan in the amount of US\$1.6 million by 31 December 2012 and the residual was repaid in 2013.
- (b) On 10 November 2011 the Group entered into a short term interest free loan arrangement with Raditie NV whereby Raditie NV lent US\$2.5 million to the Group. Raditie NV had the right to convert this loan to 30% share in Munaily Kazakhstan LLP. On 12 March 2013, Raditie NV agreed to convert the full amount of the loan into the ordinary shares of the Company (Note 18). Subsequently, 22,654,731 new ordinary shares of the Company of 1p nominal value each were issued in favor of Raditie NV at a conversion price of 7.412668p. (note 27.1 (e))
- (c) Short-term loans provided by Kazakhstan based individuals and are repayable on demand. US\$500,000 (2012: US\$500,000) was provided to the Company in 2010 and repayable on demand. US\$954,000 (2012: US\$1,211,000) was provided by local individuals during 2007-2012 in the form of financial aid to Kazakhstan based entities for their work programs execution. The Company agreed with the individuals the loans are repayable in the future once the Group companies reach free cash flows from oil sales. Of the total amount borrowed by the Group at 31 December 2013 US\$582,000 (2012: US\$832,000) was payable to Kuat Oraziman (note 27.1 (b)).

Notes to the Financial Statements (continued)

21 Provisions

Group only	Employee holiday provision	Liabilities		2012 Total \$'000
		under Social Development Program	Abandonment fund	
Balance at 1 January 2012	180	3,824	887	4,891
Increase/(decrease) in provision	3	404	(114)	293
Paid in year	-	(1,549)	-	(1,549)
Unwinding of discount (note 7)	-	93	89	182
Foreign exchange difference	(4)	(117)	(15)	(136)
Balance at 31 December 2012	179	2,655	847	3,681
Non-current provisions	-	-	737	737
Current provisions	179	2,655	110	2,944
Balance at 31 December 2012	179	2,655	847	3,681

Group only	Employee holiday provision	Liabilities		2013 Total \$'000
		under Social Development Program	Abandonment fund	
Balance at 1 January 2013	179	2,655	847	3,681
Increase/(decrease) in provision	(8)	1,271	(224)	1,039
Paid in year	-	(620)	-	(620)
Unwinding of discount (note 7)	-	155	31	186
Foreign exchange difference	(3)	(28)	(16)	(47)
Balance at 31 December 2013	168	3,433	638	4,239
Non-current provisions	-	555	638	1,193
Current provisions	168	2,878	-	3,046
Balance at 31 December 2013	168	3,433	638	4,239

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.

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

- Investing not less than 5% of annual capital expenditures on exploration during the exploration period in professional training of Kazakhstani personnel engaged in work under the contract;
- Investing US\$1,000,000* to the development of Astana City during the second year of the contract term;
- Investing US\$1,000,000* in equal tranches over the exploration period in the social development in the region; 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.

Beibars Munai LLP did not fulfil its obligations under the social program in 2013 and 2012 due to force-majeure circumstances (see note 11).

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

Notes to the Financial Statements (continued)

21 Provisions (continued)

b) *Munaily Kazakhstan LLP*

MunailyKazakhstan 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.

According to the Addendum No. 5 Munaily Kazakhstan LLP is committed to invest in the development of the asset approximately US\$8.9 million during 2011-2013. The actual investment amount was US\$863,370. The not fulfilled amount was potentially subject to 30% fine according to the Subsoil Use Contract but Management believes the likelihood of the penalties being imposed is remote taking into account the following facts: 1) recent MOG audit of the SSUC execution by Munaily Kazakhstan LLP did not result in the setting of the 30% penalty; 2) there is no practice in Kazakhstan to impose 30% penalty for non execution of SSUCs.

*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.

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

- For the two-year extension period up to 2015 US\$625,000 per annum should be invested in the social development of the region;
- To fund minimum work program during the extended exploration period of US\$26,332,000;
- 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.

BNG Ltd LLP is in full compliance with licence terms and expects to fulfil 100% its minimum work program until June 2015.

Notes to the Financial Statements (continued)

21 Provisions (continued)

d) Galaz and Company LLP

Galaz and Company LLP, a jointly controlled entity, signed an exploration contract #593 dated 12 December 2000 in respect of the North-West Konys deposit located in Kyzyl-Orda region. On 10 January 2011 MOG extended the contract territory under exploration of Galaz and Company LLP and on 16 February 2011 the exploration contract of Galaz and Company LLP was granted an extension of two years to 14 May 2013. On 5 December 2013 Galaz and Company LLP signed Addendum No. 6 extending the evaluation period up to 14 May 2014 with the option for pilot production for one more year.

As at the date of this report Galaz and Company LLP has provided the Working Group of MOG with the documents needed for review and approval of the further one year extension of evaluation period and expects to have the final approval not later than 31 May 2014.

In accordance with the terms of the contract and addendums Galaz and Company LLP remains committed to the following:

- Investing 5% of total exploration expenditures for the social development of the region: in accordance with Addendum No. 6 to allocate additional US\$201,400 for the social development of the region for the period up to 14 May 2014.
- Investing not less than 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract;
- To create a liquidation fund in an amount of US\$179,580 by providing financial and bank guarantees;
- To fund a minimum work program during the extended exploration period of US\$4,028,600.

Galaz and Company LLP has fulfilled its minimum work programs for all previous extended periods and is in compliance with license terms.

22 Borrowings

	Group 2013 \$'000	Group 2012 \$'000	Company 2013 \$'000	Company 2012 \$'000
Loan from LGI ^(a)	21,904	21,326	-	-
Loan from Vertom ^(b)	8,248	7,420	8,248	7,420
Interest free loan from Kuat Oraziman ^(c)	1,428	1,428	-	-
	31,580	30,174	8,248	7,420

- (a) The loan due to LGI represents the Group's share of debt owed by Galaz and Company LLP to LGI, as a result of its acquisition of 40% interest in Galaz and Company LLP, as at 31 December 2013 and 2012. The loan bears interest at a rate of LIBOR+2%, its repayment is contingent on production at Galaz field and net asset generation (note 27.1 (d)).
- (b) 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 (note 27.1 (c)). The loan extension represents a substantial modification of the terms of the existing financial liability and has been accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.
- (c) At 31 December 2012 and 2013 the principal amount of US\$1,428,000 represents an interest free loan from Mr Kuat Oraziman that is repayable on 27 June 2017 (note 27.1 (b)). The carrying amount and fair value of the loan at 31 December 2013 were not materially different.

Notes to the Financial Statements (continued)

23 Deferred tax

Deferred tax liabilities comprise:

	Group 2013 \$'000	Group 2012 \$'000
Deferred tax on exploration and evaluation assets acquired	14,019	14,296
	14,019	14,296

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 2013 \$'000	Group 2012 \$'000
At beginning of the year	14,296	14,434
Foreign exchange	(277)	(138)
	14,019	14,296

As at 31 December 2013 the Group has accumulated deductible tax expenditure related to its Kazakhstan assets of approximately US\$115 million (2012: US\$110 million) available to carry forward and offset against future profits. This represents an unrecognised deferred tax asset of approximately US\$23million (2012: US\$22 million). Tax losses carried forward related to Group's UK part have been recognized due to the expected net taxable profit in UK.

The movement on deferred tax asset was as follows:

	Group 2013 \$'000	Group 2012 \$'000
At beginning of the year	2,121	3,442
Offset with taxable profit (note 9)	(1,335)	(1,321)
At end of the year	786	2,121

24 Share option scheme

During the year 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.

Share options

The options were issued to Directors and employees as follows:

	Number of options granted	Number of options expired	Total options outstanding	Weighted average exercise price in pence (p) per share	Expiry May 2017- Jan 2021
As at 31 December 2011	73,508,226	(17,186,797)	56,321,429	23	
Expired	-	(1,000,000)	-	8	
As at 31 December 2012	73,508,226	(18,186,797)	55,321,429	24	
As at 31 December 2013	73,508,226	(18,186,797)	55,321,429	24	May 2017- December 2021

The range of exercise prices of share options outstanding at the year end is 4p – 65p (2012: 4p – 65p). The weighted average remaining contractual life of share options outstanding at the end of the year is 6.20 years (2012: 7.20 years).

Notes to the Financial Statements (continued)

24 Share option scheme (continued)

Fair value is measured using a Black-Scholes model that takes into account the effect of financial assumptions, including the future share price volatility, dividend yield, and risk-free interest rates. The expected volatility was determined based on both the volatility of the Company's share price since flotation and the volatility of similar quoted companies. Employee exit rates and the expected period from vesting to exercise are also considered, based on historical experience. The principal assumptions are:

		2012	2011
Expected volatility	(%)	80	80
Expected life	(years)	3	3
Risk-free rate	(%)	2.85	2.85
Fair value per option	(p)	1-7	1-7

25 Derivative financial liability

The derivative financial liabilities at the Group's and the Company's Statements of Financial Position as at 31 December 2013 and 2012 represented by the carrying value of the royalty payable to Canamens from future oil revenues of US\$5,240,000 (2012: US\$5,240,000) and the warrant liability payable of US\$8,000 (2012: US\$8,000).

Future revenue oil 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 and 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 Roxi Petroleum Plc 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 2013 comprised US\$5,240,000 (2012: US\$5,240,000).

Warrants issued

The following table summarises warrants outstanding at the end of the year and the prior year:

Description	Number		\$'000		Profit or Loss effect	Year End	Expiry date
	Grant	Exercised	Year End	Grant			
GEM Global Yield Fund Limited ⁽¹⁾	-	-	9,000,000	-	-	8	26 May 2014
TOTAL	-	-	9,000,000	-	-	8	

The Company entered into a £15,000,000 equity line of credit with GEM Global Fund Limited in return for 9,000,000 warrants. The warrants were initially recognised at a fair value of US\$1,106,000 and have been re-valued at 31 December 2013 to US\$8,000 (2012: US\$8,000). There were no significant fair value movement in warrant liability during the year.

Due to the difference in the currency of the warrants and the functional currency of the Company warrants are treated as derivative financial liability with the change in fair value recognized through profit and loss.

Additionally the Company has 7.5 million warrants valid until 21 May 2017 that are recognized in Consolidated and Parent Company Statements of Changes in Equity.

Total number of warrants that remained outstanding at the yearend was 16,500,000 (2012: 16,500,000).

26 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.

Notes to the Financial Statements (continued)

26 Financial instrument risk exposure and management (continued)

Principal financial instruments

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

Financial assets	Group	Group	Company	Company
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Loans and receivables				
Intercompany receivables	-	-	103,327	83,081
Amounts due from joint venture	4,583	4,442	6,740	-
Other receivables- current	367	135	47	13
Other receivables - non-current	5,911	6,295	-	-
Cash and cash equivalents	3,227	917	1,093	30
	14,088	11,789	111,207	83,124

Financial liabilities	Group	Group	Company	Company
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Financial liabilities at amortised cost				
Trade and other payables	3,128	4,248	4,201	4,753
Other payables - non-current	-	-	44,836	43,518
Borrowings – current	1,454	8,523	500	500
Borrowings - non-current	31,580	30,174	8,248	7,420
	36,162	42,945	57,785	56,191

As at 31 December 2013 the carrying value of financial liabilities measured at fair value through profit and loss for the Group and Company was US\$5,248,000 (2012: Group and Company US\$5,248,000).

Fair value of financial assets and liabilities

At 31 December 2013 and 2012, the fair value and the book value of the Group and Company's liabilities were as follows:

	Group and Company		
	Fair value measurements at 31 December 2013		
	Level 1	Level 2	Level 3
	\$000	\$000	\$000
Financial Liability	-	-	5,248
Future profit oil royalty	-	-	5,240
Warrant liability	-	-	8

	Group and Company		
	Fair value measurements at 31 December 2012		
	Level 1	Level 2	Level 3
	\$000	\$000	\$000
Financial Liability	-	-	5,248
Future profit oil royalty	-	-	5,240
Warrant liability	-	-	8

The derivative financial asset is measured on initial recognition and subsequently at fair value by reference to the probability of various outcomes and categorised as level 3 measurement:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements (continued)

26 Financial instrument risk exposure and management

Fair value of financial assets and liabilities (continued)

The fair values of the financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the warrant liability was initially recognised utilising the Black-Scholes model based on the underlying contract terms. The fair value is recalculated when warrants are issued, exercised, expired or at year end utilising the Black-Scholes model. The model takes into account the effect of financial assumptions, including the future share price volatility, risk-free interest rates and expected life.

The fair value of the future profit oil royalty payable to Canamens was calculated using discounted cash flows expected from future production at BNG field during 20 years starting 2015. The discount rate used in calculations of 8% is approximately equal to the current cost of debt for BNG LLP Ltd.

During 2013 and 2012 the movement in Group and Company's financial liabilities was as follows:

Financial Liability	2013 \$'000	2012 \$'000
Balance at the beginning of the year	5,248	5,324
Change in value taken to the Profit or Loss	-	(76)
Balance at 31 December	5,248	5,248

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
- derivative financial liability

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 and the Company's inter-company funding. 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.

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, shares to be issued, capital contribution reserve, other reserves, retained earnings 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.

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

Notes to the Financial Statements (continued)

26 Financial instrument risk exposure and management (continued)

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 2013 and 2012 see table below:

	On Demand	Less than 3 months	3-12 months	1- 5 years	Over 5 years	Total
Group 2013 \$'000	1,454	3,128	-	35,215	5,240	45,037
Group 2012 \$'000	1,711	7,248	1,850	33,133	7,240	51,182
Company 2013 \$'000	500	-	-	14,343	90,415	105,258
Company 2012 \$'000	500	-	-	13,262	90,415	104,177

Interest rate risk

The majority of the Group's borrowings are at variable rates of interest linked to LIBOR. As a result the Group is exposed to interest rate risk. An increase of LIBOR by 1% would have resulted in an increase in finance expense of approximately US\$200,000 (2012: US\$66,000).

There is no significant interest rate risk on the cash and cash equivalents as the Group does not have significant surplus cash balances to hold in interest bearing accounts.

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 Dollar 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.

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 Dollar/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 insignificant.

Notes to the Financial Statements (continued)

27 Related party transactions

Kuat Oraziman is considered to be the Company's ultimate controlling party as his total interests comprising his direct holdings together with shares held by Vertom International NV and Baverstock GmbH represents 54.89% of the Company's total share capital.

27.1 Loan agreements

a) *Loan to Baverstock*

In August 2010 Galaz Energy BV has provided Baverstock GmbH (holds 41% interest in Eragon) with a loan facility of up to US\$10,000,000 at LIBOR +7%. The amounts borrowed under this loan agreement must be used exclusively for repayment of Kuat Oraziman's US\$10,000,000 loan received in July 2007. The facility is to be repaid by paying back 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.

b) *Other loans from Kuat Oraziman*

The Company had other loans outstanding as at 31 December 2013 and 2012 with Kuat Oraziman, details of which have been summarised in notes 20 and 22.

c) *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 22. The loan payable at 31 December 2013 was US\$8,248,000 (2012: US\$7,420,000). No cash was called during 2013 under the loan agreement. A director of the Company Kuat Oraziman is a director of and holds 50% of the issued share capital of both Vertom International N.V. ("Vertom") and Vertom International BV.

d) *Loans in relation to LGI*

As described in note 22 Galaz and Company LLP and LG International entered into a Facility Agreement of US\$34.7 million pursuant to the SPA entered into on 27 April 2010. LG International is a 40% shareholder in Galaz and Company LLP. The loan payable at 31 December 2013 was US\$37,765,000 (2012: US\$36,770,000). No cash was called during 2013 under the loan agreement.

e) *Raditie loan*

During the year ended 31 December 2011 the Company entered into a loan facility with one of its shareholder Raditie NV, details of which have been summarised in note 20. During 2013 the Group issued 22,654,731 new ordinary shares of the Company of 1p each in order to convert US\$2.5 million debt to Raditie NV at a conversion price of 7.412668p per ordinary share. As at 1 January 2013 Raditie NV held 6.1% share interest at the Company (37,000,000 common shares), after the conversion of loan to equity conversion the share interest of Raditie at the Company comprised 7.7% (59,654,731).

27.2 Key management remuneration

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

In September 2008 the Directors and senior management agreed to defer part of their salaries and fees until such time that the payment would not materially affect the Company's ability to continue to comply with existing work programme commitments. This policy continued until June 2013 when the outstanding amounts were fully repaid.

As at 31 December 2013, the amount due to the Directors in respect of this deferral was nil (2012: US\$455,317).

27.3 Purchases

During 2013 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\$2.5 million (2012: US\$2 million). These expenses were capitalized to unproven oil and gas assets. As at year end the Group has advances paid in the amount of US\$505,000 (2012: US\$237,000) and trade payables in the amount of US\$117,000 (2012: US\$220,000) in relation to these drilling services.

Notes to the Financial Statements (continued)

28 Events after the reporting period

28.1 New shares issuance

In March 2014 Mr. Kairat Satylganov paid US\$2 million to fund work programme commitments of BNG Contract Area according to the agreement with the Company signed in 2013. At reporting date Mr. Satylganov has provided US\$24.5 million of agreed US\$40 million and the Company issued total 205,289,002 ordinary shares in his favour.