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**Roxi Petroleum plc**

**(“Roxi” or “the Company”)**

**Final Results**

Roxi, the Central Asian oil and Gas company with a focus on Kazakhstan, announces its audited final results for the year ended 31 December 2013.

**Highlights for 2013 and to date in 2014:**

***Operational***

- Successful shallow drilling campaign at BNG
- Commencement of first deep well at BNG
- Currently aggregate production across the portfolio 2900 bopd gross (1212 net to Roxi)

***Financial***

- US $40m equity commitment secured in January 2013 at 7.41p per share of which $24.5m has been drawn to date
- Net asset value per share 8.1p
- Loss after tax per share 0.78p

**Comments**

**Clive Carver, Chairman commented**

***"Progress in the year under review and subsequently has been dramatic with multiple wells drilled including our first deep well, a number of positive test results and in recent months steadily growing production volumes.***

***The Group is well placed to consolidate these advances over the next 12 months with further well tests and drilling planned together with an update of the Company's reserves."***

**Enquiries**


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**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.

## Chairman's report

### 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 heath & 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

**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).

**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 |

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

The depth migration work that was carried out by PGS enabled 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.

#### *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).

***Well NK-8 (previously NK-14)***

Well NK-8 was drilled in July 2012 to a depth of 1,390meters. 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.

**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.

**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

## Consolidated Statement of Profit or Loss

| | Notes | Year to 31 December 2013 $'000 | Year to 31 December 2012 $'000 |
|---|---|---|---|
| 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.

## 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

## 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 |

## 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 |

## 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 |

# 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 |

# 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 US24.5 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.

#### 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.

### 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.

### 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.

**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.

**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.

**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).

**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.

## 4 Operating loss

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

| | 2013<br>$'000 | 2012<br>$'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<br>$'000 | 2012<br>$'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<br>2013<br>$'000 | Group<br>2012<br>$'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<br>2013 | Group<br>2012 |
|---|---|---|
| Technical | **30** | 25 |
| Field operations | **37** | 24 |
| Finance | **14** | 13 |
| Administrative and support | **31** | 29 |
| | **112** | 91 |

| **Directors' remuneration** | Group<br>2013<br>$'000 | Group<br>2012<br>$'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

## 7 Finance cost

| | Group<br>2013<br>$'000 | Group<br>2012<br>$'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 |
| *Effects of:* | | |
| 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.

## 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** |

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** |
| | | | | | |
| *Net book value at:* | | | | | |
| 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** |

**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** |
| | |
| *Net book value at:* | |
| **1 January 2012** | 93,522 |
| **31 December 2012** | 85,522 |
| **31 December 2013** | **60,522** |

**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 Company |
| Roxi Petroleum Kazakhstan LLP | Kazakhstan | 100% | 100% | Management 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.

**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**<br>**$'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%.

### 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.

### 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 |

**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 favour 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)).

**21 Provisions**

| Group only | Employee holiday provision | Liabilities under Social Development Program | Abandonment fund | 2012 Total $'000 |
|---|---|---|---|---|
| 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 under Social Development Program | Abandonment fund | 2013 Total $'000 |
|---|---|---|---|---|
| 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 that 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 contact 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.

***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.

***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.

## 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).

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:

| | Number | | | $'000 | | | | |
|---|---|---|---|---|---|---|---|---|
| **Description** | **Grant** | **Exercised** | **Year End** | **Grant** | **Exercised** | **Profit or Loss effect** | **Year End** | **Expiry date** |
| 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 fare 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.

**Principal financial instruments**

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

| **Financial assets** | **Group 2013 $'000** | **Group 2012 $'000** | **Company 2013 $'000** | **Company 2012 $'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 2013 $'000** | **Group 2012 $'000** | **Company 2013 $'000** | **Company 2012 $'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 $000** | **Level 2 $000** | **Level 3 $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 $000** | **Level 2 $000** | **Level 3 $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).

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.

**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.

## 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.

## 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 US24.5 million of agreed US$40 million and the Company issued total 205,289,002 ordinary shares in his favour.