

LISTING PARTICULARS DATED 8 JANUARY 2013



Vostok Energy Public Limited Company

(incorporated under the Companies Act 1985 with limited liability in England and Wales with registered number 5806076)

US\$1,346,113

Conditional Convertible Bonds due 2013

**convertible into Ordinary Shares of
Vostok Energy Public Company Limited**

**(To be consolidated and form a single series with
the US\$1,313,281 Conditional Convertible Bonds due 2013 issued on 13 July 2012,
the US\$1,281,250 Conditional Convertible Bonds due 2013 issued on 13 April 2012,
the US\$1,250,000 Conditional Convertible Bonds due 2013 issued on 13 January 2012 and the
US\$50,000,000 Conditional Convertible Bonds due 2013 issued on 13 October 2010)**

These Listing Particulars (the "**Listing Particulars**") comprise listing particulars in compliance with the listing rules made under Section 73A of the Financial Services and Markets Act 2000 (the "**FSMA**") by the UK Listing Authority (the "**UKLA**") for the purpose of giving information with regard to Vostok Energy Public Limited Company (the "**Issuer**"), the Issuer and its subsidiaries taken as a whole (the "**Group**") and the US\$1,346,113 conditional convertible bonds due 2013 (the "**Bonds**") (to be consolidated and form a single series with the US\$1,313,281 Conditional Convertible Bonds due 2013 issued on 13 July 2012, the US\$1,281,250 conditional convertible bonds due 2013 issued on 13 April 2012, the US\$1,250,000 conditional convertible bonds due 2013 issued on 13 January 2012 and the US\$50,000,000 conditional convertible bonds due 2013 issued on 13 October 2010). Applications have been made for the Bonds to be admitted to the Official List of the UKLA and to be admitted to trading on the Professional Securities Market (the "**PSM**") of the London Stock Exchange plc (the "**LSE**"). References in these Listing Particulars to the Bonds being "listed" (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the PSM. The PSM is not regulated for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

The Issuer accepts responsibility for the information contained in these Listing Particulars which, for the avoidance of doubt, includes the financial information contained in Annex A and Annex B. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

These Listing Particulars do not constitute an offer of, or an invitation by or on behalf of the Issuer to subscribe or purchase, any of the Bonds or the ordinary shares of the Issuer (the "**Ordinary Shares**"). The distribution of these Listing Particulars and the offering of the Bonds or the Ordinary Shares in certain jurisdictions may be restricted by law. Persons into whose possession these Listing Particulars come are required by the Issuer to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds or the Ordinary Shares and on distribution of these Listing Particulars, see "*Subscription and Sale*".

No person is authorised in connection with the Bonds to give any information or to make any representation not contained in these Listing Particulars and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or Capita Trust Company Limited (the "**Trustee**"). Neither the delivery of these Listing Particulars nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which these Listing Particulars have been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which these Listing Particulars have been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Bonds and the Ordinary Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**"). The Bonds and the Ordinary Shares to be issued upon conversion of the Bonds may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act ("**Regulation S**")) except in certain transactions permitted by the Securities Act. For a more complete description of restrictions on offers and sales, see "*Subscription and Sale*".

The Bonds are represented by a global bond in bearer form (the "**Global Bond**"), which was deposited with a common depository (the "**Common Depository**") on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") or any other clearing system approved by the Trustee (the "**Alternative Clearing System**") on 15 October 2012. The Global Bond is exchangeable for definitive Bonds in bearer form in the denomination of US\$1.00, only in certain limited circumstances set out in the Global Bond, all as further described in "*Summary of Provisions Relating to the Bonds while in Global Form*".

The Issuer is not providing any advice or recommendation in these Listing Particulars on the merits of the purchase, subscription for, or investment in, the Bonds or the Ordinary Shares or the exercise of any rights conferred by the Bonds or the Ordinary Shares.

The Bonds are securities which, because of their nature, are normally bought and traded by a limited number of investors who are particularly knowledgeable in investment matters. These Listing Particulars have been prepared on the basis that any purchaser of Bonds is a person or entity having sufficient knowledge and experience of financial matters as to be capable of evaluating the merits and risks of the purchase. Before making any investment decision with respect to the Bonds, prospective investors should consult their own counsel, accountants or other advisers and carefully review and consider their investment decision in the light of the foregoing. An investment in the Bonds is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may result therefrom. Prospective investors should have regard to the factors described under the section entitled "*Risk Factors*".

These Listing Particulars are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer that any recipient of these Listing Particulars should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information set out in these Listing Particulars and its purchase of Bonds should be based upon such investigations as it deems necessary.

The Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate of any financial advisers or investment bank, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall be obliged to accept and entitled to rely on any such report, confirmation or certificate where the Issuer procures delivery of the same pursuant to its obligation to do so under the Terms and Conditions and such report, confirmation or certificate shall be binding on the Issuer, the Trustee, the Bondholders and the Couponholders (as defined herein) in the absence of manifest or proven error.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risk of investing in the Bonds and the information contained or incorporated by reference in this document;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
- (d) understand thoroughly the terms of the Bonds and be familiar with the behaviour of the financial markets in which they participate; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds are complex financial instruments and such instruments may be purchased as a way to enhance yield with an understood, measured, appropriate addition of risk to an investor's overall portfolio. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it; (b) the Bonds can be used as collateral by it for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate

regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

All references in these Listing Particulars to "**US dollars**" and "**US\$**" are to the lawful currency of the United States, all references to "**euro**", "**Euro**" and "**€**" are to the lawful currency introduced on 1 January 1999 at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Communities, as amended from time to time. All references in these Listing Particulars to "**Russian Rubles**", "**Rubles**", "**RR**" or "**RUB**" are to the lawful currency of the Russian Federation and all references to "**sterling**", "**pounds sterling**", "**pounds**", "**£**", "**p**" or "**pence**" are to the lawful currency of the United Kingdom. The Group prepares its consolidated financial information in US dollars.

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RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in these Listing Particulars prior to making any investment decision with respect to the Bonds. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer which, in turn, could affect its ability to fulfil its obligations under the Bonds. In addition, each of the risks highlighted below could adversely affect the trading price of the Bonds or the Ordinary Shares or the rights of investors under the Bonds or the Ordinary Shares and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Issuer faces. The Issuer has only described those risks to its operations that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.

Prospective investors should read the entire Listing Particulars. Words and expressions defined in the Conditions below or elsewhere in these Listing Particulars have the same meanings in this section.

Investing in the Bonds involves certain risks. Prospective investors should consider, among other things, the following:

Risks Relating to the Group's Business and Industry

The Group has a limited history of processing and selling gas

The Group is an established mineral extraction company which has been operating wells and producing oil since 2006 under a licence (the "**Bortovoy Licence**") held by the Group's Russian operating subsidiary, Diall Alliance LLC (a company incorporated in the Russian Federation with registered number 1026400818168) ("**Diall**"). As the production of oil and the flaring of the associated gas proved to be commercially and environmentally unattractive, the decision was taken to concentrate on the production and commercialisation of the gas found on the Bortovoy Licence area. The Group therefore suspended commercial production of gas and oil between September 2008 and November 2010 while constructing a 17.6 bcfa (0.5 bcma) gas processing plant at Karpenskoye (the "**Western Plant**") in the western part of the Bortovoy Licence area comprising four gas fields, Karpenskoye, Zhdanovskoye, Krasnokutskoye and Mokrousovskoye (the "**Western Fields**"). Following an initial period of trial production and sales, the Western Plant has been operating commercially since January 2011. The Group's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stages of gas production, as are set out in this section "*Risks Relating to the Group's Business and Industry*". If the Group is unable to address or manage such risks, expenses or difficulties, this could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group's success depends on its ability to locate, explore for, appraise and develop gas and oil reserves and to commercially produce these reserves

The Group's long-term commercial success depends on its ability to explore for, appraise, develop and commercially produce gas and oil reserves. If the Group is unsuccessful in locating and developing or acquiring new reserves to replace its existing reserves, its reserves (and hence production) will decline over time as its current reserves are depleted by production. Future increases in the Group's reserves will depend mainly on its ability to explore, appraise and develop its existing asset base.

Based on the results of an extensive seismic programme acquired by the Group, the results of exploration wells drilled to date and geological comparisons with known productive fields in the region, the Group believes that the fields in the Bortovoy Licence area have strong geological similarities with large fields in Kazakhstan. The Group's development strategy in the eastern part of the Bortovoy Licence area, which comprises six gas fields, Pavlovskoye, Kochkurovskoye, Timoninskaya, Lipovskoye, West Lipovskoye and Peschanaya (the "**Eastern Fields**") will involve exploration and appraisal drilling of the Devonian, Carboniferous and Permian geological horizons, with the aim of supplying gas to a gas processing plant that the Issuer intends to construct on the Eastern Fields with an initial production level of 17.6 bcfa (0.5 bcma) and expected full production of 52.8 bcfa (1.5 bcma) during 2015 (the "**Eastern Plant**"). In the longer term, exploration and appraisal work will also be undertaken on the Devonian and Carboniferous horizons in the Eastern Fields and the expansion of the

Group's production is dependent on the success of this work. In addition, in the Western Fields, the Group will also undertake further exploration, including seismic acquisition, exploration, appraisal and development drilling with short term drilling and production growth focused on developing the oil rim found in the Karpenskoye field. There can be no assurance that the Group's exploration and development strategy will be successful. There are many reasons why the Group may not be able to find gas and oil for commercially viable production. For example, despite the geological similarities with large Kazakh fields, the fields within the Bortovoy Licence area may not contain, or the Group may be unable to locate, proportionately similar levels of gas and oil reserves. In addition, the Group may be unable to obtain commercially reasonable terms for its exploration, appraisal, development or production activities. Factors such as adverse weather conditions, natural disasters, equipment or services shortages, procurement delays or difficulties arising from the political, environmental and other conditions in the areas where the reserves are located or through which the Group's products are transported may increase costs and make it uneconomical to develop potential reserves.

Without successful exploration, appraisal and development activities, the Group's reserves, production and revenues are likely to decline over the longer term, and the failure of these activities would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group's business depends on an exploration and production licence issued by Russian authorities. If that licence is suspended, restricted, terminated prior to expiry or not extended this would have a material adverse effect on the Group

The licensing regime in Russia for the exploration, development and production of crude oil, natural gas and gas condensate is governed primarily by the Law "On Subsoil" No. 2395-1 dated 21 February 1992 (the "**Subsoil Law**") and numerous regulations issued thereunder.

The Group conducts all of its gas and oil exploration and production activities under the Bortovoy Licence, a subsoil licence held by its Russian operating subsidiary, Diall, which was issued before the Group owned or controlled this entity. The rights of any holder of a subsoil licence may be challenged on the basis of defects in the process of its issuance. Vague and inconsistent requirements of the Subsoil Law and the regulations thereunder can make it difficult to conclude that any given subsoil licence has been issued in full compliance with the applicable law. Moreover, while the law may be read to permit revocation of a licence based only on defects relating to the issuance of that licence, a more aggressive interpretation of the law would suggest that defects in the issuance of any preceding licences could also constitute a basis for challenging an existing or subsequent licence.

The Group's compliance with the Bortovoy Licence is subject to periodic review by the regional and federal authorities, and these Russian licensing authorities have a degree of discretion to determine whether or not licence holders are in compliance with their legal obligations. The discretion that Russian licensing authorities have, together with the vagueness and inconsistency of the relevant legislation, carries with it an increased risk (as compared to other jurisdictions) that the Bortovoy Licence will be subject to challenge or revocation. If a licence is issued in violation of Russian law, it may be challenged by any person whose rights or lawful interests are harmed by the violation within three months after the claimant learns of the breach of its rights or lawful interests. Although recent reviews of the Western Plant by the relevant authorities highlighted minor breaches of the Bortovoy Licence by the Group due to the Issuer's failure to bring certain fields on line within prescribed timeframes, resulting in minor fines, these were not significant and the licence has not been subject to challenge. The Issuer is not aware of any existing grounds for challenge going forward, although fines amounting to approximately US\$47,000 may be imposed on the Issuer for these immaterial breaches of the licence terms. However, if the validity of the Bortovoy Licence were to be challenged, it may be subject to suspension or revocation. The suspension or loss of the Bortovoy Licence would require the Group to stop its production of gas and oil from the fields covered by the Bortovoy Licence, which comprise all of its current exploration and production operations, and if the Group were unsuccessful in lifting such suspension or re-obtaining the Bortovoy Licence, the Group would lose its right to extract gas and oil from the field altogether. Accordingly, although the Issuer believes the probability of the suspension or loss of the Bortovoy Licence to be low, any such suspension or loss would materially adversely affect the Group's business, prospects, financial condition, results of operations and the trading price of the Bonds and the Ordinary Shares (once issued).

The Bortovoy Licence expires in 2025 and the Subsoil Law, as currently in effect, allows for the extension of a production licence at the request of the licence holder if such extension is necessary to

finish production in the fields covered by the licence, provided that the licence holder has not violated the terms of the licence. Although the Group plans, on or prior to its scheduled expiry, to extend the Bortovoy Licence to the end of the currently estimated economic life of the fields to which it relates, if the licensing authorities were to determine that the Group has not complied with the terms of the Bortovoy Licence, the authorities may refuse to extend it.

In addition, private individuals and the public at large have the right to comment on and may seek to influence the licensing process, which may include court intervention and political pressure. Moreover, requirements imposed by the applicable regulatory authorities, including requirements to comply with numerous industrial standards, recruit qualified personnel and subcontractors, maintain necessary equipment and quality control systems, monitor the operations of the Group, maintain appropriate filings and, upon request, submit appropriate information to the licensing or other regulatory authorities may also be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations.

Competitors of the Group may also seek to impede the rights of the Group to develop certain natural resource deposits by challenging the Group's compliance with the terms of the Bortovoy Licence. Any alleged non-compliance by the Group with licensing regulations and the terms of the Bortovoy Licence could lead to the suspension, restriction or termination of the Bortovoy Licence and to administrative and civil liability for the Group, which could have a material adverse effect on the Group's business prospects, financial condition and results of operations.

A material decline in gas and oil prices globally or an increase in domestic Russian gas prices which is slower than currently expected may adversely affect the Group's business, prospects, financial condition and results of operations

The Group's revenues, profitability and future rate of growth will depend substantially on prevailing gas and oil prices, both of which can be volatile and subject to fluctuation. Changes in gas and oil prices will directly affect the Group's revenues and net income.

Prices for gas and oil are subject to fluctuations in response to a variety of factors beyond the Group's control, including, but not limited to:

- changes in the global and regional supply and demand for gas and oil and expectations regarding future supply and demand;
- the condition of the world economy and geopolitical events;
- the impact of recessionary economic conditions on the Group's customers, including reductions in demand for gas and oil;
- the worldwide military and political environment and uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or further acts of terrorism, including in the United States, the Middle East, Russia or other regions which produce gas and oil;
- actions taken by governments and international cartels, including the Organisation of Petroleum Exporting Countries;
- other actions taken by certain major gas and oil producing or consuming countries or companies;
- Russian and foreign governmental regulations and actions, including export restrictions, price regulation (in the case of gas) and taxes;
- technological advances affecting energy consumption;
- the development, availability, price and acceptance of alternative fuels and competition from other energy sources; and
- weather conditions and natural disasters.

Domestic gas prices in Russia are regulated by the Russian Federal Service for Tariffs ("FST") and are currently, and have historically been, significantly lower than European gas prices. Although the Russian Government has stated its intention to liberalise industrial gas prices in Russia with the aim of achieving a domestic parity price, after adjusting for export duty of 30 per cent. and transport costs ("**Net Back Parity**") with European gas prices and the regulated price has been consistently rising in Russia since that policy objective was announced, it is still significantly below levels prevailing in international markets. Although the Group anticipates that Russian gas prices will gradually increase towards Net Back Parity, there can be no assurance that the liberalisation of industrial gas prices in Russia will continue or that the domestic price of gas in Russia will increase at the rate currently expected by the Group.

Domestic oil prices in Russia are generally linked to international prices, although domestic prices often deviate from international prices for a number of reasons including variances in the levels of regional supply and demand for oil. As a result, domestic gas and oil prices are, and in the future are expected to continue to be, generally lower than international prices.

The Group's profitability is determined in large part by the difference between the income received for gas and oil the Group sells and its operating costs, taxation costs upon extraction (assessable irrespective of sales) and costs incurred in transporting and selling its gas and oil. Therefore, a decline in gas and oil prices may reduce the amount of gas or oil that the Group is able to produce economically and, to the extent that production costs exceed anticipated revenues from the sale of gas produced, may reduce the economic viability of the production levels of specific wells or of projects planned or in development. Any decline in gas or oil prices could result in a reduction in net income, impair the Group's ability to make planned discretionary capital expenditures, incur costs necessary for the further development of the Group's fields and the construction of the Eastern Plants and could materially adversely affect the Group's business, prospects, financial condition and results of operations.

Gas and oil production companies, including the Issuer, may be adversely affected by current global economic conditions

The recent global recessionary environment and the volatility of international markets have caused governments and central banks to undertake unprecedented intervention designed to stabilise global and domestic financial systems, stimulate new lending and support structurally important industries and institutions such as banks which are at risk of failing. Many developed economies have experienced recession over the past three years and growth has slowed in many emerging economies with continuing serious adverse consequences for asset values, employment levels, consumer confidence and levels of economic activity. Commodity prices, including prices for gas and oil, have been volatile, interest rate yield curves have flattened, interest rates have fallen in absolute terms in many markets, and trade flows have contracted. Global equity markets have experienced severe declines and various currencies, including the Ruble, have fluctuated significantly against the US dollar. Numerous governments and central banks, including those in Russia, have responded to these economic conditions by proposing programmes to make substantial funds and guarantees available to boost liquidity and confidence in their financial systems and support industries such as gas and oil, as well as cutting taxes and lowering interest rates. The impact of the reversal or withdrawal of such programmes as the economic climate changes is uncertain. Any further deterioration of these conditions and of the global economic environment could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group must make significant capital expenditures in order to increase its production levels and improve overall well productivity, and the inability to finance these and other expenditures could have a material adverse effect on the Group

The Group's business is highly capital intensive and the Issuer expects that the Group's activities will require significant capital expenditures for the foreseeable future, particularly with respect to the exploration, appraisal and development of the Eastern Fields, including the construction and commissioning of the Eastern Plant. The Issuer believes that the net proceeds of the Bonds together with existing cash resources and revenues generated by the Group will be sufficient to fund the Group's current capital expenditure plans. In addition, as at the date of these Listing Particulars, the Issuer does not intend to make any further major capital expenditures, so as to ensure that it has adequate funds from its operations to fund its current capital expenditure plans. However additional capital expenditure

may be required in the longer term and the Group's ability to arrange financing for such expenditure and the cost of financing generally, depends on many factors, including:

- global and local economic and capital markets conditions;
- investor confidence in the gas and oil industry in Russia and in the Group;
- the business performance of the Group;
- regulatory developments;
- credit available from banks and other lenders; and
- provisions of tax and securities laws that are conducive to raising capital.

The terms and conditions on which future funding or financing may be made available may not be acceptable or funding or financing may not be available at all. Banks and capital markets globally have experienced a significant disruption since August 2008 that has been characterised by severe reductions in liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency in money and capital markets interest rates. As a result, many lenders have reduced or ceased providing funding to borrowers, particularly in the emerging markets, and there has been a general increase in the cost of borrowing for private-sector borrowers. The continuation or worsening of this market disruption may adversely impact the Group's ability to borrow in the banking or capital markets and may further increase the cost of such borrowing from the levels seen either in 2007 or currently. In addition, the European Bank for Reconstruction and Development (the "**EBRD**") may take debarment action (i.e., a declaration that the Issuer is ineligible, either indefinitely or for a stated period of time, to become a counterparty in any new EBRD project) as a result of its ongoing investigation detailed in "*Investigations concerning Elena Kotova and the EBRD*" in the section entitled "*Vostok Energy Public Limited Company*". This could extend to any new finance projects with the Asian Development Bank, the Inter American Development Bank or the World Bank group including the IFC, each of which is an international organisation with which the EBRD has entered into a mutual enforcement agreement (a "**Mutual Enforcement Institution**"). In addition, although the Issuer believes that this is unlikely, the EBRD could accelerate the convertible loan agreement that the Issuer entered into with the EBRD on 18 September 2009 (the "**Convertible Loan Agreement**"), which could result in cross default under the Bonds. Since the Issuer's plans for future funding do not include any element of financing by the EBRD or any of the other Mutual Enforcement Institutions, the Issuer believes that Debarment by the EBRD would not have a material adverse effect on its operations or financial condition. However, the cost of financing that the Issuer might obtain from commercial lenders could be higher as compared to financing provided by governmental or multilateral agencies.

Moreover, if additional funds are raised in the longer term by incurring debt without repayment of existing debt, the Group will become more leveraged and may be subject to additional or more restrictive financial covenants and ratios. If additional funds are raised in the longer term by issuing new Ordinary Shares after an offering and sale to investors of Ordinary Shares in the Issuer and/or any one or more shareholders for subscription or sale for cash as set out in the Conditions (a "**QIPO**"), existing holders of Ordinary Shares may be diluted. Any inability by the Group in the longer term to procure sufficient funding to finance the continued growth of its business could adversely affect its ability to expand its business and meet its production targets, may result in the Group facing unexpected costs and delays in relation to the implementation of its project development plans and, if the reductions in financing levels are severe enough, could adversely affect the Group's ability to maintain its production levels, all of which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group depends on a state-owned monopoly provider of gas transportation services and it has no control over the infrastructure Gazprom maintains or the fees it charges

Gazprom, the state-owned gas pipeline monopoly, owns virtually all of the gas pipeline network in Russia and the Russian Government regulates access to this network. Pursuant to the Natural Monopolies Law, the Ministry of Industry and Energy allocates Gazprom pipeline network capacity to gas producers on a quarterly basis, based on information provided by the Federal Energy Agency. The Ministry of Industry and Energy also establishes export quotas for the Gazprom system.

Although it is currently envisaged that all of the gas produced by the Group which is intended for sale will be sold to Gazprom, in the medium to long term the Group may seek additional customers for the sale of gas it produces. In order to do so, the Group or the relevant customer will need to negotiate access to the pipeline network in order to transport the gas.

Under existing legislation, Gazprom must provide access to its pipeline network to all independent suppliers on a non-discriminatory basis provided there is available capacity. A right of priority to enter into natural gas supply agreements is given to those companies that purchase natural gas for re-sale to the Russian Government, utility companies, consumers and households and to certain other off-take companies wishing to extend their existing natural gas supply agreements. In practice, Gazprom exercises considerable discretion over access to its pipeline network because it has exclusive access to the information relating to its capacity. There can be no assurances that this legislation will remain in place, that Gazprom will comply with this legislation going forward or continue to provide independent suppliers with access to its pipeline network, or that the terms of access offered will be commercially reasonable. In the past Gazprom has denied access to certain providers on the basis that the relevant pipelines were full. The Issuer believes that Gazprom is unlikely to deny it access to the pipelines in the Saratov region in the future, as such pipelines have high levels of capacity and the Group has been selling gas to Gazprom for approximately eighteen months without any concerns being raised. However, should the Group be denied access to the Gazprom pipeline network, the impact would be considerable, as the Group would need to find an alternative method of transporting its gas. Gazprom could terminate or restrict the delivery of gas by giving the Issuer a minimum of three days notice or, in the case of an emergency (as so deemed by Gazprom) such termination or restriction could take immediate effect on notification. As Gazprom owns and operates the pipeline system in the Saratov region, the Group would need to construct its own pipelines to end users, which the Group views as significantly less attractive economically than using Gazprom's network. As a result, any change in the existing legislation, a failure by Gazprom to comply with the legislation such that Gazprom no longer provides access to its pipeline network on a non-discriminatory or commercially reasonable basis, or other action by Gazprom which decreases the likelihood that the Group will have access to transportation capacity would have a material adverse effect on the Group's business, prospects, financial condition and results of operation.

Although Gazprom has generally avoided serious disruptions in the transport of gas through its pipeline system, the system may experience outages or capacity constraints during required maintenance periods, and it is likely that maintenance work will increase in the future. During these maintenance periods, the Group could experience delays in or be prevented from accessing the pipeline system. Any significant disruption in the Gazprom pipeline system could disrupt the Group's ability to deliver its gas into Gazprom pipelines which could adversely affect the Group's business, prospects, financial condition and results of operations.

The output of independent gas producers, such as the Issuer, may also be adversely affected by Gazprom's response to declines in international demand for gas. For example, in May 2009 Gazprom asked independent gas producers in northern Russia to reduce their gas output as a result of significant declines in demand for gas in Europe following a relatively mild winter.

The Group currently relies on a single contractual counterparty in relation to the sale of its gas production volume and supplies a market in which there are limited competing purchasers

Although the Issuer intends to seek additional customers for its gas in the medium to long-term, it has entered into an agreement with Gazprom through its regional subsidiary, Saratovskoya Gazovaya Kompaniya LLC, pursuant to which the Group has the right to supply gas to Gazprom up until December 2015. The Group started supplying gas to Gazprom in November 2010 as part of its trial production and commenced commercial sales in January 2011 and the Group's its current intention is to supply all the gas it produces for sale to Gazprom. The Gazprom contract provides that annual sales volumes are to be agreed between the Group and Gazprom each year. The Group is currently reliant on Gazprom for all of its gas revenues and hence subject to the increased risk of delayed payment for delivered production volumes, counterparty default or termination of the sales agreement by Gazprom. Pursuant to the agreement, Gazprom is not required to purchase a minimum volume of gas and is only required to pay the Group for gas actually supplied. As a result of these factors, there is a risk that Gazprom may not purchase all or any of the gas produced for sale by the Group. In addition, Gazprom recently reduced the dew point specification at which gas can enter the Gazprom pipeline network from -5°C to -10°C . Although the gas currently supplied by the Issuer to Gazprom complies with the

revised dew point specification, there can be no assurance that this will continue to be the case during the hotter summer months. There is therefore a risk that the Issuer might need to reduce the volume of gas supplied to Gazprom by as much as 20-25 per cent. in order to decrease the temperature of the gas so that it meets the revised specification. A significant reduction in the amount of gas purchased by Gazprom could have an adverse effect on the Group's business, prospects, financial condition and results of operations. Further, if Gazprom was to terminate the sales agreement with the Issuer, the Group would need to enter into a new contract with another purchaser for the sale of its gas, either a purchaser with access to the Gazprom pipeline or a purchaser without such access, in which case the Issuer would have to negotiate and enter into a new contract with Gazprom for the transportation of its gas. During any such negotiations, which may take a significant amount of time, the Group may not be able to sell any of its gas, which in turn may have an adverse effect on the Group's business, prospects, financial condition and results of operation. The absence of alternative purchasers for the gas produced by the Group may also expose it to adverse pricing or other contractual terms. There can also be no assurance that the Group would be able to negotiate and enter into agreements with purchasers for the sale of its gas or, if necessary, with Gazprom for the transportation of the gas it produces for sale, on favourable terms or at all. Such delays, defaults, reduction in gas volumes purchased or adverse pricing or other contractual terms could adversely affect the Group's business, prospects, financial condition or results of operations.

Current reserves, prospective resources and forward production data available to the Issuer are only estimates and are inherently uncertain; the Group's total reserves may decline in the future and the Group may not achieve estimated production levels

There are numerous uncertainties inherent in estimating the quantity and the quality of reserves and prospective resources and in projecting future rates of production, including many factors beyond the Group's control.

The reserves data and production targets available to the Issuer are estimates only and should not be construed as representing exact quantities. Estimating the amount and quality of gas and oil reserves is a subjective process and estimates made by different experts often vary significantly. These estimates are based on a number of assumptions, including assumptions relating to production levels, future gas and oil prices, operating costs (which ignore any costs for the decommissioning of any wells or of the Western Plant), ownership rights, and the interpretation of geological and engineering data, all of which may vary significantly from what actually occurs in the future. The estimates also assume that the future development of the Group's fields and the future marketability of the Group's gas and oil will be similar to past development and marketability, that the Group's assumptions as to its capital expenditure and operating costs are accurate, that the capital expenditure strategy of the Group is successfully implemented by it, and that the Eastern Plant will be completed in accordance with the current planned timetable. There can be no assurance that the actual capital expenditure will not vary significantly from current estimates or that the Group will be able to implement its capital expenditure strategy to the timetable currently envisaged. In general, results of drilling, testing and production subsequent to the date of an estimate may result in revisions to these estimates, especially in cases such as these where reserves are estimated on volumetric calculations or analogies, which are not as reliable as extrapolation of historical production trends based on long-term performance data. There is therefore no guarantee the Group will maintain its current flow rates. Reserves estimates may be different from the quantity or quality of oil and/or gas that is ultimately recovered and, consequently, the revenue derived therefrom could be less than that currently expected which could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Special uncertainties exist with respect to the estimation of prospective resources in addition to those set forth above that apply to reserves. Prospective resources are defined as those resources that are estimated, as of a given date, to be potentially recoverable from as yet undiscovered accumulations. The probability that prospective resources will be discovered, or be economically recoverable, is considerably lower than that for proved, probable and possible reserves.

The Russian reserves system differs significantly from SPE Standards

Although the information presented in these Listing Particulars conforms to SPE Standards prepared under the Petroleum Resources Management System ("PRMS"), the Issuer files with the Russian authorities reserves data prepared in accordance with Russian standards. The Russian reserves system differs significantly from SPE Standards and the standards applied by the SEC, in particular with

respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves. As a result, prospective investors should be aware that the reserves data filed by the Group according to Russian standards may differ from the information otherwise presented by the Group in conformity with SPE Standards prepared under the PRMS. Prospective investors should only consider the information presented in these Listing Particulars in connection with their decision relating to an investment in the Bonds.

Failure to acquire the appropriate land use rights by the Issuer may have an adverse effect on its business, prospects, financial condition or results of operations.

Although the Group is entitled to explore the land covered by the Bortovoy Licence for mineral deposits, the Group does not own the surface rights to the land covered by the Bortovoy Licence. The land covered by the Bortovoy Licence is owned either by the federal government or by local farmers. For the purpose of conducting its business operations, and in particular the production of natural resources on a plot of land, the Group is therefore required to acquire appropriate land use rights on the Bortovoy Licence area. Although the Group has appropriate land use rights for its current operations, including the land use rights relating to the Western Plant and wells currently used by the Group on both the Western Fields and the Eastern Fields, failure to acquire such rights in relation to its operations in the future, even though the Group already holds the Bortovoy Licence for the use of mineral deposits located on the land covered by the Bortovoy Licence, could restrict the Group's ability to expand its operations and further develop the Bortovoy Licence. In particular, the Group does not currently own the land on which the second phase of the Eastern Plant is proposed to be constructed and, although the Issuer believes that the risk of failing to acquire such land to be low, the Issuer believes it would still be able to complete construction of the second phase of the Eastern Plant on the land it currently owns without significant additional costs. In addition, the timing of any construction of the second phase of the Eastern Plant will be determined by the Issuer in line with the availability of funding. The use of mineral deposits without valid land use rights may also result in legal disputes and fines, and such fines, if significant, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. In practice, the Group seeks to acquire land use rights only in relation to the part of the area covered by a licence which it does or intends to utilise, and in particular to the area of land on which the production operations will be carried out, the access areas and the area where other production works are underway. Most of the land in the Russian Federation is owned by federal, district or urban authorities with a smaller proportion of the land owned by local farmers. The land is leased, sold or has rights granted over it through public auctions, tendering procedures or through private negotiations. Should the Group be unsuccessful in negotiating acceptable prices for the purchase, leasing or use of the land and wells located within the Bortovoy Licence area or should the Group be otherwise unable to acquire or retain the land use rights necessary to conduct and expand its operations, this could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Crime and corruption could disrupt the Group's ability to conduct its business and could materially adversely affect its business, prospects, financial condition and results of operations

Among the risks faced by the Issuer are those of bribery and corruption. Several former officers of the Issuer are, or have been, under investigation by the City of London Police in connection with two separate allegations of corrupt activity. Specifically, there has been an investigation of Chestnut Consulting Inc., a consulting firm hired by the Issuer to assist in its application process for funding from the European Bank for Reconstruction and Development (the "EBRD") in September 2009. Separately, there has been an investigation of an improper payment made to a member of the board of the EBRD in connection with the Convertible Loan Agreement. The details of these criminal investigations are set out in "Investigations" in the section entitled "Vostok Energy Public Limited Company".

As regards the investigation concerning Chestnut Consulting Inc and the EBRD, the Issuer received written confirmation from the City of London Police in June 2011 that, unless information should come to light, no further action will be taken against the Issuer and its current or former employees or officers. The Issuer understands that three of its former officers, US citizens, have been named as "subjects" in an investigation by the US Federal Bureau of Investigation (the "FBI") of Chestnut Consulting Inc. The Issuer has not been contacted by the FBI in connection with this investigation and has no reason to believe that it is implicated in the investigation of Chestnut Consulting Inc.

As regards the investigation concerning a member of the board of the EBRD, the Issuer received confirmation from the Crown Prosecution Service in November 2012 that it would not be charged or prosecuted in relation to such investigation, insofar as the Issuer is aware, the former chief executive officer of the Issuer remains a suspect in this investigation.

The Issuer has over the past two years implemented a number of measures that it believes further enhance the Issuer's corporate governance and ethics systems and procedures, and highlight its commitment to the highest ethical standards. These measures include the adoption of an enhanced code of ethics that complies with the UK Corporate Governance Code, the adoption of an anti-fraud policy, the adoption of an anti-bribery policy that complies with the Bribery Act 2010 and the conducting of specialised anti-fraud and anti-bribery training for the Issuer's Directors and senior officers.

Nonetheless, these investigations and any subsequent prosecutions could involve considerable management time or unbudgeted expense, complicate the Issuer's relationship with its contract parties, create unfavourable publicity for the Issuer, and/or result in possible enforcement proceedings. In particular, as a result of its position as borrower under the Convertible Loan Agreement, the Issuer is subject to the EBRD's Enforcement Policy and Procedures. Pursuant to the same, the Issuer is currently subject to an investigation by the EBRD concerning the payment to a member of the board of the EBRD. Following a preliminary assessment, the EBRD has commenced a further investigation, which is focussing on the relevant former officers of the Issuer. The Issuer has been informed that the EBRD hopes to conclude its investigation by the end of January 2013. While the EBRD may conclude that the matter does not require further consideration, should it conclude that a "prohibited practice" has occurred, the possible consequences for the Issuer are debarment from further EBRD finance projects and/or finance projects involving the Asian Development Bank, the Inter American Development Bank and/or the World Bank group, including the IFC, and/or an event of default under the Convertible Loan Agreement as well as possible cross-default under the Bonds. Should this happen, the Issuer would be forced to find alternative forms of financing to redeem the Bonds. Discussions have already taken place with several finance institutions, including Deutsche Bank AG ("**Deutsche Bank**"), which has been retained on a potential financing transaction. There are no other financing agreements in place that contain cross-default provisions. If the Issuer were unable to obtain alternative forms of financing, it could be forced to sell certain assets in order to finance the redemption of the Bonds, which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. Notwithstanding the confirmations given by the City of London Police and the Crown Prosecution Service, if unfavourable facts surface that were not discovered in the investigations by the Issuer and the City of London Police, or if authorities in other jurisdictions, such as the United States, engage in their own investigation and enforcement actions, there can be no assurance that those additional facts or additional investigations will not result in claims against the Issuer with adverse legal, financial and reputational consequences.

Future litigation could adversely affect the Group's business, prospects, financial condition or results of operations

Although the Group is not currently involved in any material litigation, damages claimed under any litigation are difficult to predict, and may be material. The outcome of such litigation may materially impact the Group's business, results of operations or financial condition. While the Group will assess the merits of each lawsuit and defend itself accordingly, it may be required to incur significant expenses or devote significant resources to defending itself against such litigation. In addition, adverse publicity surrounding such claims may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group may be subject to claims, liabilities and ongoing costs under environmental, health, safety and other laws and regulations, which could be significant

The Group's operations, which are often potentially hazardous, are subject to the risk of liability arising from various environmental, health, safety and other laws and regulations, including those inherent to gas and oil exploration and production industries. In particular, gas and oil operations are subject to extensive federal and regional environmental laws and regulations. These laws and regulations set various standards for health and environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish, in certain circumstances, obligations to compensate for environmental damage and to restore environmental conditions. In particular, subsoil users are

generally subject to obligations concerning the decommissioning of operational facilities and the remediation of soil or groundwater at their facilities when they cease operations. Issues of environmental protection in Russia are regulated primarily by the Federal Law No. 7-FZ "On Environmental Protection" dated 10 January 2002, as amended (the "**Environmental Protection Law**"), as well as by a number of other federal laws and regulations.

The Group's operations are subject to periodic inspection by the authorities responsible for compliance with such environmental and health and safety laws and regulations. Although the Group endeavours to comply with all environmental and health and safety laws and regulations at all times and there are no material ongoing claims, lawsuits or administrative proceedings related to environmental or health and safety matters, the Group or a member of the Group may become involved in such claims, lawsuits and administrative proceedings in the future. An adverse outcome in any of these could have a significant negative impact on the Group's business, prospects, financial condition, results of operations and may include the imposition of civil, administrative or criminal liability on the Group or its officers.

New or amended laws and regulations, increasingly strict enforcement of, or changes in the interpretation of, existing laws, regulations, enforcement policies and licences, or the discovery of previously unknown contamination may require significant expenditures to:

- modify operations;
- install pollution control equipment;
- perform site clean-ups;
- curtail or cease certain operations; or
- pay fees or fines or make other payments for pollution, discharges or other breaches of environmental requirements.

The Group incurs, and expects to continue to incur, capital and operating costs in order to comply with health, safety and environmental laws and regulations. However, despite such endeavours, the Group may not always be in compliance with applicable laws and regulations. Although the costs of the measures taken to comply with regulations have not had a material adverse effect on the Group to date, in the future, the costs of such measures and non-compliance related liabilities may increase, and this could have a material adverse effect on the Group's business, prospects, financial conditions and results of operations.

The Group's subsidiaries must also maintain, extend and/or obtain from time to time other permits and authorisations including land and mining allotments, approvals of design and feasibility studies, pilot production projects and development plans and permits for the construction of facilities, as well as the various environmental and health and safety permits mentioned above. If the Group's subsidiaries fail to receive the necessary permits and authorisations, or they are terminated, the Group may have to delay investment or development programmes, which could materially adversely affect the Group's business, prospects, financial condition and results of operations.

The Group faces drilling, exploration and production risks and hazards that may prevent the Group from achieving its planned production targets and realising profits and could result in substantial losses

The Group's production operations are subject to risks associated with natural catastrophe, fire, explosion, adverse weather conditions, blowouts, encountering formations with abnormal pressure, the level of water cut, cratering, ruptures and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury. Any of these risks could result in loss of sales or could lead to environmental pollution and other damage to the Group's properties or surrounding areas and increased costs. An increase in production costs as a consequence of these risks could reduce the Issuer's profitability and any of these drilling, exploration and production risks and hazards could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Furthermore, the Group's future success will depend, in part, on its ability to develop gas and oil reserves in a timely and cost-effective manner and achieve its production targets. As part of its strategy, the Group is targeting an increase in its annual production capacity from 17.6 bcfa (0.5 bcma) of gas in 2012 up to 70.4 bcfa (2.0 bcma) by January 2017. This increase is expected to be achieved following the construction of the Eastern Plants and by increasing the number of wells drilled and re-entered per year, building additional infrastructure and by enhancing production technology and production optimisation. The Group is continuing to develop its assets and the Group's ability to increase production will depend on many factors, some of which are beyond the Group's control. In particular, the Group may be required to curtail, delay or suspend drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of crude oil, natural gas or well fluids, pollution and other environmental risks, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability and delivery of equipment. The Group may not be able to respond to, or successfully integrate, advances in industry technology and there can be no assurance that the Group will achieve its production targets or that it will successfully implement new infrastructure or technologies in a timely manner or that they will yield the expected improvements in efficiency. In addition, the Group's exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Drilling hazards or environmental damage could greatly increase the cost of operations and delay the implementation of new infrastructure technologies. Various field operating conditions may adversely affect the production from successful wells. The occurrence of any of these events could negatively affect the Group's ability to meet its production targets and comply with the production plans under the Bortovoy Licence and could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group is dependent on employees and senior management personnel who are qualified and have gas and oil experience

The Group's ability to maintain a competitive position and to implement its business strategy depends to a large degree on the services of the Group's senior management team and of employees having relevant gas and oil experience. Competition in Russia for personnel with relevant expertise is intense due to the limited number of qualified individuals, which may affect the Group's ability to retain existing specialised personnel and senior management or attract additional qualified senior management and/or gas and oil personnel, which will be particularly important as the Group expands. In addition, the retention of personnel may become costlier in the future as competition intensifies. The Group does not maintain, nor does it plan to obtain, key person insurance against the loss of any of its key personnel. The loss of or diminution in the services of qualified gas and oil specialists or of members of the Group's senior management team or an inability to attract and retain additional senior management and/or gas and oil personnel could have a material adverse effect on the Group's business, financial condition and results of operations.

The Issuer has experienced turnover of three members of its senior management over the past year, consisting of its Chief Executive Officer, its Chief Operating Officer and the Executive Vice President. The Chief Executive Officer and the Executive Vice President have both left by mutual agreement in connection with the Kotova investigation, while the Chief Operating Officer left to take up a senior position elsewhere. The new officers filling the Chief Executive Officer and Chief Operating Officer vacancies assumed their roles on 1 September 2011 and 1 April 2011, respectively. The Issuer does not see a need to fill the Executive Vice President position at present. The Directors believe that the new officers are well qualified and bring with them experience and expertise that will be very useful to the Group. The Issuer believes that, with the new management in place since September 2011, these departures have had little impact on the reputation of the Issuer. In any event, the Issuer has received independent legal advice that the likelihood of the Issuer facing criminal charges is remote. That being so, the Issuer believes that it is unlikely that these departures would materially impact the reputation of the Issuer going forward.

Fluctuations in currency exchange rates may materially and adversely affect the Group's financial condition and results of operations

The Ruble-US dollar exchange rate in the Russian Federation affects the Group's results of operations because the Group's revenues are generated in Rubles, while the Group's reporting currency is the US

dollar. Accordingly, fluctuations in the exchange rate of the US dollar against the Ruble could adversely affect the Group's translated results of operations. In addition, while the Group's debt financing is denominated in US dollars, some of its intra-Group debt is denominated in Rubles. As the Group's revenues are generated in Rubles and its debt financing is denominated in US dollars, currency fluctuations may make it more expensive for the Group to service its debt financing. Fluctuations in the Ruble-US dollar exchange rate could therefore adversely affect the Group's ability to fund future capital expenditure, the majority of which is denominated in Rubles. The Group does not currently enter into hedging contracts to protect against its exposure to fluctuations in the Ruble-US dollar exchange rate.

The Group relies on the services of third parties to implement its growth and development

The Group relies to a large extent on external contractors to carry out drilling activities and seismic acquisition as well as the construction, operation and maintenance of its facilities. As a result, the Issuer is dependent on external contractors performing satisfactorily and fulfilling their obligations. Any such failure by an external contractor may lead to delays or curtailment of the production, transportation, refining or delivery of gas and oil and related products. In addition, the costs of third party operators may increase, leading to higher production and transportation expenses for the Group. Any such failure in performance or increase in costs could have an adverse effect on the Group's results of operations.

The Group has experienced significant growth and development in a relatively short period of time. The Group now has extensive plans to develop the Eastern Fields, including the construction of the Eastern Plants together with a connecting pipeline to the Gazprom trunk line and the construction of further gathering pipelines to connect the Eastern Fields to the Eastern Plants. The Group also intends to construct additional gathering pipelines to connect fields in the Western Fields to the Western Plant (other than the Karpenskoye field which is already connected to that plant). Management of this future growth requires, amongst other things: implementation and continued development of financial and other reporting procedures and information technology, as well as hiring, training, motivating and retaining quality personnel as well as third party service providers.

Some of the services required for the Group's operations and strategic developments are currently only available on commercially reasonable terms from a limited number of providers. These operations and developments may be interrupted or otherwise adversely affected by failure to supply, or delays in the supply of services that meet the Group's quality requirements. If the Group is forced to change a provider of such services, there is no guarantee that this would not result in the Group experiencing additional costs, interruptions to supply continuity or other adverse effects on its business. There is also no guarantee that the Group will be able to find adequate replacement services on a timely basis or at all. Any failure in performance by third party service providers, external contractors or consultants, increase in costs or inability to find adequate replacement services on a timely basis, if at all, could have a material adverse effect on the Group's business prospects, financial condition and results of operations. See also "*The Group depends on a state-owned monopoly provider of gas transportation services and it has no control over the infrastructure Gazprom maintains or the fees it charges*" above.

The Group cannot accurately predict its future decommissioning liabilities

The Group, through its licence interests, has assumed certain obligations in respect of the decommissioning of its fields and related infrastructure. These liabilities are derived from legislative and regulatory requirements concerning the decommissioning of wells and production facilities and require the Group to make provision for and/or underwrite the liabilities relating to such decommissioning. Although the Group's accounts make a provision for such decommissioning costs, there can be no assurances that the costs of decommissioning will not exceed the value of the long-term provision set aside to cover such decommissioning costs. It is therefore difficult to forecast accurately the costs that the Group will incur in satisfying its decommissioning obligations and the Group may have to draw on funds from other sources to bear such costs. Any significant increase in the actual or estimated decommissioning costs that the Group incurs could have an adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group operates in a competitive industry

The Issuer believes that the Group operates in a competitive industry and the maintenance of its competitive position depends on its ability to sell the gas and oil it produces. While there are currently only a limited number of independent gas producers in the Saratov region, there can be no assurance that other operators will not seek to compete directly with the Group by undertaking gas and oil exploration and production activities in the same region. In addition, any surplus of gas within the Gazprom system, resulting either from an increase in supply from other gas producers within the Saratov region or elsewhere in Russia, or from a reduction in demand for gas on the domestic and international markets, could result in Gazprom, or any purchasers of gas, seeking to reduce the amount of gas it or they take from the Group. Any such reduction or any other failure by the Group to compete successfully with other operators could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Group does not carry insurance against all potential risks and losses and its insurance might be inadequate to cover all losses or liabilities arising from potential operational hazards and unforeseen interruptions

The Group considers that the extent of its insurance cover is reasonable based on the costs of cover, the risks associated with its business and industry practice although such insurance cover may differ from other exploration and development companies. The Group's insurance currently includes cover for damage to or loss of Group assets, including business interruption insurance should an insurable incident result in a shut-down of the Western Plant for an extended period of time, insurance for out-of-control wells and environmental damage caused thereby, third party liability coverage (including employer's liability insurance) and directors' and officers' liability insurance, in each case subject to excesses, exclusions and limitations. There can be no assurance that such insurance will be adequate to cover losses or exposure for liability or that the Group will continue to be able to obtain insurance to cover such risks. The Group is unable to give any guarantee that expenses relating to losses or liabilities will be fully covered by the proceeds of applicable insurance. Consequently, the Group may suffer material losses from uninsurable or insured risks or insufficient insurance coverage which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Issuer's operating and financial flexibility may be restricted by the terms of its financing agreements

The construction of the Western Plant has been, and the construction of the first phase of the Eastern Plant is expected to be, capital intensive and the Issuer therefore has significant debt facilities currently in place. For the purposes of building and commissioning the Western Plant, the Group, *inter alia*, entered into the Convertible Loan Agreement. In connection with this financing agreement, the Issuer granted security by way of a charge over 50 per cent. of the issued share capital held by the Issuer in its subsidiary, Royal Atlantic Energy (Cyprus) Limited, (a company incorporated in Cyprus with registered number 173074) ("RAECL"). In addition, the agreements contain a number of restrictive covenants which limit the Group's operating and financial flexibility. The covenants and other provisions in the financing agreements may have important consequences including:

- limiting the flexibility of the Group in planning for, or reacting to, changes in market conditions and competitive pressures;
- placing the Group at a competitive disadvantage compared to its competitors that may be less leveraged or restricted by financial covenants;
- limiting the Group's ability to raise debt and/or equity finance in the future; and
- increasing the Group's vulnerability to both general and industry-specific adverse economic conditions.

The above factors could limit the Group's financial and operating flexibility, including its ability to obtain further debt or equity capital in the longer term, which could have a material adverse effect on its business, prospects, financial condition, results of operations and the ability of the Issuer to pay dividends.

The Group may be subject to labour disruptions

Whilst the Group's workforce is not unionised and the Group generally enjoys good labour relations with its employees, its operations may be affected by labour disruptions involving its own employees and/or the employees of third parties, including employees of contractors retained by the Group and the employees of operators of transportation infrastructure needed to run the Group's operations.

Risks Related to Doing Business in Russia

There are general risks associated with doing business in countries with a history of difficulties relating to security, enforcement of obligations, fraud, bribery and corruption

All of the Group's operational assets are located in, and its revenues derived from, Russia. There are certain risks associated with an investment in developing markets, including Russia, which may be greater than risks inherent in more developed markets. Generally, investing in Russia is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with investing in, the Russian market. Investors should also note that the Russian market is subject to rapid change and as a result, the information set out in these Listing Particulars may become outdated relatively quickly. Companies that operate in Russia can face severe liquidity constraints as foreign funding sources are withdrawn. Accordingly, economic and/or political instability in Russia or an increase in the perceived risks associated with investing in Russia could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. See also "*Economic instability in Russia could adversely affect the Group's business*".

Political and governmental instability could adversely affect the value of investments in Russia as well as the value of the Ordinary Shares (once issued) and the Bonds

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst the executive, legislative and judicial authorities, which negatively impacted the Russian Federation's business and investment climate. However, starting from 2000, governmental stability generally increased and the continued economic reform process has made the political and economic situation in Russia more conducive to investment. Nevertheless, shifts in governmental policy and regulation in Russia may be less predictable than in many western democracies and could disrupt or reverse political, economic and regulatory reforms. Current and future changes in the Russian Government, major policy shifts or lack of consensus between the President of Russia, the Russian Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Bonds and Ordinary Shares in particular. The Group's prospects could be harmed if there is renewed governmental instability or if the course of reform policies initiated by the Russian Government in the last decade does not continue. The emergence of any new or escalated tensions in Russia or its neighbouring countries, particularly in Kazakhstan, could negatively affect the economy of the Saratov region or Russia as a whole and of the other countries that are involved. Such tensions or conflicts may have a negative effect on the price of the Bonds and the Ordinary Shares, as well as on the Group's ability to raise debt or equity capital in the international capital markets.

Mr. Vladimir Putin, current President and former Prime Minister of the Russian Federation, is generally credited with having increased governmental stability. In 2008, Mr. Putin stood down as President and Mr. Dmitry Medvedev was elected as the new President of the Russian Federation. On 8 May 2008, Mr. Dmitry Medvedev appointed Mr. Vladimir Putin to the position of Prime Minister of the Russian Federation. In March 2012, Mr. Putin was re-elected as President in the elections for the President of the Russian Federation and on 7 May 2012 became President for the second time.

The Russian political system and the relationship between the President, the Russian Government and the Russian Parliament were generally stable during Mr. Medvedev's tenure as President. However, there were public protests in Moscow and other urban areas following the elections for the State Duma in December 2011 alleging that the elections were subject to substantial electoral fraud, as well as opposing Mr. Putin's re-election as President and the "managed democracy" political system implemented under Mr. Putin. Mr. Putin has rejected calls by opposition leaders that the elections for the State Duma be annulled and re-run, but has instituted limited political reforms. There were also protests ahead of and following, the presidential elections in March 2012.

In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict and terrorist attacks in certain regions of Russia. For example, a

military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia against a weak economic background resulted in significant overall price declines in the Russian stock exchanges and capital outflow from Russia for a short period of time. Such tensions, military conflict or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some or all of Russia or heightened security measures, which could cause disruption to domestic commerce and exports from Russia, disrupt normal economic activity in Russia and materially adversely affect the Group's business, prospects, financial condition and results of operations.

Actions by the Russian legislative, executive and judicial authorities can affect the price of securities issued by overseas entities with substantial assets in Russia. In particular, the events surrounding claims brought by the Russian authorities against several major Russian and foreign companies (including JSC NK Yukos, TNK-BP Finance S.A. and Shell plc) have led to questions being raised regarding the progress of market and political reforms in Russia and have had a negative impact on foreign direct and portfolio investment in the Russian economy. Any further actions by the Russian authorities that result in a negative effect on investor confidence in Russia's business or legal environment could have a material adverse effect on the prices of securities issued by overseas entities such as the Issuer with substantial assets in Russia.

Economic instability in Russia could adversely affect the Group's business

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of "black" and "grey" market economics;
- high levels of capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, in 1998 the Russian state defaulted on its Ruble denominated securities and imposed a temporary moratorium on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Ruble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian groups to raise funds in the international capital markets. In 2004, several Russian banks experienced a sharp reduction in liquidity and the licences of a few mid-sized banks were withdrawn. Throughout the second half of 2008, the Russian financial markets were characterised by extreme volatility in both the debt and equity segments and reductions in foreign investment. Furthermore, the first half of 2009 saw a substantial decrease in gross domestic product as the real sector of the Russian economy experienced a sharp decline in production levels. In light of these developments, international rating agencies have downgraded Russia's sovereign credit rating,

which reflects an assessment by such agencies that there is an increased credit risk that the government may default on its obligations. These assessments may lead to a further reduction in foreign investment and an increased cost of borrowing for the Russian Government. Although the Russian stock markets experienced a rebound during the second half of 2009, there can be no assurance that this trend will continue in the future or that it will have a positive impact on the Russian economy in the long-term.

As Russia produces and exports large quantities of crude oil, gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, gas and other commodities on the world market, which reached record levels in the first half of 2008 and have since experienced significant decreases, particularly in the price of crude oil. Although since the beginning of 2009 there has been a substantial upward adjustment in the global price of oil, there can be no assurance that such trend will continue in the long-term. Russian banks, and the Russian economy generally, have been adversely affected by the global financial crisis. Throughout 2008 and 2009, the Russian Government implemented various emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending. There can be no assurance that these or other measures will result in a full-scale recovery of the Russian economy. Any further disruption of the Russian economy, its financial markets and a decline in the prices of gas and oil may materially adversely affect the Group's business, prospects, financial condition and results of operations.

High levels of inflation in Russia may have an adverse effect on the Group's results due to a substantial portion of its expenses being payable in Rubles

As a substantial portion of the Group's expenses (including operating costs and capital expenditures) are denominated in Rubles, while the Group's reporting currency is the US dollars, the relative movement of inflation affects the Group's results of operations. The effects of inflation could cause some of the Group's costs to rise. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4 per cent. in that year. According to Russian Government estimates, the inflation rate ("CPI") in the Russian Federation was 13.3 per cent. in 2008, 8.8 per cent. in 2009, 8.8 per cent. in 2010 and 6.1 per cent. in 2011.

The Group tends to experience inflation-driven increases in certain of its costs, such as salaries and locally purchased supplies, that are linked to the general price level in Russia. To the extent inflation causes these costs to increase, such inflation may materially adversely affect the Group's business, prospects, financial condition and results of operations.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity

Russia's physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately funded and maintained. Although Gazprom has generally avoided serious disruptions in the transport of gas through its pipeline system, the system may experience outages or capacity constraints during required maintenance periods, and it is likely that maintenance work will increase in the future. In some areas the rail and road networks, power generation and transmission, communication systems and building stock are particularly affected by the lack of funding and maintenance. Road conditions throughout areas of Russia are poor, with many roads not meeting minimum requirements for usability and safety. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt the Group's normal business activity as the oil it produces is generally transported on trucks by road.

In addition to having restructured and substantially privatised the electricity sector, the Russian Government is also seeking to reorganise its railway and telephone systems, as well as the public utilities sector. The recent economic downturn may delay these reorganisation plans which could lead to further deterioration in Russia's physical infrastructure. Moreover, the restructuring of the electricity sector has not yet yielded the anticipated capital investment that is needed to repair, maintain and improve the existing power generating facilities and supply routes.

Further deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Russia and interrupt business operations, any or all of which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Changes in the foreign policy of the Russian Government and changes in its key global relationships could adversely affect the Russian political and economic environment in general

Russia's exports are commodity driven and are heavily oriented toward developed nations and nations with fast-growing economies. Nevertheless, Russia's foreign policy interests have sometimes diverged from the interests and goals of its main trading partners. There can be no assurance that Russia's political relationships with key trading partners will remain at the level where they currently stand. Any deterioration in relations with any one or more nations could result in a lower volume of exports and a lower volume of inbound investment and other transfers. Changes in the Russian Government's policy or deterioration in key global relationships with Russia could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

The Issuer would be subject to restrictions on foreign ownership if, in the future, the subsoil plots that it owns are regarded as being of federal importance

In May 2008, the Federal Law FZ-57 "On the Procedure for Making Foreign Investments in Business Entities of Strategic Significance for the National Defence and Security of the Russian Federation", dated 29 April 2008 (the "**Strategic Investment Law**"), and the associated amendments to the Subsoil Law came into force. This law regulates the access of foreign investors to certain sectors of the Russian economy, including the development of major gas and oil fields above 50 billion cubic metres of proved reserves of gas and/or over 70 million tonnes of recoverable oil reserves and other mineral deposits that fall under the category of strategic deposits and introduced a requirement for a Foreign Investor (as defined below) to obtain, in certain cases, an approval from the Russian Government prior to acquiring shares or participatory interests in strategically important enterprises. In addition to foreign governments and international organisations (unless it is subject to an exemption), the Strategic Investment Law applies to any foreign investor (individual or corporate, including a Russian company under foreign control), or a group that includes a foreign investor (each a "**Foreign Investor**"), carrying out transactions which would ultimately give a Foreign Investor a certain stake in, or control (as defined in the Strategic Investment Law) over, a strategic entity. A Foreign Investor interested in purchasing a 25 per cent. or larger stake (or five per cent. in cases where the Foreign Investor is a foreign state, an international organisation or an organisation under the control of the aforementioned entities) in the share capital of any of the companies holding a subsoil plot of federal importance or in obtaining control over such company, directly or indirectly, will need to obtain an approval of the Russian Government prior to entering into a respective transaction.

In accordance with the Strategic Investment Law, a "strategically important enterprise" is a Russian registered commercial entity which engages in at least one activity of strategic importance, as defined in that law. The list of the activities set forth in the Strategic Investment Law includes, *inter alia*, conducting geological surveys, exploration and development of subsoil resources on the "subsoil plots of federal importance". A list of these plots was published on 5 May 2008, and further supplemented in March and August 2010.

At the date of these Listing Particulars, none of the Group's fields is regarded as a strategic deposit and none of the Group's subsidiaries is engaged in any other activities of strategic importance envisaged by the Strategic Investment Law. Although the Group estimates that the possibility of the future discovery of such deposit at one of its current fields or the acquisition of such deposit is low, given that the provisions of the Strategic Investment Law have not been widely tested, there is a risk that in case of acquisitions of strategic fields or a discovery of a strategic deposit in an existing field, the Group may be subject to the restrictions established by the Strategic Investment Law.

The Issuer's assets may be expropriated and nationalised by the Russian Government which would have a material adverse effect on the Group

As a consequence of the international financial crisis and the resulting downturn in the Russian economy, an increased presence of the Russian state has been observed in the private sector. On a number of occasions, the state has (through its relevant governmental bodies or state-owned enterprises) acquired, directly or indirectly, controlling interests in various companies experiencing financial difficulties or facing insolvency. It has been speculated in the press that in some of these cases state intervention was not only aimed at assisting ailing businesses but also at furthering the aims of business groups closely associated with the state. In some instances, the price of such distressed acquisitions was unilaterally imposed by the state on the sellers. Although Russian Government

officials, including the Russian President, have on several occasions in the past noted that state intervention measures are temporary and limited to companies with significant social obligations, the scope and scale of the Russian state's further intervention in the private sector during the economic downturn may not be predicted with certainty. The Russian state may enact laws applicable to oil companies in particular, including limits on the price of oil or restrictions on export or sale.

The Russian Government has enacted legislation to protect property against expropriation and nationalisation. Furthermore, in the event that the Group's property is expropriated or nationalised, legislation provides for fair compensation to be paid to the Group. However, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of an independent judicial system, sufficient mechanisms to enforce judgments and corruption among Russian state officials.

The concept of property rights is not well developed in the Russian Federation and there is a lack of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Group may not be able to obtain proper redress in the courts and may not receive adequate compensation if, in the future, the Russian Government decides to nationalise or expropriate some or all of the Group's assets. The expropriation or nationalisation of any of the Group's or its subsidiaries' assets without fair compensation may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Social instability caused by weakening economic conditions as well as high levels of crime in Russia could increase support for renewed centralised authority, nationalism or violence and thus materially adversely affect the Group's ability to conduct its business effectively

The relatively weak economic conditions and turmoil in the financial markets in Russia may result in high unemployment or the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already led to certain labour and social unrest that may continue or escalate in the future. Such labour and social unrest may have widespread political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the Russian economy and increased tension between the Russian Government and the Russian population. Any of these consequences could restrict the Group's operations and have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

Unlawful, selective or arbitrary government action may have an adverse effect on the Group's business

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without a hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the Russian Government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions and the expropriation of property. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuance or registrations or to void transactions, seemingly for political purposes. Standard & Poor's, in 'Country Risks Cloud Future Prospects for Russian Corporates' published in RatingsDirect® on the Global Credit Portal in March 2004, expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, the Group's competitors could receive preferential treatment from the Russian Government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary governmental action, if directed at the Group's operations in Russia, could lead to its business, prospects, financial condition and results of operations being materially adversely affected. Arbitrary governmental actions directed against other Russian companies or overseas companies with assets in Russia (or the consequence of such actions) may have a general impact on the Russian economy which could also result in a material adverse effect on the Group's business, prospects, financial conditions and results of operations.

The Russian legal system and Russian legislation are still being developed and this may create an uncertain environment for investment and for business activity

The Russian Federation is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies in their application. In addition, Russian legislation sometimes leaves substantial gaps in the regulatory infrastructure.

Among the possible risks of the current Russian legal system are:

- inconsistencies among (i) federal laws, (ii) decrees, orders and regulations issued by the Russian President, the Russian Government, federal ministries and regulatory authorities and (iii) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- limited court personnel with the ability to interpret new principles of Russian legislation, particularly business and corporate law;
- gaps in the regulatory structure due to delay in legislation or absence of implementing legislation;
- a high degree of discretion on the part of governmental authorities;
- the inadequacy of bankruptcy procedures and certain violations in bankruptcy proceedings; and
- relatively frequent changes to existing Russian law as is currently in effect that make it more difficult for the Group to conduct its business or prevent it from completing certain transactions.

Russian law regulating ownership, bankruptcy control and corporate governance of Russian companies are relatively new and, by and large, have not yet been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available and antifraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

Many Russian laws are structured in a way that provides for significant administrative discretion in interpretation, application and enforcement. Consequently, good relations with central and regional governmental authorities are essential to ensure that the Group is able to run its business efficiently. Reliable texts of laws and regulations at regional and local level may not be available, and are not usually updated or catalogued. As a result, the applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. The Group may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgments are not always enforced or followed by law enforcement agencies. All of these weaknesses could affect the Group's ability to enforce its rights or to defend itself against claims by others, which could have a material adverse effect on the Group's business, prospects, financial condition, results of operations and the trading price of the Ordinary Shares (once issued) and the Bonds and could also reduce the protections available to investors.

The difficulty of enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions could prevent the Group or investors from obtaining effective redress in court proceedings

The independence of the judicial system and its immunity from economic and political influences in Russia is continuing to develop. The court system is understaffed and underfunded. Russia is a civil law jurisdiction and as such, judicial precedents generally have no binding effect on subsequent decisions. Additionally, court claims can be used in furtherance of personal aims different from the formal substance of the claims. The Group may be subject to such claims, and courts may render decisions with respect to those claims that are adverse to the Group and its investors.

Russia is not party to any multilateral or bilateral treaties with most western jurisdictions (including the United Kingdom) for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any such jurisdiction, it is difficult to predict whether a Russian court would give direct effect to such judgment. While Russia (as successor to the Soviet Union) is a party to the 1985 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"), the recognition and enforcement by a Russian court of a foreign arbitral award obtained in a state that is party to the New York Convention is subject to the qualifications provided for therein and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation and non-violation of Russian public policy. There is also a risk that Russian procedural legislation will be changed by way of introducing further grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. However, the Group is aware of one instance in which Russian courts have recognised and enforced a judgment of a court of a country with which Russia does not have an international treaty to that effect (the United Kingdom). The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both countries were parties. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce a foreign court judgment on these grounds. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Consequently, judgments against Russian subsidiaries of the Group and their officers or directors predicated upon the civil liability provisions of foreign securities laws may not be enforced against such subsidiaries of the Group and such persons in the courts of the Russian Federation without re-examination of the issues in the Russian Federation whether they are brought in original actions or in actions to enforce judgments. Moreover, a court of the Russian Federation may refuse or limit enforcement of a foreign judgment, *inter alia*, on public policy grounds.

Russian tax law and practice are not fully developed and are subject to frequent changes, which could have an adverse effect on the Group

The Group is subject to a broad range of taxes and other compulsory payments imposed at federal, regional and local levels, including, but not limited to, profits tax, export duties, VAT, natural resources production tax, property tax and social taxes. Tax laws, such as the Tax Code of the Russian Federation (the "**Russian Tax Code**"), have been in force for a short period relative to tax laws in more developed market economies and the implementation of these tax laws is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continuous changes to the interpretation of existing laws. Although the quality of Russian tax legislation has generally improved with the introduction of the first and second parts of the Russian Tax Code, the possibility exists that Russia may impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the Group's business prospects, financial condition and results of operations.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and some of the sections of the Russian Tax Code are comparatively new, interpretation of these laws and regulations is often unclear or non-existent. Taxpayers and the Russian tax authorities often interpret tax laws differently. Differing interpretations of tax regulations exist both among and within Russian Government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Furthermore, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be

inconsistent or contradictory. Taxpayers often have to resort to court proceedings to defend their position against the tax authorities.

In some instances, changes in tax regulations have been given retroactive effect. In its decision of 25 July 2001, the Constitutional Court of the Russian Federation (the "**Constitutional Court**") also introduced the concept of "a taxpayer acting in bad faith" without clearly stipulating the criteria for it. This concept is not defined in Russian tax law. Nonetheless, this concept has been used by the tax authorities to disallow, for instance, tax recovery of VAT and/or tax deductions for profits tax purposes and to deny taxpayers' the right to rely on the letter of the tax law. In 2006 the "bad faith taxpayer" doctrine was amended to the concept of "unjustified economic benefits" pursuant to Resolution No. 53 of the Russian Supreme Arbitrazh Court dated 12 October 2006. Similarly, this concept has been used by the Russian tax authorities to impose additional liabilities on taxpayers and reject taxpayers' rights to rely on the letter of the tax law. The tax authorities and courts often exercise significant discretion in interpreting the concepts described above in a manner that is unfavourable to taxpayers.

In addition, on 14 July 2005, the Constitutional Court issued a decision that allows the statute of limitations for taxes and related penalties and fines to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, amendments introduced to the first part of the Russian Tax Code which came into effect on 1 January 2007, provide for the extension of the three year statute of limitations for tax liabilities if the actions of the taxpayer create insurmountable obstacles for the tax audit. Because the terms "obstructed", "hindered" and "insurmountable obstacles" are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three-year term. Therefore, the statute of limitations is not entirely effective.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, which are enabled by Russian law to impose substantial fines and interest charges. Generally, tax declarations remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the tax inspection is carried out. The fact that a year has been reviewed by the tax authorities does not close that year, or any tax declarations applicable to that year, from further review during the three-year limitation period.

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs) if the transaction price deviates from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (that is, if the price of such transaction differs from the prices applied in similar transactions within a short period of time by more than 20 per cent.). Special transfer pricing rules apply to securities transactions and derivatives. The transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction. The Russian Parliament is in the process of renewing amendments proposed by the Government to the transfer pricing legislation, which may come into force in the near future. Such amendments, if adopted, are expected to result in stricter transfer pricing rules.

On 18 July 2011, Federal Law No. 227 FZ was enacted which introduces the new transfer pricing rules that entered into force as of 1 January 2012. The new rules redefine the list of "controlled transactions", the list of parties deemed to be related, the methods of price determination, introduce documentation and reporting requirements and allow, under certain conditions, for corresponding adjustments and advance pricing agreements with tax authorities. According to the new transfer pricing rules, sales transactions with oil would fall into the scope of "controlled transactions" by meeting either of the following criteria: (i) being performed with Russian related companies (under certain thresholds and conditions), or with non Russian related companies or with non Russian companies resident in some offshore zones (under certain thresholds) or (ii) involving export sales (under certain thresholds). With respect to "controlled transactions", the tax authority may adjust the tax base for corporate profits tax (and in some circumstances for VAT and the mineral extraction tax) based on the average arm's length market price for the same or similar goods. Breach of the transfer pricing rules and making "controlled

transactions" at a price not in compliance with the market price without self adjustments for tax purposes may result in the imposition of back taxes, late payment interest and, starting in 2014, severe fines (20 per cent. of the amount of unpaid tax from 2014 to 2016 and 40 per cent. as of 2017). If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have material adverse effect on the Group's business, financial condition or results of operations.

It should also be noted that Russian law does not provide for the possibility of group relief or fiscal unity. Consequently, tax losses of any Russian legal entity in a group may not be surrendered to reduce the tax liability of any other Russian legal entity of such group.

Russian tax legislation in effect as of the date of these Listing Particulars does not contain a concept of corporate tax residency. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in Russia on income attributable to a permanent establishment and on Russian source income. In the "Main Directions of Russian Tax Policy for 2009-2011", the Russian Government has proposed to introduce the concept of tax residency for legal entities into domestic law. According to these proposals, foreign group companies would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on the Group. The Group cannot rule out the possibility that, as a result of the introduction of these changes to Russian tax legislation, certain Group companies established outside Russia might be deemed to be Russian tax residents, subject to all applicable Russian taxes. There is a risk that some of the foreign group companies may be treated as having permanent establishments in Russia and be subject to Russian taxes and obligations to withhold Russian taxes.

As a result of the above factors, the Group could face tax liabilities (both going forward and liabilities which take effect retroactively) which are larger than the Group currently anticipates and there can be no assurance that the Group would not be required to make substantially larger tax payments in the future, which may materially adversely affect its financial results. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian affiliates to significant fines and penalties and enforcement measures, which could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

In 2011 mineral extraction tax ("MET") for gas was increased for Gazprom as well as independent producers and further MET increases up to the year 2015 were announced on 2 May 2012. Any further increase in this or any other applicable tax may also make it uneconomical to extract some of the Group's reserves.

Shareholder liability under Russian legislation could cause the Issuer to become liable for the obligations of its Russian subsidiaries

Russian law generally provides that shareholders in a Russian company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person or entity is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent". An entity whose decisions are capable of being so determined is deemed an "effective subsidiary." Under Russian law, such an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in accordance with mandatory instructions of an effective parent if such effective parent has the right to give such instructions under a contract with the subsidiary or otherwise.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the wilful action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. Although the immediate parent of Diall is RAECL, the Issuer could be liable in some cases for the debts of its subsidiaries. This liability, which is secondary in the case of the subsidiary's insolvency or bankruptcy and several with the liability of the subsidiary in the case of responsibility for transactions concluded by the subsidiary in accordance with the Issuer's mandatory instructions, could have a material adverse effect on the Group's business, financial condition and results of operations.

Risks Relating to the Bonds

A QIPO may not take place prior to the Original Maturity Date

The Bonds may be converted into Ordinary Shares, in accordance with the procedures set out in the Conditions, at the option of the holders of the Bonds (the "**Bondholders**") following the occurrence of a QIPO.

A "**QIPO**" means an offering and sale to investors of Ordinary Shares by the Issuer and/or any one or more Shareholders for subscription or sale for cash, and if and to the extent that the issued and outstanding Ordinary Shares are not already admitted to a premium listing on the Official List of the UK Listing Authority and admitted to trading on the EEA Regulated Market of the London Stock Exchange, accompanied by the grant of such listing and admission to trading, and which complies with the following conditions (or such other conditions as may be approved by an Extraordinary Resolution or the Trustee, at the request of holders of at least one-quarter in principal amount of the Bonds then outstanding provided that it is indemnified and/or secured and/or prefunded to its satisfaction in respect thereof, within 12 months after the date of the admission to trading of any Ordinary Shares offered and sold as aforesaid which would, but for conditions (ii) or (iii) below, otherwise constitute a QIPO):

- (i) the QIPO Effective Date occurs prior to the QIPO Cut-off Date;
- (ii) the Gross Proceeds receivable by the Issuer (translated to the extent not in US dollars, into US dollars at the Prevailing Rate as at the Pricing Date) of the offering and sale are not less than US\$100,000,000;
- (iii) the Free Float Value on the QIPO Effective Date is not less than US\$150,000,000.

Where:

A "**QIPO Cut-off Date**" means the date falling 14 London business days prior to the Original Maturity Date; and

A "**QIPO Effective Date**" means, in the case of a QIPO, the date on which the Ordinary Shares the subject of the QIPO are admitted to a premium listing on the Official List of the UK Listing Authority and admitted to trading on the EEA Regulated Market of the London Stock Exchange.

The timing and location of any QIPO is uncertain. In addition, the ability of the Issuer to effect a QIPO will be subject to a variety of factors, including stock exchange listing approval and financial market conditions. Also, the Issuer may effect a transaction which is similar in effect to a QIPO (such as equity investment) but does not constitute a QIPO (as defined in the Conditions). Accordingly, such a transaction would not give rise to conversion rights on the part of the Bondholders and may also reduce the likelihood of a QIPO occurring in the future.

Therefore there can be no assurance that a QIPO will take place during the life of the Bonds, in which case no conversion rights will arise. In such circumstances there is additional interest payable under the Bonds to compensate for the lack of conversion rights and the Bonds will be redeemed at their principal amount on the scheduled maturity date in respect of the Bonds.

There is currently no trading market for the Ordinary Shares

Prior to the occurrence of a QIPO, there will be no trading market for the Ordinary Shares. There is no assurance that a QIPO will occur or that a trading market for the Ordinary Shares will develop or be sustained after the QIPO, or that the price at which the Ordinary Shares will trade in the public market subsequent to the QIPO will not be lower than the price at which the Ordinary Shares are offered in the QIPO. Even if a QIPO occurs, if no active trading market develops for the Ordinary Shares, investors may experience difficulty selling the Ordinary Shares issued on conversion of the Bonds.

No active trading market for the Bonds

The liquidity of any market for the Bonds will depend upon the number of holders of the Bonds and other factors. In addition, the liquidity of the trading market in the Bonds, and any market price quoted for the Bonds, may be adversely affected by changes in the financial markets and by changes in the

Group's financial performance or in the prospects for companies in its industry generally. There can be no assurance that an active trading market will develop for the Bonds.

Share price volatility and liquidity may affect the performance of investments in the Issuer

The share price of listed companies can be highly volatile and their shares may have limited liquidity. An active trading market for the Ordinary Shares following any QIPO may not develop and the trading price for the Ordinary Shares may fluctuate significantly. Investors may be unable to recover their original investment. In addition, equity market conditions may affect the price and market liquidity for Ordinary Shares regardless of the performance of the Issuer. Equity market conditions are affected by many factors, such as the general economic, political or regulatory outlook, movements in or outlook on interest rates and inflation rates, currency fluctuations, commodity prices, changes in investor sentiment towards particular market sectors and the demand for and supply of capital. Trading in the Ordinary Shares by other investors, such as large purchases or sales of Ordinary Shares may also affect the share price. Accordingly, the market price of Ordinary Shares may not reflect the underlying value of the Issuer's investments and the price at which investors may dispose of their Ordinary Shares at any point in time may be influenced by a number of factors, only some of which may pertain to the Issuer while others may be outside the Issuer's control. Investors should not expect that they will necessarily be able to realise, within a period that they would otherwise regard as reasonable, their investment in Ordinary Shares issued on conversion of the Bonds. The Issuer's results and prospects from time to time may be below the expectations of market analysts and investors.

Future sales, or the real or perceived possibility of sales, of a significant number of Ordinary Shares in the public market could adversely affect the prevailing trading price of the Ordinary Shares

The Issuer cannot predict the effect, if any, that sales of the Ordinary Shares, or the availability of the Ordinary Shares for future sale, will have on the market price of the Ordinary Shares, but the availability of Ordinary Shares that are eligible for public sale could adversely affect the trading price of the Ordinary Shares. Any sales of any large quantities of Ordinary Shares could adversely affect the trading price of the Ordinary Shares and the Bonds.

Security sharing arrangements in respect of the Bonds

The obligations of the Issuer under the Bonds and the trust deed in respect of the Bonds are secured by a second priority security over 50 per cent. of the shareholding of the Issuer in RAECCL (the "**Pledged Shares**") and certain other assets (such as any further shares which the Issuer may hold in RAECCL in the future together with any dividends and other distributions) (the "**Charged Assets**") pursuant to a deed of pledge entered into between the Issuer and the Trustee on 13 October 2010 (the "**Bond Deed of Pledge**"). The obligations of the Issuer under the Convertible Loan Agreement and certain other financing agreements referred to therein are secured by a first priority security over the Pledged Shares and the Charged Assets pursuant to a separate deed of pledge between the Issuer and EBRD (the "**EBRD Deed of Pledge**"). The Issuer, the Trustee and EBRD entered into a deed of priority on 13 October 2010 (the "**Deed of Priority**") pursuant to which the security granted under the EBRD Deed of Pledge and the Bond Deed of Pledge is equally and rateably shared as between EBRD and the Trustee and the Bondholders in respect of the obligations secured by the EBRD Deed of Pledge and the Bond Deed of Pledge in the manner described in the Deed of Priority. The Deed of Priority contains provisions for the application of moneys recovered in the event of an enforcement of the security created pursuant to the Bond Deed of Pledge and the EBRD Deed of Pledge. These provisions will allow for the payment of certain costs and expenses to the Trustee and EBRD ahead of payment of any amounts to Bondholders. There can be no assurance that the moneys recovered in the event of enforcement of the security in respect of the Bonds will be sufficient to satisfy the claims of Bondholders.

Enforcement of security in respect of the Bonds

The security created by the Bond Deed of Pledge and the EBRD Deed of Pledge is over the Pledged Shares and certain other Charged Assets. RAECCL is an unlisted company which in turn holds 100 per cent. of the shares in Diall, the Russian company that holds the Bortovoy Licence. There can be no assurance that the realisation of the security in the event of enforcement of the security will be able to be effected without difficulty, and no assurance can be given as to the amounts recoverable in the event of enforcement of the security.

The Bonds may be redeemed prior to maturity

The Conditions provide that the Bonds are redeemable at the Issuer's option in certain limited circumstances and, accordingly, the Issuer may choose to redeem the outstanding Bonds at times when prevailing interest rates may be relatively low. In such circumstances, an investor may either be compelled to exercise its conversion rights earlier than it might otherwise have chosen to do so or, if it does not so convert its Bonds, may not be able to reinvest the redemption proceeds in a comparable security bearing an effective interest rate as high as that of the Bonds and/or containing a conversion right.

Risks attached to the exercise of conversion rights

Investors should be aware that the Bonds, which are convertible into Ordinary Shares, bear certain additional risks. Depending on the performance of the underlying Ordinary Shares, the value of the underlying Ordinary Shares may be substantially lower than when the Bonds were initially purchased. In addition, the value of the Ordinary Shares to be delivered upon conversion of the Bonds may vary substantially between the date on which the rights of conversion are exercised under the Bonds and the date on which such Ordinary Shares are delivered.

Bondholders have limited anti-dilution protection

The Bonds are convertible into Ordinary Shares. The conversion price at which the Bonds may be converted into Ordinary Shares will be adjusted in the event that there is a consolidation, reclassification or subdivision, capitalisation of profits or reserves, dividend (as defined in the Conditions), rights issue or grant of other subscription rights or other adjustment, including a spin-off event, which affects the Ordinary Shares, but only in the situations and only to the extent provided under the Conditions. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares. Events in respect of which no adjustment is made may adversely affect the value of the Ordinary Shares and, therefore, adversely affect the value of the Bonds.

PRESENTATION OF INFORMATION

Information regarding forward-looking statements

These Listing Particulars include forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Issuer's control and all of which are based on the current beliefs and expectations of the Issuer about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout these Listing Particulars and include statements regarding the intentions, beliefs and current expectations of the Issuer concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the Issuer and the industry in which it operates.

These forward-looking statements and other statements contained in these Listing Particulars regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved: actual events or results may differ materially as a result of risks and uncertainties facing the Issuer. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed or implied in such forward looking statements. Please refer to the section entitled "*Risk Factors*" for further confirmation in this regard.

The forward-looking statements contained in these Listing Particulars speak only as of the date of these Listing Particulars. The Issuer expressly disclaims any obligation or undertaking to update these forward-looking statements contained in the document to reflect any change in their expectations or any change in events, conditions or circumstances on which such statements are based unless required to do so by applicable laws and regulations.

Market data

Market data used in these Listing Particulars has been extracted from official and industry sources and other sources the Issuer believes to be reliable including, without limitation, in the parts headed "*Presentation of Information*", "*Risk Factors*" and "*Vostok Energy Public Limited Company*". Such information, data and statistics may be approximations or estimates or use rounded numbers. The Issuer confirms that this information has been accurately reproduced and that as far as the Issuer is aware, and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The following have been cited: Standard & Poor's ("**Standard & Poor's**") RatingsDirect® on the Global Credit Portal: 'Country Risks Cloud Future Prospects for Russian Corporates' published in March 2004, the World Bank Commodity Price Data and the Russian Federal Tariff Service ("**FTS**"). The Issuer confirms that this information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Presentation of reserves and resources information

These Listing Particulars present information concerning reserves on the basis of the Society of Petroleum Engineers Standards (the "**SPE Standards**"). These standards differ in certain material respects from the US Securities and Exchange Commission (the "**SEC**") standards. Except where otherwise indicated, all reserves and resources information in these Listing Particulars is presented on the basis of the SPE Standards.

The information on reserves and resources in these Listing Particulars is based on economic assumptions that may prove to be incorrect. The Russian economy is more unstable and subject to more significant and sudden changes than the economies of many other countries and, therefore, economic assumptions in Russia are subject to a high degree of uncertainty.

Definitions and glossary

Certain terms used in these Listing Particulars, including certain technical and other terms, are defined and explained in the "*Glossary of Technical Terms*".

USE OF PROCEEDS

The Bonds are being issued by the Issuer to satisfy its obligations of payment of additional interest in accordance with the Terms and Conditions of the Bonds and therefore the net proceeds of the offering of the Bonds will be zero.

VOSTOK ENERGY PUBLIC LIMITED COMPANY

Vostok Energy Public Limited Company (for the purposes of this section, the "Issuer" and together with its subsidiary undertakings, the "Group") was incorporated and registered in England and Wales on 4 May 2006 under the Companies Act 1985 as a private limited company with the name Atlantic Energy Group Limited and registered number 5806076. On 4 August 2006, it changed its name to Vostok Energy Limited and it re-registered as a public limited company on 9 September 2010. The principal legislation under which the Issuer operates is the Companies 2006 Act and its Ordinary Shares have been created under the Companies Act 1985 and the Companies Act 2006.

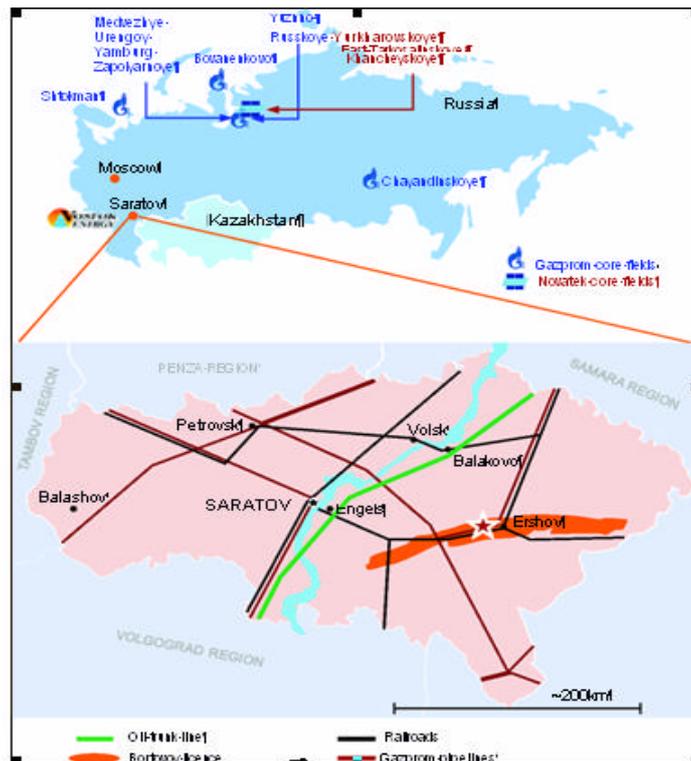
The registered office of the Issuer in the United Kingdom is Masters House, 107 Hammersmith Road, London, England W14 0QH (telephone number 0207 603 1515 or, if dialling from outside the United Kingdom, +44(0)20 7603 1515), and its international headquarters is at 4/5 Park Place, London SW1A 1LP.

Overview

The Issuer is an independent, upstream gas and oil exploration, development and production company by gas reserves in the Saratov region of South Western Russia.

In June 2006, the Issuer acquired Diall, the holder of the Bortovoy Licence, via the acquisition of Diall's parent company, RAECL, from a group of companies represented by a leading shareholder Sergey Alafinoy. The Bortovoy Licence area is the principal asset of the Issuer, with an area covering over 3,000 km². The site of the Bortovoy Licence area is located close to the border with Kazakhstan and along the northern margin of the Pre-Caspian basin, at its boundary with the Volga Ural platform. The Pre-Caspian basin is one of the largest hydrocarbon basins in the Commonwealth of Independent States (the "CIS"), extending from Kazakhstan into South Western Russia.

The following map illustrates the Saratov region and the surrounding area and the Bortovoy Licence area's position within it.



At the time of the Issuer's acquisition of Diall, the Bortovoy Licence area had more than 130 previously drilled wells, mainly drilled during the Soviet period. Historically, production efforts had focused on oil rather than gas because (i) oil production was easier and less capital intensive than processing gas, (ii) the regulated price for domestic gas in Russia was relatively low and (iii) the lack of transparency

in obtaining access to transmission pipelines undermined the commercial viability of gas production. However, the increasing demand in Russia for the domestic consumption and export of gas, together with the Russian Government's stated commitment to liberalise industrial gas prices in Russia, led the Group to conclude that the development of the significant gas reserves on the Bortovoy Licence area would be more profitable than maintaining a narrow commercial focus on oil production. The Group also believed (and continues to believe) there to be substantial exploration potential for further gas reserves.

The Group is headquartered in London and supported by operational offices in Saratov and Moscow.

History and Development of the Bortovoy Licence Area and the Group

The Issuer was incorporated in England and Wales in May 2006 with the intention of identifying and acquiring underdeveloped, underfunded or otherwise overlooked acreage with significant hydrocarbon potential. The Group acquired Diall, the holder of the Bortovoy Licence, in June 2006. The land covered by the Bortovoy Licence area was owned during Soviet times by the Russian Government and extensive geological exploration work aimed at finding large deposits of hydrocarbons was conducted across the entire region starting in the 1930s. However, after the first gas discoveries in the early 1940s, the Saratov region became increasingly overshadowed by much larger hydrocarbon finds in neighbouring regions. With primary exploration focus shifting towards oil in Western Siberia, the Saratov region has seen very little activity since the 1970s. Nonetheless, as a result of the earlier exploration work, the Bortovoy Licence area had more than 130 legacy wells which were drilled over the past 40 years and more than 1,000 km of 2D seismic geophysical data acquired prior to the Issuer's acquisition of Diall.

The acreage that now forms the Bortovoy Licence area was won in a government auction by Diall in 1999. Diall proceeded with the exploration and production of oil and condensate with commercial production of oil and condensate commencing in 2003. At the time, the known and potential gas reserves in the Bortovoy Licence area were perceived to represent limited commercial value due to the level of domestic gas prices in Russia and the need for capital intensive processing facilities. As a result, these gas reserves were not developed further by Diall prior to its acquisition by the Group.

At the time of its acquisition by the Issuer in June 2006, Diall was producing on average 50 bbl/d of oil and condensate. The Issuer immediately began analysing existing seismic and well data to develop a better understanding of the geology and hydrocarbon prospectivity of the Bortovoy Licence area. In mid-2007, in addition to obtaining encouraging results from well re-entries and the re-processing and interpretation of seismic data, the Issuer conducted a trial production of oil at three Western Fields (Karpenskoye, Zhdanovskoye and Mokrousovskoye) in order to ascertain the long-term productivity of the existing wells. During this trial period, the Issuer was able to achieve average liquid production rates of over 300 bbl/day. In conjunction with this oil and condensate production, however, a significant quantity of the associated gas was flared, as the Group did not have the necessary facilities to process this gas for transportation and sale. The increasing demand in Russia for gas, together with the continued increase in Russian domestic gas prices, led the Group to shift its focus from oil production to gas development and production. The Issuer took the decision to acquire a gas processing plant from Chevron in 2007 which was refurbished, re-engineered, shipped to Saratov and re-assembled on the Karpenskoye Field. In mid-2008, the Group decided to suspend oil production in order to avoid the adverse economic and environmental consequences of flaring the gas while it established the necessary facilities and infrastructure to produce gas on a commercial basis. Start-up of the Western Plant commenced in November 2010 and, following an initial period of trial production and sales, the Group has been producing gas and condensate from the Western Fields commercially since January 2011, achieving production at 66 per cent. of its operating capacity on average during 2011. Having identified the issues that arose with the sweetening unit that caused the Western Plant to operate at reduced volumes from mid-April to August 2011, the Company expects these to be fully resolved by July 2012. The Western Plant has been operating at close to full capacity since September 2011 due to the implementation of better operating procedures combined with the relatively cooler weather conditions. The Group also recommenced the production and sale of oil in May 2011.

The Group's Operations

The Group's operations are currently focused on the exploration, development and production of onshore gas and oil assets located in the Saratov region in South Western Russia.

Overview of the Bortovoy Licence



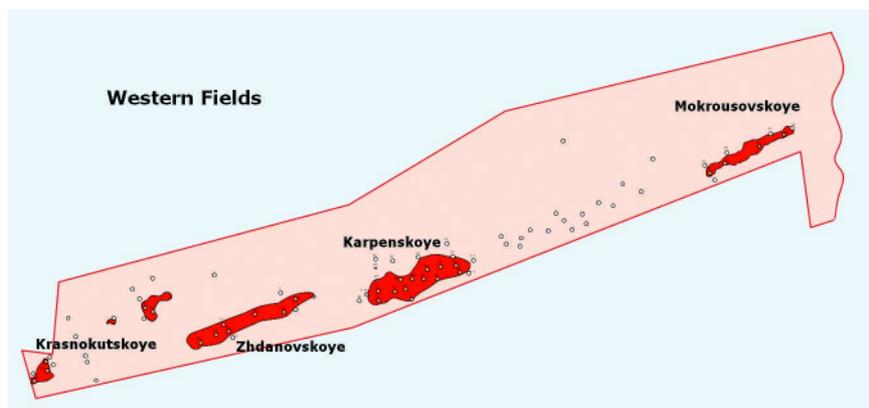
The Group holds the Bortovoy Licence, which is a sub-soil licence for the geological exploration and extraction of gas and oil and which is valid until 2025. The Issuer can apply for this to be extended by demonstrating to the regulatory authorities that additional time is required to develop and produce the licence area effectively. The area is an established oil region with more than 100 issued exploration and production licences. The Bortovoy Licence was acquired by the Issuer through its acquisition of Diall in June 2006 and is located on the pronounced edge of the Caspian depression, which hosts a number of other well-known large gas and oil fields. The Bortovoy Licence area is geographically and commercially divided into two distinct areas: the more advanced Western Fields, on which the Western Plant is located and where commercial production has already commenced; and the Eastern Fields which the Issuer intends to develop further using revenues generated by sales of gas, oil and condensate from the Western Fields.

The Bortovoy Licence area is conveniently bisected by Gazprom's CAC trunkline, which has enabled the Group to tie-in its gas processing plant to Russia's principal gas distribution network. In addition, the Bortovoy Licence area is in close proximity to domestic heavy industry, which provides a potential gas and oil market. The Group's gas is sold to Gazprom at the tie-in point to the Gazprom CAC trunkline and then transported by Gazprom via its pipeline system. Oil and condensate produced by the Group is collected at the Western Plant and sold on-site to end-users.

Field Descriptions

The Western Fields

There are four established gas and oil fields in the Western Fields, as illustrated by the map below: the Karpenskoye field; the Zhdanovskoye field; the Krasnokutskoye field; and the Mokrousovskoye field.



The Karpenskoye field

The Karpenskoye field is defined structurally by the interpretation of a 2D seismic grid acquired in 2002 and by more than 20 wells drilled during the 1970s, on or adjacent to, the main hydrocarbon bearing area of the field. The field is an elongated northeast—southwest trending anticlinal structure

approximately ten km in length and two to three km in width that is interpreted to be a Lower Permian biostromal reef with a total hydrocarbon bearing area of over 20 km² under closure. The Karpenskoye field contains four separate reservoir intervals developed within Lower Permian carbonates, although the majority of the reserves attributed to the field are contained within the lowest stratigraphic reservoir interval, which contains gas with oil present in association. Subsidiary reservoirs occurring within the field are of limited distribution, occurring only in the westernmost portion of the field and are of relatively minor economic importance.

The Group commenced a programme to re-enter a number of pre-existing wells in 2006 pursuant to a trial production programme for oil production, as well as drilling two of three appraisal wells required to be drilled under the trial production programme. The new appraisal wells drilled were unsuccessful in identifying the oil rim and were suspended by the Issuer as potential water disposal wells. In 2007 and 2008, the Issuer re-completed an additional eight Soviet-era wells, of which three were placed into intermittent trial production for oil, producing an average total of about 30 m³/d/210 bpd of oil with the associated gas being flared. In 2009, the Issuer acquired the rights to three additional wells within the Karpenskoye field, which were re-completed and tested in the second half of 2010. The Issuer has since been continuously acquiring and re-entering existing wells and has been extracting gas from any such wells as and when required to produce natural gas at the Western Plant.

Four reservoir intervals have been identified in the Karpenskoye field which contain various quantities of gas and oil. The main reservoir, which contains mainly gas with some associated oil, holds almost all of the economic reserves of this field and the other reservoir intervals are of relatively minor economic importance. The main reservoir has a gas bearing area of 19.8 km² and a peripheral oil bearing rim area of 6.1 km² under closure. Of the 14 wells which tap into this reservoir, three are completed as potential oil producing wells, but will also produce associated gas, three wells began significant production and gas sales as of November 2010, and a further two wells started gas production in January 2010. A total of nine wells have been producing gas since field production started.

In October 2009, the Issuer undertook an acid matrix stimulation and fracturing programme on three wells in the Karpenskoye field to determine the effectiveness of such treatments in increasing production capability. The programme, which was conducted by the Russian subsidiary of Schlumberger Inc., an international oilfield service contractor, increased well flow capability by two to four times in individual wells, increasing the combined flow rates in the three wells from a total of 211 km³/d (6.0MMscfd) to approximately 590 km³/d (16.7MMscfd).

Based upon the successful results of this programme, an additional six wells in the Karpenskoye field were selected for acid matrix stimulation and fracturing. Results from this programme indicate that overall gas production capability at Karpenskoye has been increased and, as a result, the total gas production potential of the Karpenskoye field exceeds the 17.6 bcfa (0.5 bcma) maximum capacity of the Western Plant.

The Zhdanovskoye field

The Zhdanovskoye field contains five pools within the Lower Permian horizon and is comprised of two separate structural closures developed on a southwest—northeast trending elongated structure 12.5 km in length and one to two km in width. The principal reservoir in this field was originally identified in two wells, both of which flow tested gas upon their completion in the 1970s. The Issuer drilled an additional three wells in the area in 2008 and 2009 which successfully established the reservoir as hydrocarbon bearing and flow tested gas at rates up to 80 km³/d (2.25MMscfd). In total, five wells have been completed in respect of this reservoir as potential Lower Permian gas production wells and have been suspended pending future tie-ins into the Western Plant. A further two Lower Permian reservoirs were identified. The East Lower Permian reservoir identified by well 30 is classified as a single well gas post and was placed in trial production in 2007 and 2008 pursuant to the Issuer's commitments under the Bortovoy Licence, producing an average rate of approximately 15 km³/d (105 bpd) of oil and 55 km³/d (1.5MMscfd) of gas which was flared. The West Lower Permian reservoir contains one well, which was successfully re-entered and completed by the Issuer in 2009, flow testing gas of up to 25 km³/d (0.7MMscfd) and is assigned as a gas bearing area of 4.65 km² under closure. The Issuer believes that the existing Karpenskoye and Zhdanovskoye wells should provide sufficient gas to maintain operations at the Western Plant at full capacity until 2018. Thereafter, the Group

intends to carry out in-fill drilling at Karpenskoye and other fields to maintain operating levels of the Western Plant at full capacity.

The Krasnokutskoye field

The Krasnokutskoye field is located at the westernmost tip of the Bortovoy Licence area and is comprised of two fields made up of a number of separate pools. These fields had already been discovered prior to 1990 during the Soviet phase of exploration and were further explored using additional 2D seismic programmes acquired by the Issuer in 2007. Three separate gas pools were identified in the Devonian horizon using the seismic data, but the four wells reaching this layer were abandoned following completion and testing, despite findings of hydrocarbon potential. Three additional separate gas pools are located in the Lower Permian layer of this field and three wells have been identified as potential gas producing wells.

The Mokrousovskoye field

The Mokrousovskoye field was delineated by 3D seismic data acquired in 2005 and is comprised of four separate structural closures developed on a southwest—northeast trending elongated structural trend approximately nine km in length and one to two km in width and which are interpreted to be individual culminations that built up along a Lower Permian biohermal reef. The principal reservoir is developed within the Lower Permian interval which is developed over the entire field and was identified in eight wells drilled during the early 1970s, five of which flow tested gas on completion at various rates up to 198 km³/d (5.6MMscfd) and were conserved.

The Eastern Fields

There are seven gas and oil fields in the Eastern Fields, as illustrated by the map below: the Pavlovskoye field; the Kochkurovskoye field; the Timoninskoye field; the Lipovskoye field; the West Lipovskoye field; the Nepryakhinskaya Field and the Peschanaya field.

The Pavlovskoye field

The Pavlovskoye field was defined by a conventional 2D seismic grid acquired in 2002 and by supplemental 2D seismic programmes acquired by the Issuer in 2008 as part of its wider exploration work of the Bortovoy Licence area. The Pavlovskoye field comprises a large elongated Lower Permian biohermal reef structure approximately 15 km in length and one to four km in width, which is delineated by 11 wells drilled during the late 1970s and early 1980s. The reservoir intervals within the seven Lower Permian P1 Artinsky and Filipovsky carbonic internal have a hydrocarbon bearing area of 25.4 km² and 16.1 km² respectively under closure that is delineated by seven wells drilled into the reservoir, which flow tested gas at various rates of up to 268 km³/d (7.6MMscfd) often also containing small amounts of oil. A total of seven wells were conserved following completion and testing and are considered to be capable of being re-completed and brought into eventual production.

The Lipovskoye field

The Lipovskoye field was discovered by a well drilled in 1984 which tested gas at rates of up to 431 km³/d (15.2MMscfd) and 65 km³/d (2.3MMscfd) from two porous dolomite intervals in the Lower Permian horizon. Three additional wells were drilled and flow tested gas at comparable rates of up to 484.8 km³/d (17.1MMscfd) from up to three separate reservoir intervals within the Lower Permian horizon. An additional well encountered the Lower Permian reservoir interval on the south flank of the field outside the hydrocarbon bearing area and was wet. The field was further delineated by the 2D seismic programme acquired by the Issuer in 2007 and is interpreted to be an east—west trending Lower Permian P1 biostromal reef structure some five km in length and one to two km in width with a hydrocarbon bearing area of almost six km² under closure. The Lipovskoye field lies within the area of the 3D seismic programme acquired by the Issuer in 2009, which is currently undergoing reprocessing; once the interpretation of this data is completed, it will be used for a re-evaluation of the field. Following completion and testing, the four wells contained within this field were conserved and are considered as being capable of being re-entered and re-completed as gas production wells. Most of the reserves within the Lipovskoye field are considered proved based upon these four existing wells whilst reserves in the eastern and westernmost portions of the Lipovskoye field are categorised equally as probable and possible as a function of drainage radius from those wells.

The West Lipovskoye field

The West Lipovskoye field was discovered by a well drilled in 1984 which flow tested gas at a rate of 29.1 km³/d (1.0MMscfd) from a porous dolomite interval in the Lower Permian horizon.

The West Lipovskoye field was further delineated by a grid of conventional 2D seismic programme recorded by the Issuer in 2007 and is an east—west trending anticlinal feature interpreted to be a Lower Permian biostromal reef structure approximately seven km in length and one to two km in width with a hydrocarbon bearing area of 8.2 km² under closure. Reserves in the central portion of this field are considered as proved, whilst the eastern and western portions of the field more removed from the existing well are assigned reserves in the probable category. Following completion and testing, the well was conserved and is considered as being capable of being re-entered and re-completed as a gas production well.

The Kochkurovskoye field

The Kochkurovskoye field was discovered by an exploration well drilled by the Issuer in 2007. Upon completion and testing, this well flow tested gas from a Lower Permian reservoir interval at rates of up to 20.6 km³/d (0.7MMscfd), and low gravity oil/condensate at rates of up to 28 km³/d (190 bpd) with gas of up to 9.5 km³/d (0.3MMscfd) per day from a stratigraphically higher Lower Permian reservoir interval.

The Kochkurovskoye-1 well was placed upon trial production for seven months following its completion by the Issuer in 2008, during which time it produced low gravity oil at a constrained rate of approximately 10m³/d (70bpd). Following the trial production period, the well was shut-in and suspended as a potential Lower Permian oil and gas well.

The Timoninskoye field

The Timoninskoye field was discovered by one well, drilled in 1985, which flow tested gas at a rate of 11.74 km³/d (0.4MMscfd) from a porous dolomite interval in the Lower Permian horizon. The Timoninskoye structure is a domal anticline delineated by a grid of conventional 2D seismic data recorded by the Issuer in 2007 and is interpreted to be a Lower Permian P1 biohermal reef mound with a hydrocarbon bearing area of 8.8 km² under closure. During the first quarter of 2010, the Issuer drilled an appraisal well. A hydrocarbon saturated interval in the Lower Permian horizon was identified by the Timoninskoye-44 well, but completion and testing of the interval is pending. Reserves in the Timoninskoye field are assigned in the probable category pending the results of completion and testing of the Timoninskoye-44 well.

The Peschanaya field

The Peschanaya field was discovered by two wells drilled during 1990 - 1991 which were open hole tested in the Lower Permian carbonates, producing some quantities of gas and oil with formation water at a rate calculated at 4.5 km³/d (31 bpd) of oil equivalent. A follow-up well encountered two hydrocarbon bearing intervals which were identified on well logs in that portion of the section, but the results of the testing were inconclusive.

The Peschanaya structure is currently being re-defined based upon the interpretation of the 2D seismic programme undertaken by the Issuer in 2007. The field also lies within the area of the 3D seismic programme acquired by the Issuer in 2009 which is currently undergoing specialised reprocessing. Once the interpretation of this reprocessed data is complete, it will be used for a re-evaluation of the field. One of the abandoned wells is considered to be within the oil leg of an indicated gas accumulation contained within a large closed domal anticline interpreted to be a Lower Permian biohermal reef located to the north and is assigned oil reserves totalling 27,000 bbl based upon a 0.25 km² drainage area. The closed structure to the north of the well has an area of 8.6 km² under closure and is assigned gas reserves in the probable category.

The Nepryahinskaya Field

The Nepryahinskaya field was completed and tested in selective intervals of the Lower Devonian and Middle Devonian reservoirs in February 2011. A number of tests on this field tested at rates totalling 14.5 MMscfd, including after acid treatment. Possible hydrocarbons were also indicated in several

intervals in the Nepryakhinskaya well No. 1. Five of these intervals have been tested to date, two of the zones produced trace amounts of gas. Of these two intervals, only the Mosolovsky and Klintsovsky have enough log-defined net pay to be considered as contingent resources. The current structural interpretation for the Devonian structures in Nepryakhinskaya field is based on 3D seismic data acquired by the Group in 2008. The proved productive areas were estimated based on lowest known gas for each zone and are approximately 8.0 km² for the Koyvensky and 9.1 km² for the Biyisky. The 1C drainage areas for the Klintsovsky and Mosolovsky zones are approximately 4.9 km² and 2.5 km², respectively.

Exploration activity

Historic exploration activity

Initial work on the Bortovoy Licence area was undertaken during the Soviet era. During the 1970s and 1980s approximately 1,000 km of seismic data were acquired and over 130 wells were drilled. The focus of early exploration on the Bortovoy Licence area was on the Lower Permian interval at the Caspian margin, this being the shallowest prospective interval. This resulted in seven Lower Permian field discoveries, designated from west to east: Krasnokutskoye, Zhdanovskoye, Karpenskoye, Mokrousovskoye, Pavlovskoye, West Lipovskoye and Lipovskoye. The Carboniferous and Devonian intervals are the main producing reservoirs in the Volga Ural platform, however, only limited exploration was undertaken in the Bortovoy Licence area for these deeper targets, partially due to the limited capability of seismic data of that era. Five deep wells, four of which were drilled within the westernmost area of the Bortovoy Licence area in the Krasnokutskoye field, successfully tested oil and gas from Middle and Upper Devonian intervals.

The Bortovoy Licence was subsequently won in a government auction by Diall in 1999. Between 2000 and the acquisition of Diall by the Issuer in June 2006, Diall reprocessed more than 1,000 km of existing Soviet era seismic data covering primarily the Western Fields and acquired almost 700 km of new 2D seismic and 55 km² of 3D seismic data covering the Mokrousovskoye and Zhdanovskoye fields.

The Issuer's exploration activities—2007 – 2011

The acquisition of Diall by the Issuer in June 2006 was made upon recognition that Diall's major assets were the natural gas reserves and potential resources of the Bortovoy Licence. Trial production for oil was ongoing at the time of the acquisition, but production was limited and the flaring of associated gas, which was both environmentally and economically undesirable, would have been permitted only for a limited period of time. The Issuer decided to develop and exploit the natural gas reserves and resources and to suspend oil production temporarily while the necessary infrastructure was put in place. In order to process the gas for sale and transportation, including dehydrating the gas and removing the hydrogen sulphide, which makes up less than one per cent. of the gas volume, preparations were made for the construction of the 17.6 bcfa (0.5 bcma) Western Plant. At the same time, a plan to evaluate the reserves in the Western Fields and to identify the resource potential from the entire Bortovoy Licence area was adopted.

The first phase of the plan implemented during 2007 and 2008 was to concentrate on the identification and verification of sufficient economic reserves of natural gas in the Western Fields to provide an adequate supply of gas for the Western Plant. The objective was to demonstrate that by new exploration and appraisal drilling together with re-completion and refurbishment of existing wells, sufficient natural gas deliverability existed in the Western Fields to sustain the Western Plant throughout its economic life.

The second part of the plan, implemented at the same time as the Western Fields appraisal programme, was to investigate the prospectivity and exploration potential of the entire Bortovoy Licence area. Between January 2007 and March 2008, the Issuer acquired 3,590 km of new 2D seismic data. The majority of this data was acquired in the eastern and central areas of the Bortovoy Licence area where little or no older seismic was available. The purpose of this programme was to develop a better understanding of the nature of the Pre-Caspian margin as it related to the entire Paleozoic sequence in the east and central areas of the Bortovoy Licence area and to identify the potential resources of these portions of the Licence area in order to guide future exploration and exploitation strategy. Additionally, interpretation of this newly acquired data provided a framework to demonstrate more accurately the

nature and configuration of traps relating to existing wells that had successfully encountered hydrocarbon-bearing reservoirs.

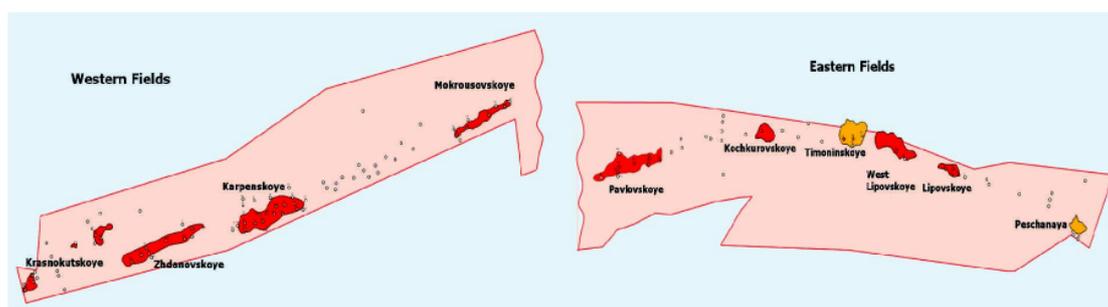
In conjunction with seismic acquisition, existing seismic data acquired during the Soviet era and by Diאל was reprocessed in order to make this data more compatible with the acquisition and processing parameters used in newly acquired data.

During the winter of 2008/2009, 320 km² of 3D seismic data was acquired covering the easternmost portion of the Bortovoy Licence area in order to acquire further detail of the potential resources of both deep and shallower prospects as a guide to future exploration drilling. A further 124 km² of 3D seismic data was acquired during 2009 and 2010 immediately to the west of, and as a continuation of, the 2008-2009 3D programme.

A further 3D seismic data survey was conducted during the winter of 2010/2011 and this data was processed in November 2011. The Issuer is currently interpreting the information acquired from this survey and is comparing it against information acquired in previous surveys for the same intervals.

Details of the Group's wells

The map below illustrates the location of the exploration, appraisal, development and production wells on the Bortovoy Licence area.



The terms of the Bortovoy Licence entitle the Issuer to exploit the subsoil of the Bortovoy Licence area, but the Group does not own the land covered by the Bortovoy Licence. The land and pre-existing wells on the land are owned either by the federal government or by local farmers. The Group therefore enters into lease agreements with the federal government or local farmers in relation to pre-existing wells which the Group intends to re-enter and in relation to the land upon which the Group intends to drill new wells. The Issuer therefore only seeks to acquire appropriate land use rights over those parts of the Bortovoy Licence area which the Group actually uses, together with land use rights required to facilitate access to these parts. The Group currently holds the land use rights to the land where it is drilling new wells or in connection with wells it is re entering as well as the land on which the Western Plant is located.

Gas processing facilities

Western Plant

The Issuer's development of the acreage in the Western Fields since 2007 has been focused on the construction and commissioning of the Western Plant. An existing gas processing plant which was located in California was purchased from Ventech Engineers International Corporation (who procured the plant from Chevron) in the US in late 2007 and the Issuer engaged Ventech Engineers International Corporation to refurbish and upgrade this plant (which would become the Western Plant) to meet Russian technical and safety standards, as well as to add a sulphur stripping capability. The Western Plant, which has a capacity of 17.6 bcfa or 0.5 bcma, was shipped to Russia in early 2009. Start-up of the Western Plant commenced in November 2010 and, following an initial period of trial production and sales, it has been producing gas and condensate from the Western Fields commercially since January 2011, achieving production at 66 per cent. of its operating capacity on average during 2011. Having identified the issues that arose with a sweetening unit that caused the Western Plant to operate at reduced volumes from mid April 2011 to August 2011, the Issuer expects these to be fully resolved by July 2012. The Western Plant has been operating at close to full capacity since September 2011 due to the implementation of better operating procedures combined with the relatively cooler weather

conditions. The Group also recommenced the production and sale of oil at the Western Plant in May 2011. The start-up of the Western Plant was a key milestone for the Issuer, providing processing capacity for gas, oil, sulphur granulates and condensate products to support the Group's growth.

The Western Plant is physically connected to Gazprom's CAC trunkline via the Group's gas sales pipeline and gas metering unit and all of the gas currently sold by the Issuer is sold to Gazprom and transported using Gazprom's pipeline.

Proposed Eastern Plant

In line with its plans further to develop and exploit the Bortovoy Licence area, the Issuer intends to construct the Eastern Plant in the Eastern Fields. The Issuer has completed the acquisition of the land intended for the construction of the first phase of the Eastern Plant, together with the accompanying pipeline connections and other infrastructure, and the construction is expected to commence in 2013. The Issuer is currently getting the land rezoned from agricultural to industrial use. Once the land has been rezoned it will be transferred to Diall. The Issuer believes that it will be able to acquire the remainder of the land required for the construction of the Eastern Plant on adequate terms and has already entered into discussions with the relevant land owners to do so. The balance of the funding for the construction of the Eastern Plant is expected to be provided through internally generated cash flow from revenues of sales of gas, oil and condensate from the Western Fields. The Eastern Plant constructed during the first phase of construction is expected to commence commercial production of gas with a capacity of 17.6 bcfa (0.5 bcma) by the beginning of 2015, with full production capacity from the Eastern Plant of 52.8 bcfa (1.5 bcma) expected by January 2017. Based on previous production tests, the medium to long term growth of the Issuer is expected to be driven by the development of the Eastern Fields, where well deliverability rates are on average between two and four times greater than those of wells tested in the Western Fields.

The Gazprom Contract

On 11 August 2010, the Issuer entered into an agreement with Gazprom pursuant to which the Group has the right to supply agreed volumes of gas to Gazprom up until December 2015. The Group started supplying gas to Gazprom in November 2010 as part of a trial production period; it has been commercially selling gas to Gazprom since January 2011 and its current intention is to supply all the gas it produces for sale to Gazprom. The Group will therefore be reliant on Gazprom for all of its gas revenues. Selling prices are based on contracts linked to domestic gas prices in Russia as regulated by the FST, and the gas is sold at the Group's tie-in point to the Gazprom network. As a result, the Group does not incur material transportation costs in respect of its gas sales. Nevertheless, the Group does effectively remunerate Gazprom in respect of transportation fees by selling its gas at an agreed discount (initially set at approximately 24 per cent.) to the weighted average selling price for industrial gas consumers in the Saratov region as determined by the FST. Pursuant to the agreement, Gazprom is not required to purchase a minimum volume of gas and is only required to pay the Issuer for gas actually supplied. In addition, if the gas produced by the Group does not comply with Russian quality requirements, Gazprom may refuse to purchase and transport such gas.

Group Structure

The Issuer acts as the holding company of the Group, the principal activities of which are the exploration, development and production of hydrocarbons. The Issuer has the following significant subsidiary undertakings all of which are save as described below private limited companies, wholly owned, incorporated in England and Wales:

<u>Name</u>	<u>Proportion of ownership interest</u>	<u>Country of operation</u>	<u>Principal activity</u>
<i><u>Active Subsidiaries</u></i>			
Royal Atlantic Energy (Cyprus) Limited.....	100	Cyprus	Holding company
Diall Alliance LLC (Diall is a wholly owned subsidiary of RAECL)	100	Russia	Operating company
Vostok Energy Ltd	100	United States	Management and administration company
Vostok Energy Resources Limited.....	100	England and Wales	Financing company
<i><u>Inactive Subsidiaries</u></i>			
Vostok Energy Company, CJSC	100	Russia	Administration centre
Zhaikininvest Ltd LLP	75	Kazakhstan	Holding company
Vostok Energy (Cyprus) Limited.....	100	Cyprus	Holding company

Competition

The Group produces a commodity pursuant to a licence and the price at which the Group sells its product is determined by regulated pricing structures as well as market supply and demand. The key activities in which the Group faces competition are:

- acquisition of exploration and production licences at auctions or tenders run by Russian governmental authorities;
- acquisition of other Russian companies that may already own licences or existing assets;
- engagement of leading third-party service providers whose capacity to provide key services may be limited;
- purchase of capital equipment that may be scarce;
- employment of the best-qualified and most experienced staff;
- acquisition of or access to gas processing capacity; and
- a diversified customer base for sale of gas.

There are a number of other independent operators producing oil from licences also located within the Saratov region. However, the Issuer believes that these operators mainly focus on the production of oil and the construction of the Western Plant by the Issuer, gives the Group a significant competitive advantage in terms of the production of gas, particularly given the level of capital expenditure a competitor would have to incur in order to enter the market.

Many of the Group's other competitors, such as Saratov Neftegas, have substantially greater financial resources and have been operating in a market-based, competitive environment for much longer than the Group has. Nevertheless, based on historically low production levels of gas in the Saratov region, the Group does not expect any significant constraints as a result of this competition and does not expect it to become a significant problem in the future.

Investigations

The Issuer has been co-operating with two separate investigations concerning allegations of bribery and corruption involving certain of its former employees and the European Bank for Reconstruction and Development (the "EBRD").

Investigations concerning Chestnut Consulting Inc. and the EBRD

In May 2009, the Issuer retained a US consulting firm, Chestnut Consulting Inc. ("**Chestnut**"), to assist the Issuer in its application process for EBRD funding. The EBRD notified the Issuer in March 2010 that it had commenced an internal investigation in relation to Chestnut and, as part of this investigation, the EBRD asked the Issuer to engage an independent consultant to review and report on the Issuer's engagement of Chestnut. The EBRD approved the engagement of Ashurst LLP for this purpose.

The EBRD, having reviewed the report produced by Ashurst LLP (the "**Chestnut Report**") as well as other information available to it, has confirmed to the Issuer that, unless new information comes to light, it does not intend to investigate further the matter insofar as it relates to the Issuer, nor does it intend to issue any notice of acceleration or default to the Issuer in respect of the USD 60,000,000 convertible loan agreement between the EBRD and the Issuer (the "**Convertible Loan**"). The statement from the EBRD does not constitute a waiver or imply any modification of any of EBRD's legal or other rights.

The Issuer also understands that the events which gave rise to the EBRD investigation have given rise to an ongoing criminal investigation. However, on 29 June 2011, the Issuer received written confirmation from the City of London Police that, unless further information should come to light, no further action will be taken against the Issuer or any of its current employees or officers or against any of the former Chief Executive Officer, the former Chief Operating Officer and the former Executive Vice President of the Issuer.

The Issuer understands that the US Federal Bureau of Investigation (the "**FBI**") is conducting a parallel investigation in relation to Chestnut and that the City of London Police and the FBI have been cooperating in this regard and sharing evidence with one another. The Issuer further understands that the above mentioned former officers/employees have been named as "subjects" in the FBI's investigation (meaning that the FBI has determined that these individuals are involved in the matter under investigation but are not themselves "targets" of the investigation). The Issuer has not been contacted by the FBI in relation to its investigation and has no reason to believe that it is implicated in the investigation. Therefore, the Issuer has no reason to believe that the investigation may result in it incurring a financial penalty.

Investigations concerning Elena Kotova and the EBRD

The Issuer understands that, in July 2010, the EBRD commenced an internal investigation in relation to alleged corrupt activities by certain Russian personnel in London, including Elena Kotova, the former representative of the Russian Federation, Belarus and Tajikistan on the EBRD Board. The Issuer understands that the events which gave rise to the EBRD investigation have given rise to an ongoing criminal investigation concerning Elena Kotova.

In April 2011, the City of London Police informed the Issuer that, as part of their criminal investigations concerning Elena Kotova, they were investigating the role of Ms. Kotova in relation to the Issuer's application for EBRD funding and, in particular, a payment of approximately US\$200,000 that was received by Ms Kotova from a third party whilst the application process was ongoing. The Issuer has fully co-operated with the investigation.

The Directors co-operated extensively and fully with the City of London Police and ensured that a thorough and comprehensive investigation of the Issuer, its records and personnel was carried out. All available evidence was handed over to the City of London Police.

The former Chief Executive Officer and former Executive Vice President of the Issuer, and the office manager then employed by the Issuer, were interviewed by the City of London Police "under caution". None of these individuals continues to hold any position within the Issuer and, as regards the office manager, the City of London Police confirmed on 25 May 2011 that, unless further information should come to light, no further action will be taken against her.

All of the current members of the Board have confirmed that, prior to the City of London Police's investigation, they had no knowledge of the payment that was received by Ms. Kotova.

On 11 August 2011, the Issuer received written confirmation from the City of London Police that, on the basis of the evidence they had obtained to date, they did not intend to recommend criminal action against the Issuer. In September 2011, certain of the current and former Directors of the Issuer voluntarily attended interviews that were conducted by the City of London Police under caution. In the same period, the Issuer also produced certain further documentation to the City of London Police. The Issuer received independent legal advice that neither the interviews nor the further documents that were provided gave rise to any new material information that could reasonably cause the City of London Police to alter their position as stated on 11 August 2011. On 14 March 2012, the City of London Police verbally confirmed to the Issuer that, whilst the investigation was ongoing, no further evidence relating to the Issuer had come to light in the seven month period since August 2011 and that the City of London Police's position remained as described in their letter dated 11 August 2011.

In August 2012, the City of London Police submitted a file to the Crown Prosecution for a final charging decision. Following its review of the investigation file, the Crown Prosecution Service confirmed on 30 November 2012 that there was insufficient evidence to provide a realistic prospect of conviction against the Issuer, such that the Issuer will not be charged or prosecuted in relation to the Kotova Investigation. The Issuer understands that the Crown Prosecution Service has confirmed the same in respect of the former Executive Vice President. Insofar as the Issuer is aware, the former Chief Executive Officer remains a suspect in the investigation.

The current position regarding the EBRD

As the borrower under the EBRD convertible loan agreement, the Issuer is subject to the EBRD's Enforcement Policy and Procedures (the "EPP"). Pursuant to the EPP and the terms of the Convertible Loan Agreement, and following a preliminary assessment (the first step in any EBRD enforcement proceeding), the EBRD has informed the Issuer that it has commenced a further investigation in respect of the payment to Ms Kotova (the "**EBRD Investigation**"). The EBRD has confirmed that the EBRD Investigation is focused on the two individuals who remain suspects in the City of London Police investigation concerning Ms Kotova (i.e., the former Chief Executive Officer and former Executive Vice President of the Issuer) and, unless further information should come to light, not any other current or former officer or employee of the Issuer.

The Issuer has been informed that the EBRD hopes to conclude the EBRD Investigation by the end of January 2013. Whilst the EBRD may conclude that the matter does not require further consideration, the two most serious consequences for the Issuer are: (i) as a result of the EBRD Investigation a declaration that the Issuer is ineligible, either indefinitely or for a stated period of time, to become a counterparty in any new EBRD project ("**Debarment**"); and (ii) as a result of a prohibited practice (as defined under the EPP) and/or Debarment following the conclusion of the EBRD Investigation, the acceleration of the Convertible Loan Agreement, which could result in cross default under the Bonds. It is possible for any Debarment decision to extend to the Asian Development Bank, the Inter American Development Bank or the World Bank group including the IFC, each of which is a Mutual Enforcement Institution. Since the Issuer's plans for future funding do not include any element of financing by the EBRD or any of the other Mutual Enforcement Institutions, the Issuer believes that Debarment by the EBRD would not have a material adverse effect on its operations or financial condition, even though the cost of obtaining financing from commercial institutions may be higher compared to financing provided by governmental or multilateral agencies. The EBRD Investigation cannot, however, result in a financial penalty for the Issuer.

Litigation

Except as provided above under "*Investigations*" there are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Issuer is aware, during the 12 months prior to the date of these Listing Particulars, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer and/or the Group.

Insurance

The Group currently maintains all mandatory insurance required by law and has enhanced its policies with respect to medical insurance and accidents. The Group maintains property and operational insurance including third-party liability coverage for accidents and environmental damage. See "*Risks*

Relating to the Group's Business and Industry" in the section headed "Risk Factors". The Issuer believes that the Group also carries insurance coverage customary in Western countries for a business of its size and nature, however, a significant event might not be covered by insurance and could materially adversely affect the Group's business, prospects, financial condition, results of operations and the trading price of the Bonds and (once issued) the Ordinary Shares.

Auditors' report for the year ended 31 December 2011

The auditors' report to the consolidated financial statements of the Issuer for the year ended 31 December 2011 contains the following emphasis of matter, under the section entitled "*Emphasis of matter – Going concern*":

"In forming our opinion on the financial statements which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. The conditions described in note 2 indicate the existence of a material uncertainty which may cast significant doubt about the Groups' ability to continue as a going concern.

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

Note 2(b) (*Basis of preparation*) to the consolidated financial statements of the Issuer for the year ended 31 December 2011 contains the following:

"As detailed in this report, the Group has non-current borrowings that are to be repaid in 2013 (Note 22). The Group's first gas plant has been operating at full or near full capacity since September 2011 and given current production, generates sufficient cash flow to cover current operating costs, financing costs and a small capital program. The cash flow generated would not necessarily be sufficient to cover all ongoing obligations if the Group were to experience production decreases, sale price decreases or increased costs. In addition, even at full production, the cash flow being generated would not be sufficient to accumulate adequate funds to repay the non-current borrowings as they come due in 2013.

The directors have appointed an independent consultant and Deutsche Bank to act as their financial advisors and are focused on raising funds through an initial public offering of shares to be completed in the second half of 2012. If the initial public offering is not successful, the directors believe that a smaller equity investment or additional debt funds can be raised in the near term to ensure the Group has adequate working capital to fund all ongoing obligations. The directors also believe the non-current borrowings can be successfully re-financed based on the positive cash flow currently being generated by the Group.

The financing alternatives would require shareholder approval and under certain conditions, debt holder approval and there is no certainty that any of the alternative strategies will be implemented successfully. The directors have concluded that these circumstances and particularly the requirement for shareholder approval and the debt holder approval represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Failure to complete the initial public offering or successfully implement one or more alternative financing strategies could result in the Group not being able to continue its operations in the current form and therefore not be able to continue as a going concern".

Although the cash flow being generated by the Issuer may not be sufficient to cover all its ongoing obligations, the Issuer believes that equity investment or additional debt finance can be raised to cover all ongoing obligations including the redemption of the Bonds in 2013.

DIRECTORS AND SENIOR MANAGEMENT

Directors

The Issuer's Directors, and their position, as at the date of these Listing Particulars were as follows:

<u>Name</u>	<u>Position</u>	<u>Principal activities outside the Group</u>
Charles Jamieson.....	Executive Chairman	Chairman, Salamander Energy plc
Yuri Samsonov.....	Chief Executive Officer	Chairman, Kama-Oil Joint Stock Company
Blaine Karst.....	Finance Director	None
Roger Cagle.....	Non-Executive Director	Deputy Chief Executive Officer, SOCO International plc Non-Executive Chairman, Dominion Petroleum Ltd.
Robert Cathery.....	Executive Director	Director, SOCO International plc Director, Salamander Energy plc Director, Central Asia Metals plc
John Orange.....	Non-Executive Director	Non-Executive Director, Premier Oil plc
Mark Sadykhov.....	Non-Executive Director	Director, Wilson Eurasia President, MMS Holdings
Douglas Stinemetz.....	Non-Executive Director	Partner, The Stinemetz Law Firm Corporate Secretary, Eurasia Drilling Company Limited
Ronald Harris	Non-Executive Director	Chief Financial Officer, Royal Atlantic Energy Canada
Jacob Ulrich.....	Non-Executive Director	None

The business address of each of the Directors is 4/5 Park Place, London SW1A 1LP.

Senior Managers

The Issuer's senior managers ("**Senior Managers**") as at these date of these Listing Particulars were as follows:

<u>Name</u>	<u>Position</u>
Dr. Ivor Bond.....	VP Exploration & Development
Kevin Burns.....	VP of Operations

Conflicts of Interest

At the date of these Listing Particulars, none of the Directors or Senior Managers has any potential conflicts of interests between their duties to the Issuer and their private interests or other duties.

Aggregate Ownership of Securities

The table below sets out the interests of the Directors and Senior Managers (all of which are beneficial or interests of a person connected with the indicated Director or Senior Manager) in the share capital of the Issuer as at 7 January 2012 (being the latest practicable date prior to the publication of these Listing Particulars):

Director/Senior Managers⁽¹⁾	Number of Ordinary Shares	Percentage of existing issued share capital
Ronald Harris	9,850,000	4.835
Charles Jamieson.....	6,710,000	3.300
Roger Cagle	3,330,000	1.638
Robert Cathery.....	6,585,000	3.238
Mark Sadykhov.....	2,000,000	0.984
Blaine Karst	1,250,000	0.615
Ivor Bond.....	820,000	0.403
Douglas Stinemetz.....	125,000	0.061
Yuri Samsonov.....	1,150,000	0.566
John Orange.....	50,000	0.025
Kevin Burns.....	460,000	0.223

(1) This table sets out the entire beneficial interest of the Directors and Senior Managers including any Ordinary Shares in which they are interested by virtue of their participation in the Issuer's Employee Benefit Trust.

PRINCIPAL SHAREHOLDERS

The Issuer is not aware of any person, who at the date of these Listing Particulars, exercises, or could exercise, directly or indirectly, jointly or severally, control over the Issuer.

DESCRIPTION OF THE ORDINARY SHARES

The following summarises certain provisions in respect of the Issuer's Ordinary Shares and articles of association (the "**Articles**").

Share Capital

As at 7 January 2012, being the last practicable date before the publication of these Listing Particulars, the Issuer has an issued and fully paid share capital of (a) US\$203,349,427 comprising 203,349,427 Ordinary Shares of US\$0.01 each; and (b) £50,000 comprising 50,000 redeemable shares of £1.00 each.

The principal legislation under which the issued Ordinary Shares have been and will be created is the Companies Act 1985 and the Companies Act 2006 and the regulations made thereunder.

Summary of the Articles of Association

This summary of the Articles does not purport to be complete and is subject to and is qualified in its entirety by references to the Articles. The Articles contain provisions, *inter alia*, to the following effect:

Object of the Issuer

The objects for which the Issuer is established are unrestricted.

Voting rights in respect of Ordinary Shares

Shareholders shall have the right to receive notice of, to attend and to vote at all general meetings of the Issuer. Save as otherwise provided in the Articles, on a show of hands each holder of shares present in person and entitled to vote shall have one vote and upon a poll each such holder who is present in person or by proxy and entitled to vote shall have one vote in respect of every share held by him.

No member shall be entitled to vote at any general meeting if any call or other sum presently payable by him in respect of shares remains unpaid or if a member has been served by the Directors with a restriction notice in the manner described in the Articles below under "*Restrictions on Ordinary Shares*".

Restrictions on Ordinary Shares

If a member or any person appearing to be interested in shares in the Issuer has been duly served with a notice pursuant to section 793 of the Companies Act 2006 and is in default in supplying to the Issuer information thereby required within 14 days from the date of service of such notice the Issuer may serve on such member or on any such person a notice (a "**restriction notice**") in respect of the shares in relation to which the default occurred ("**Default Shares**") and any other shares held at the date of the restriction notice directing that the member shall not be entitled to be present or to vote at any general meeting or class meeting of the Issuer. Where the Default Shares represent at least 0.25 per cent. in nominal value of the issued shares of the Issuer of the same class the restriction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on the Default Shares shall be retained by the Issuer without liability to pay interest; where the Issuer has offered the right to elect to receive shares instead of cash in respect of any dividends any election by such member of such restricted shares will not be effective; and no transfer of any of the shares held by the member shall be registered unless the member is not himself in default in supplying the information requested and the transfer is part only of the member's holding and is accompanied by a certificate given by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that none of the shares which is the subject of the transfer is a restricted share.

Variation of Class Rights

If at any time the share capital of the Issuer is divided into different classes of shares, the rights attached to any class of shares may, subject to the Companies Act 2006, the Uncertificated Securities Regulations 2001 (the "**Regulations**") and every other statute or subordinate legislation for the time being in force concerning companies and affecting the Issuer (the "**Statutes**"), be abrogated or varied

either with the consent in writing of the holders of three fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of Chapter 3 of part 13 of the Companies Act 2006 (save as stated in sections 334(2) and (3)) and the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one third in nominal value of the issued shares of the relevant class (excluding any shares of that class held as treasury shares) and at an adjourned meeting one person holding shares of the class or his proxy. Any holder of shares of the relevant class present in person or by proxy may demand a poll upon which every holder of shares of that class shall be entitled to one vote for every such share held by him. The rights attached to any class of shares shall, unless otherwise expressly provided by the terms of issue of such shares or by the terms upon which such shares are for the time being held, be deemed not to be abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith.

Alteration of capital

The Issuer may subject to the passing of a resolution authorising it to do so in accordance with the Companies Act 2006 consolidate and divide all or any of its share capital into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount.

Subject to the provisions of the Statutes, the Issuer may by special resolution reduce its share capital, any capital redemption reserve and any share premium account and any redenomination reserve in any way.

Subject to the provisions of the Statutes, any shares may be issued on terms that they are redeemed or liable to be redeemed at the option of the Issuer or the shareholders and on the terms and in the manner provided for by the Articles.

Subject to the provisions of the Statutes, the Issuer may purchase its own shares (including any redeemable shares).

Transfer of Shares

Subject to the provisions of the Articles relating to shares held in uncertificated form, as described below, the instrument of transfer of a certificated share shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, by or on behalf of the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof. All transfers of certificated shares shall be effected by instrument in writing in any usual or common form or any other form which the Directors may approve. The Directors may, in their absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid (whether certificated or uncertificated) provided that where such shares are admitted to the Official List, such discretion may not be exercised in a way which the Financial Services Authority or London Stock Exchange regards as preventing dealings in the shares of the relevant class or classes from taking place on an open and proper basis. The Directors may likewise refuse to register any transfer of a share (whether certificated or uncertificated), whether fully paid or not in favour of more than four persons jointly. In relation to certificated shares, the Directors may decline to recognise any instrument of transfer unless it is left at the registered office of the Issuer or such other place as the Directors may determine, accompanied by the relevant certificate and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do), and unless the instrument is in respect of only one class of share. If the Directors refuse to register a transfer they shall, in the case of certificated shares, within two months send to the transferee notice of the refusal and (except in the case of fraud) return to him the instrument of transfer, or except that, in the case of uncertificated shares, the Directors will have to notify such person as may be required by the Regulations.

Notwithstanding any other provision of the Articles to the contrary, unless otherwise determined by the Directors, any shares in the Issuer may be held in uncertificated form and title to shares may be transferred by means of a relevant system (in each case as defined in the Regulations) such as CREST.

General Meetings

An annual general meeting shall be called by not less than 21 clear days' notice, and a meeting of the Issuer other than an annual general meeting shall be called by not less than 14 clear days' notice. The notice shall specify the place, the day and time of meeting and, the general nature of the business. A notice calling an annual general meeting shall specify the meeting as such and a notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as such.

The accidental omission to give notice of a meeting, or to issue an invitation to appoint a proxy with a notice where required by the Articles, to any person entitled to receive notice, or the non-receipt of notice of a meeting or of an invitation to appoint a proxy by any such person, shall not invalidate the proceedings at that meeting.

All shareholders present in person or by duly appointed corporate representative, and their duly appointed proxy or proxies shall be entitled to attend all general meetings of the Issuer.

Directors

Unless and until the Issuer in general meeting shall otherwise determine, the number of Directors shall be not less than two. A Director shall not be required to hold any shares in the capital of the Issuer. A Director who is not a member shall nevertheless be entitled to receive notice of and attend and speak at all general meetings of the Issuer and all separate general meetings of the holders of any class of shares in the capital of the Issuer.

No Director shall be disqualified by his office from entering into any contract, arrangement, or transaction with the Issuer either with regard to his tenure of any other office or place of profit or acting in a professional capacity for the Issuer. Subject to the provisions of the Statutes and save as therein provided, no such contract, arrangement or transaction entered into by or on behalf of the Issuer in which any Director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any Director who enters into any such contract, arrangement or transaction or who is so interested be liable to account to the Issuer for any profit or other benefit realised by any such contract, arrangement or transaction by reason of such Director holding that office or of the fiduciary relationship thereby established, but such Director shall declare the nature of his interest in accordance with the Statutes.

A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

- the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Issuer or any of its subsidiary undertakings;
- the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Issuer or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- any proposal concerning an offer of securities of or by the Issuer or any of its subsidiary undertakings in which offer he is, or may be entitled to, participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;
- any contract, arrangement or transaction concerning any other body corporate in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he does not hold an interest (within the meaning of sections 820-825 of the Companies Act 2006) in one per cent. or more of any class of the equity share capital of such body corporate or of the voting rights available to members of the relevant body corporate;
- any contract, arrangement or transaction for the benefit of employees of the Issuer which does not accord him any privilege or advantage not generally accorded to the employees to whom the scheme relates; and

- any contract, arrangement or transaction concerning any insurance which the Issuer is to purchase and/or maintain for the benefit of Directors or for the benefit of persons who include Directors.

If any question shall arise at any meeting as to an interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any Director other than himself shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.

Save as provided in the Articles, a Director shall not vote or be counted in the quorum present on any motion in respect of any contract, arrangement or transaction or any other proposal in which he has an interest which is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through the Issuer.

Each of the Directors shall be paid a fee at such rate as may from time to time be determined by the Directors and such sums (if any) shall be divided between the Directors as they shall agree or, failing agreement, equally. Such remuneration shall be deemed to accrue from day to day. Any Director who is appointed to any executive office or who serves on any committee or who devotes special attention to the business of the Issuer, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration (whether by way of salary, percentage of profits or otherwise) as the Directors may determine. Each director may be paid his reasonable travelling, hotel and other expenses incurred in attending and returning from meetings of the Directors, or any committee of the Directors or of the Issuer or of the holders of any class of shares or debentures of the Issuer or otherwise in connection with the business of the Issuer. The Articles do not permit a Director to vote on, or be counted in the quorum in relation to, any resolution of the Board concerning his own appointment.

There shall be no age limit for Directors.

Each Director shall have the power at any time to appoint as an alternate Director either (A) another Director or (B) any other person approved for that purpose by a resolution of the Directors, and, at any time, to terminate such appointment.

Each Director shall retire from office at the third annual general meeting after the annual general meeting at which he was last appointed. A retiring Director shall be eligible for appointment.

The Directors may exercise all the powers of the Issuer to give or award pensions, annuities, gratuities or other retirement, superannuation, death or disability allowances or benefits to, *inter alia*, any Directors, ex Directors, or directors or ex directors, employees or ex employees of the Issuer of any subsidiary undertaking or parent undertaking of the Issuer or to the wives, widows, children, other relations and dependants of any such person and may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds for the benefit of any such persons

Borrowing Powers

The Directors may, exercise all the powers of the Issuer to borrow money and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, or any part thereof, and, subject to the provisions of the Statutes, to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Issuer or of any third party.

Dividends and Distributions on Liquidation to Shareholders

The Issuer in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Directors. Subject to the Statutes and any priority, preference or special rights, all dividends shall be declared and paid according to the amounts paid up on the shares and shall be apportioned and paid proportionately to the amounts paid up on the relevant shares during any portion of the period in respect of which the dividend is paid.

Subject to the provisions of the Statutes, the Directors may pay such interim dividends as they think fit and may pay the fixed dividends payable on any shares of the Issuer half yearly or otherwise on fixed dates.

The Directors may, with the sanction of an ordinary resolution of the Issuer in general meeting, offer the shareholders the right to elect to receive new Ordinary Shares credited as fully paid instead of cash in respect of the whole or part of any dividend.

Any dividend unclaimed for a period of 12 years after it became due for payment shall be forfeited and shall revert to the Issuer.

On a liquidation, the liquidator may, subject to the Statutes, and with the sanction of a special resolution of the Issuer divide amongst the members in specie or in kind the whole or any part of the assets of the Issuer and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out.

Non-United Kingdom Shareholders

There are no limitations in the Articles on the rights of non-United Kingdom Shareholders to hold, or to exercise voting rights attached to, the Ordinary Shares. However, non-United Kingdom Shareholders are not entitled to receive notices or other documents or information unless they have given an address in the United Kingdom to which such notices may be sent.

TERMS AND CONDITIONS OF THE BONDS

The issue of the US\$50,000,000 Conditional Convertible Bonds due 2013 (the "**Initial Bonds**") was authorised by a resolution of the board of directors of Vostok Energy Public Limited Company (the "**Issuer**") passed on 6 May 2010 and a resolution of a committee of the board of directors of the Issuer passed on 9 September 2010. The issue of the US\$1,250,000 Conditional Convertible Bonds due 2013 (the "**First Tranche of Additional Bonds**"), the US\$1,281,250 Conditional Convertible Bonds due 2013 (the "**Second Tranche of Additional Bonds**"), the US\$1,313,281 Conditional Convertible Bonds due 2013 (the "**Third Tranche of Additional Bonds**") and the US\$1,346,113 Conditional Convertible Bonds due 2013 (the "**Fourth Tranche of Additional Bonds**") were authorised by a resolution of a committee of the board of directors of the Issuer passed on 12 January 2012. The First Tranche of Additional Bonds is consolidated and forms a single series with the Initial Bonds and is constituted by a supplemental trust deed dated 13 January 2012 (the "**First Supplemental Trust Deed**") between the Issuer and Capita Trust Company Limited (the "**Trustee**", which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) (as defined below) as trustee for the holders of the Bonds (as defined below)). The Second Tranche of Additional Bonds is consolidated and forms a single series with the Initial Bonds and the First Tranche of Additional Bonds and is constituted by a supplemental trust deed dated 13 April 2012 (the "**Second Supplemental Trust Deed**") between the Issuer and the Trustee. The Third Tranche of Additional Bonds is consolidated and forms a single series with the Initial Bonds, the First Tranche of Additional Bonds and the Second Tranche of Additional Bonds and is constituted by a supplemental trust deed dated 13 July 2012 (the "**Third Supplemental Trust Deed**") between the Issuer and the Trustee. The Fourth Tranche of Additional Bonds is to be consolidated and form a single series with the Initial Bonds, the First Tranche of Additional Bonds, the Second Tranche of Additional Bonds and the Third Tranche of Additional Bonds and is constituted by a supplemental trust deed dated 15 October 2012 (the "**Fourth Supplemental Trust Deed**") between the Issuer and the Trustee. The Fourth Supplemental Trust Deed is supplemental to a trust deed dated 13 October 2010 by which the Initial Bonds are constituted (the "**Original Trust Deed**") between the Issuer and the Trustee as supplemented by the First Supplemental Trust Deed, the Second Supplemental Trust Deed and the Third Supplemental Trust Deed. The First Supplemental Trust Deed, the Second Supplemental Trust Deed, the Third Supplemental Trust Deed, the Fourth Supplemental Trust Deed and the Original Trust Deed are together referred to as the "**Trust Deed**". The statements set out in these Terms and Conditions (the "**Conditions**") are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Bonds and the interest coupons relating to them (the "**Coupons**"). The Bondholders and Couponholders (each as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying and Conversion Agency Agreement dated 13 October 2010 (the "**Agency Agreement**") relating to the Bonds between the Issuer, the Trustee and Deutsche Bank AG, London Branch (the "**Principal Paying and Conversion Agent**", which expression shall include any successor as Principal Paying and Conversion Agent under the Agency Agreement) and the Paying and Conversion Agents for the time being (such persons, together with the Principal Paying and Conversion Agent, being referred to below as the "**Paying and Conversion Agents**", which expression shall include their successors as Paying and Conversion Agents under the Agency Agreement).

Copies of the Trust Deed, the Agency Agreement, the Bond Deed of Pledge, the Convertible Loan Agreement, the Deed of Priority, the EBRD Deed of Pledge, the EBRD Share Retention Agreement, the Escrow Deed and the Share Retention Agreement are available for inspection at the office of the Trustee at 4th Floor, 40 Dukes Place, London, EC3A 7HN and at the specified offices of the Paying and Conversion Agents.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

1. **Form, Denomination, Title and Status**

(a) *Form and Denomination*

The Bonds are in bearer form in principal amounts of US\$1.00 each with Coupons attached on issue.

The aggregate principal amount of the Initial Bonds is US\$50,000,000.

The aggregate principal amount of the First Tranche of Additional Bonds is US\$1,250,000.

The aggregate principal amount of the Second Tranche of Additional Bonds is US\$1,281,250.

The aggregate principal amount of the Third Tranche of Additional Bonds is US\$1,313,281.

The aggregate principal amount of the Fourth Tranche of Additional Bonds is US\$1,346,113.

Following the issue of the Fourth Tranche of Additional Bonds the aggregate principal amount of the Bonds outstanding as at 15 October 2012 is US\$55,190,644.

Additional Bonds ("**Additional Bonds**") may be issued pursuant to Condition 4(b) and shall be consolidated and form a single series with the then outstanding Bonds, and constituted by a deed supplemental to the Trust Deed. Additional Bonds will have the same terms and conditions in all respects as the Initial Bonds except that interest on Additional Bonds will accrue from (and including) the PIK Interest Payment Date on which the relevant Additional Bonds are issued rather than from the Closing Date.

Bonds may only be converted by a holder in aggregate principal amounts of not less than US\$100,000.

References herein to "**Bonds**" shall, unless otherwise indicated, include the Initial Bonds, any Further Bonds and any Additional Bonds.

The Initial Bonds on issue will be represented by a global bond in bearer form and without Coupons (the "**Global Bond**") deposited with a common depositary for Euroclear Bank N.V./S.A. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). The Global Bond will be exchangeable for Bonds in definitive form only in the limited circumstances specified in the Global Bond.

The First Tranche of Additional Bonds on issue will be represented by a further global bond in bearer form and without Coupons deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The further global bond will be exchangeable for Bonds in definitive form only in the limited circumstances specified in the further global bond.

The Second Tranche of Additional Bonds on issue will be represented by a further global bond in bearer form and without Coupons deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The further global bond will be exchangeable for Bonds in definitive form only in the limited circumstances specified in the further global bond.

The Third Tranche of Additional Bonds on issue will be represented by a further global bond in bearer form and without Coupons deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The further global bond will be exchangeable for Bonds in definitive form only in the limited circumstances specified in the further global bond.

The Fourth Tranche of Additional Bonds on issue will be represented by a further global bond in bearer form and without Coupons deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The further global bond will be exchangeable for Bonds in definitive form only in the limited circumstances specified in the further global bond.

(b) *Title*

Title to the Bonds and Coupons will pass by delivery. The holder of any Bond or Coupon will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss or anything written on it) and no person will be liable for so treating the holder.

(c) *Status*

The Bonds and Coupons constitute direct, unconditional and unsubordinated obligations of the Issuer, secured in the manner provided in Condition 2, and rank *pari passu* and rateably, without any preference among themselves.

2. **Security**

The obligations of the Issuer under the Bonds and the Trust Deed are secured by a second priority security over the Pledged Shares and the other Charged Assets pursuant to the Bond Deed of Pledge.

The obligations of the Issuer under the Convertible Loan Agreement and the other Financing Agreements (as defined in the Convertible Loan Agreement) are secured by a first priority security over the Pledged Shares and the other Charged Assets pursuant to the EBRD Deed of Pledge.

The Trustee and Royal Atlantic have entered into the Share Retention Agreement pursuant to which, *inter alia*, Royal Atlantic shall not sell, or agree to sell, or otherwise dispose of or grant any interest in or over, all or any part of the shares it holds in Diall Alliance. EBRD and Royal Atlantic entered into an equivalent agreement (the "**EBRD Share Retention Agreement**") on 18 September 2009.

The Issuer, EBRD and the Trustee have entered into the Deed of Priority pursuant to which the security granted under the EBRD Deed of Pledge and the Bond Deed of Pledge (and permitted under the Share Retention Agreement and the EBRD Share Retention Agreement) will be shared as between EBRD and the Trustee and the Bondholders in respect of the obligations secured by the EBRD Deed of Pledge and the Bond Deed of Pledge in the manner described in the Deed of Priority and summarised below.

The security constituted by the Bond Deed of Pledge shall become enforceable upon the occurrence of an Event of Default which is continuing, subject as provided in the Deed of Priority.

Subject to the terms of the Deed of Priority, if the security constituted by the Bond Deed of Pledge becomes enforceable, the Trustee may at its discretion and without further notice or formality and shall, if so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) enforce all or any of such security, subject to and in the manner provided in the Trust Deed, the Bond Deed of Pledge and the Deed of Priority, and take such other action as required pursuant to the Deed of Priority, and provided that the Trustee shall not be required to take any action or step that would involve any personal liability or exposure without first being indemnified and/or secured and/or prefunded to its satisfaction.

The Deed of Priority provides that all Recoveries shall be applied in the following order:

- (a) first, in or towards *pari passu* payment of (i) all Enforcement Expenses, and (ii) all Trustee Expenses;
- (b) second, in or towards payment to the First Creditor for application towards the balance of the First Creditor Debt, up to an amount equal to the amount of the Trustee Expenses claimed by the Second Creditor;
- (c) third, in or towards payment to the First Creditor and the Second Creditor for application towards the balance of their respective Creditor Debt, in a *pro rata* proportion equal to the proportion of the then-outstanding amount of First Creditor Debt and Second Creditor Debt, respectively, to the total aggregate outstanding amount of Creditor Debt; and
- (d) fourth, in payment of the surplus (if any) to the Issuer or other person entitled to it.

3. **Definitions**

In these Conditions, unless otherwise provided:

"**Additional Bonds**" has the meaning provided in Condition 1(a).

"**Additional Interest Rate**" means 10 per cent. per annum.

"**Additional Ordinary Shares**" has the meaning provided in Condition 5(c).

"**Applicable Date**" means each Quarter Date commencing 31 December 2010 and ending on the Quarter Date immediately preceding the QIPO Effective Date in respect of a QIPO.

"**Bond Deed of Pledge**" means the Deed of Pledge dated 13 October 2010 between the Issuer and the Trustee.

"**Bondholder**" means the holder of any Bond.

"**business day**" means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place.

"**Business Day**" means a day which is a business day in both London and New York City.

"**Cash**" means cash on hand and demand deposits.

a "**Change of Control**" shall occur if an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme with regard to such acquisition (other than an Exempt Newco Scheme) and (such offer or scheme having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in any person and/or any associate of that person (as defined in Section 988(1) of the Companies Act).

"**Change of Control Notice**" has the meaning provided in Condition 5(g).

"**Change of Control Period**" means the period commencing on the occurrence of a Change of Control and ending 60 calendar days following the Change of Control or, if later, 60 calendar days following the date on which a Change of Control Notice is given to Bondholders as required by Condition 5(g).

"**Change of Control Put Date**" has the meaning provided in Condition 6(e)(i).

"**Change of Control Put Exercise Notice**" has the meaning provided in Condition 6(e)(i).

"**Closing Date**" means 13 October 2010.

"**Charged Assets**" has the meaning provided in the EBRD Deed of Pledge and the Bond Deed of Pledge.

"**Companies Act**" means the Companies Act 2006.

"**Conversion Date**" has the meaning provided in Condition 5(h).

"**Conversion Notice**" has the meaning provided in Condition 5(h).

"**Conversion Period**" has the meaning provided in Condition 5(a).

"**Conversion Price**" has the meaning provided in Condition 5(a).

"**Conversion Right**" has the meaning provided in Condition 5(a).

"Convertible Loan Agreement" means the convertible loan agreement dated 18 September 2009 between the Issuer and EBRD.

"Couponholder" means the holder of any Coupon.

"Creditor" means each of the First Creditor and the Second Creditor.

"Creditor Debt" means any First Creditor Debt or Second Creditor Debt.

"Current Market Price" means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Effective Date relating to such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
- (b) if the Ordinary Shares to be issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Effective Date relating to such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that if on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Effective Date relating to such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined by an Independent Financial Adviser.

"dealing day" means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Ordinary Shares, Securities, Spin-Off Securities options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

"Debt" means, with respect to any person, all obligations of such person, whether incurred as principal or surety and whether present, future, actual or contingent, for the payment or repayment of money, including:

- (a) any amounts payable by such person under leases or similar arrangements over their respective periods;
- (b) any credit to such person from a supplier of goods or under any instalment purchase or other similar arrangement; and
- (c) any liabilities and obligations of third parties to the extent that they are guaranteed by such person or such person has otherwise assumed or become liable for the payment of such liabilities or obligations or to the extent that they are secured by any Lien upon property owned by such person whether or not such person has assumed or become liable for the payment of such liabilities or obligations.

"Deed of Priority" means the deed of priority dated 13 October 2010 between the Issuer, the Trustee and EBRD.

"Diall Alliance" means Diall Alliance LLC, a company incorporated in the Russian Federation with registered number 1026400818168.

"Dividend" means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

- (a) where:
 - (1) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a cash Dividend of an amount equal to the greater of (i) the Fair Market Value of such cash amount and (ii) the Current Market Price of such Ordinary Shares or, as the case may be, the Fair Market Value of such other property or assets, in any such case as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued or delivered is determined; or
 - (2) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant capitalisation on the Relevant Stock Exchange or, if later, the date on which the number of Ordinary Shares to be issued or transferred and delivered is determined;
- (b) any issue of Ordinary Shares falling within Condition 5(b)(ii) shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Issuer by or on behalf of the Issuer or any of its Subsidiaries shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Issuer

or any of its Subsidiaries, the weighted average price per Ordinary Share (before expenses) on any one day (a "**Specified Share Day**") in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of an Ordinary Share on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Issuer or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of an Ordinary Share determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

- (d) if the Issuer or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Financial Adviser;
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Issuer for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than, (or in addition to the Issuer, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Issuer, and the foregoing provisions of this definition and the provisions of these Conditions shall be construed accordingly, and any such determination shall be made on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; and
- (f) a dividend or distribution that is a Spin-Off shall be deemed to be a Dividend paid or made by the Issuer.

"**EBRD**" means the European Bank for Reconstruction and Development.

"**EBRD Deed of Pledge**" means the instrument dated 18 September 2009 pursuant to which the Issuer:

- (a) pledges in favour of EBRD, 50% of the shares held by the Issuer in Royal Atlantic; and
- (b) provides undertakings in relation to share retention and a negative pledge commitment in each case to EBRD in respect of the remainder of its shares in Royal Atlantic.

"**EEA Regulated Market**" means a market as defined by Article 4.1(14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

"**Effective Date relating to such Dividend or entitlement**" means the first date on which the Ordinary Shares are traded ex- the relevant Dividend or entitlement on the Relevant Stock Exchange.

"Enforcement Expenses" means all costs, losses, liabilities and out-of-pocket expenses of or incurred by or on behalf of either Creditor under or in connection with, or in contemplation of, the enforcement of its rights in relation to, or any security securing, any Creditor Debt (including, without limitation, the security created by the Bond Deed of Pledge and the EBRD Deed of Pledge), including the fees, disbursements and other costs of any legal or financial advisors and all costs, losses, liabilities and expenses of and incidental to the appointment of any receiver or delegate of that Creditor and all outgoings paid by him, provided however that (i) any remuneration, internal management costs and any unpaid sums or liabilities which are unrelated to the enforcement of a Creditor's rights under any security securing any Creditor Debt and (ii) any costs and expenses associated with (a) any notifications or communications from the Second Creditor to the Bondholders or (b) any consents to be obtained by the Second Creditor from the Bondholders (including, in the case of (a) and (b), any printing fees or any legal, banking and other advisory fees incurred in connection therewith), shall not be considered "Enforcement Costs" for the purposes of the Deed of Priority.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"Environmental Permits" means any permit and other authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration and the filing of any notification, report or assessment required under any Environmental Law for the operation of the Issuer or any Relevant Party conducted on or from the properties owned or used by the Issuer or any Relevant Party.

"Escrow Deed" means the escrow deed dated 13 October 2010 between the Issuer and Deutsche Bank AG pursuant to which the Issuer has agreed to deposit on the Closing Date the sum of US\$45,281,000 into an escrow account with Deutsche Bank AG (the "**Escrow Account**"), and has agreed that sums may only be withdrawn from that account as provided in the escrow deed. The operation of and access to the Escrow Account shall be outside the control of the Trustee. Any moneys held in the Escrow Account shall not be subject to Security. The Trustee shall have no control over the Escrow Account and no power to hold any moneys held therein as trust monies before or after the occurrence of an Event of Default or otherwise. Bondholders shall have no recourse to the Trustee whatsoever in respect of the Escrow Deed or the Escrow Account. The Trustee shall have no liability to Bondholders or any other person in respect of the Escrow Deed, the Escrow Account, its proceeds or the terms on which moneys held in the Escrow Account are released.

"Exempt Newco Scheme" means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depository or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (1) admitted to trading on the Relevant Stock Exchange or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as the Issuer or Newco may determine.

"Extended Maturity Date" has the meaning provided in Condition 6(a)(ii).

"Extraordinary Resolution" has the meaning provided in the Trust Deed.

"Fair Market Value" means, with respect to any property on any date, the fair market value of that property as determined by an Independent Financial Adviser provided that (i) the Fair Market Value of a cash Dividend shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Securities, Spin-Off Securities, options, warrants or other rights are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Financial Adviser), the Fair Market Value of such Securities, Spin-Off Securities options, warrants or other rights shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities, Spin-Off Securities, options, warrants or other rights during the period of five dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (iv) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined by an Independent Financial Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (i) above, be translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the cash Dividend in the Relevant Currency; and in any other case, shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (i) and (ii) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit.

"Financial Debt" means, with respect to any person, any indebtedness of such person for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would in accordance with IFRS, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and

- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

"Financial Statements" means the consolidated financial statements (including balance sheet, income statement, statement of changes in equity, cash flow statement and notes, comprising a summary of significant accounting policies and other explanatory notes) of the Issuer and its Subsidiaries prepared in accordance with IFRS.

"Financial Year" means the period commencing each year on 1 January and ending on the following 31 December, or such other period as the Issuer may from time to time give notice to the Bondholders (in accordance with Condition 16) and the Trustee as the accounting year of the Issuer.

"Financing Agreements" has the meaning provided in the Convertible Loan Agreement.

"First Call Date" has the meaning provided in Condition 6(b)(i).

"First Creditor" means EBRD.

"First Creditor Debt" means all present and future moneys, debts and liabilities due, owing or incurred from time to time by the Issuer to the First Creditor under or in connection with the First Creditor Documents.

"First Creditor Documents" means the Convertible Loan Agreement, the First Creditor Share Retention Agreement and the EBRD Deed of Pledge.

"First Creditor Share Retention Agreement" means the share retention agreement dated 18 September 2009 between the First Creditor and Royal Atlantic, relating to the shares owned by Royal Atlantic in the share capital of Diall Alliance.

"Further Bonds" means any further Bonds issued pursuant to Condition 17 and consolidated and forming a single series with the then outstanding Bonds.

"Governmental Authority" means the government of any country, or of any political subdivision thereof, whether state, regional or local, and any agency, authority, branch, department, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government or any subdivision thereof (including any supra-national bodies), and all officials, agents and representatives of each of the foregoing.

"Group" means the Issuer and its Subsidiaries taken as a whole.

"IFRS" means International Financial Reporting Standards issued or adopted by the International Accounting Standards Board and consistently applied.

"Illegality Event" has the meaning provided in Condition 6(e)(ii).

"Independent Financial Adviser" means an independent financial institution of international repute appointed at its own expense by the Issuer and approved in writing by the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee (without liability for so doing) following notification to the Issuer.

"Initial Conversion Price" has the meaning provided in Condition 5(a).

"Interest Payment Date" has the meaning provided in Condition 4(e).

"Interest Rate" means 10 per cent. per annum.

"International Finance Corporation" means International Finance Corporation, a member of the World Bank Group.

"Law on Foreign Ownership Restrictions" means Russian federal law No. 57-FZ "On the procedure of making foreign investments in commercial entities of strategic significance for the national security of the Russian Federation".

"Licences" means the material certificates, licences, permits, consents and approvals from all appropriate authorities necessary for the operation of the Issuer or any Relevant Party, including, but not limited to, the Bortovoye oil and gas licence number SRT-10848NR granted on 13 January 2000 in the Saratov region of the Russian Federation to Diall Alliance together with all addenda to that licence granted on or before 28 April 2008.

"Lien" means any mortgage, pledge, charge, privilege, priority, hypothecation, encumbrance, assignment, lien, attachment, set-off or other security interest of any kind or any other agreement or arrangement having the effect of conferring security upon or with respect to, or any segregation of or other preferential arrangement with respect to, any present or future assets, revenues or rights.

"Loan" means the outstanding principal amount of the loan made available to the Issuer at any time under the Convertible Loan Agreement together with accrued but unpaid interest thereon.

"London Stock Exchange" means the London Stock Exchange plc.

"Material Adverse Effect" means:

- (a) an adverse effect on the ability of any Relevant Party to perform or comply with any of its material obligations under any Transaction Document, the Trust Deed, the Bonds or the Bond Deed of Pledge; or
- (b) a material adverse effect on:
 - (i) the ability of EBRD and/or the Trustee or the Bondholders to enforce any Security;
 - (ii) the legality, validity, enforceability and binding nature of any Transaction Document, the Trust Deed, the Bonds or the Bond Deed of Pledge or the Licences or the legal rights, remedies and priorities of EBRD and/or the Trustee or the Bondholders under any of the Transaction Documents, the Trust Deed, the Bonds or the Bond Deed of Pledge;
 - (iii) the ability of any Relevant Party to implement or operate the Project substantially in the manner contemplated by the Financing Agreements or the Licences; or
 - (iv) the business, operations or financial condition of any Relevant Party.

The Trustee shall have no duty to enquire or satisfy itself as to the existence or occurrence of an event which may have a Material Adverse Effect. When considering whether a Material Adverse Effect (or like circumstance) has arisen, the Trustee may obtain such expert advice and/or directions from Bondholders as it considers appropriate and rely thereon, without responsibility or liability to any person for any delay occasioned by so doing.

"Maturity Extension" has the meaning provided in Condition 6(a)(ii).

"Newco Scheme" means a scheme of arrangement or analogous proceeding ("**Scheme of Arrangement**") which effects the interposition of a limited liability company ("**Newco**") between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the "**Existing Shareholders**") and the Issuer; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco, are Existing Shareholders holding in the same proportions as immediately prior to completion of the

Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

"**Optional Redemption Date**" has the meaning provided in Condition 6(b).

"**Optional Redemption Notice**" has the meaning provided in Condition 6(b).

"**Ordinary Shares**" means fully paid ordinary shares in the capital of the Issuer currently with a par value of US\$0.01 each.

"**Original Maturity Date**" means 13 April 2013.

"**Parity Value**" means, in respect of any dealing day, the amount calculated as follows:

$$PV = N \times VWAP$$

where

$$PV = \text{the Parity Value}$$

N = the number of Ordinary Shares that would fall to be issued or delivered on the exercise of Conversion Rights in respect of Bonds in the aggregate principal amount of US\$100,000, assuming the Conversion Date to be such dealing day and determined as if the Conversion Price on each such dealing day were the Reference Price (adjusted *pro rata* for any adjustments to the Conversion Price made pursuant to the provisions of Condition 5(b))

VWAP = the Volume Weighted Average Price of an Ordinary Share on such dealing day (provided that if on any such dealing day the Ordinary Shares shall have been quoted cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of an Ordinary Share on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Effective Date relating to such Dividend or entitlement) translated, if not in US dollars, into US dollars at the Prevailing Rate on such dealing day.

a "**person**" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

"**Pledged Shares**" has the meaning provided in the EBRD Deed of Pledge and the Bond Deed of Pledge.

"**Presentation Date**" means a day which:

- (a) is or falls after the relevant due date for payment, but, if the due date for payment is not or was not a business day in both London and New York City, is or falls after the next following such business day; and
- (b) is a business day in the place of the specified office of the Paying and Conversion Agent at which the Bond or Coupon is presented for payment.

"Prevailing Rate" means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined.

"Project" means the development of an oil field and the production of natural gas and oil in the western part of the Bortovoye licence area, located in the Saratov region of the Russian Federation, including the construction of a gas processing plant as well as the exploration and appraisal drilling study work and the engineering and construction costs of the gas processing plant to progress the eastern part of the Bortovoye licence development to the development phase.

"Quarter Date" means 31 March, 30 June, 30 September and 31 December.

"Recoveries" means any amounts paid to, recovered or received by either Creditor from or on behalf of the Issuer as a result of, *inter alia*, the enforcement of the security conferred by the Bond Deed of Pledge or the EBRD Deed of Pledge and any insolvency or liquidation procedure in respect of the Issuer or any of its Subsidiaries.

"Reference Date" means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day.

"Relevant Currency" means sterling or, if at the relevant time or for the purposes of the relevant calculation or determination, the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time.

"Relevant Date" means, in respect of any Bond or Coupon, whichever is the later of:

- (a) the date on which payment in respect of it first becomes due; and
- (b) if any amount of the money payable is improperly withheld or refused the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given by the Issuer to the Bondholders in accordance with Condition 16 that, upon further presentation of the Bond or Coupon, where required pursuant to these Conditions, being made, such payment will be made, provided that such payment is in fact made as provided in these Conditions.

a **"Relevant Event"** shall occur if:

- (a) any event described and defined as a "Change of Control" in the Convertible Loan Agreement shall occur;
- (b) the Issuer ceases to hold directly 100 per cent. of the issued share capital of Royal Atlantic;
- (c) Royal Atlantic ceases to hold directly 100 per cent. of the issued share capital of Diall Alliance;
- (d) prior to the QIPO Effective Date in respect of a QIPO, there is no Investor Director (as defined in the Shareholders Agreement);
- (e) prior to the QIPO Effective Date in respect of a QIPO, there is no New Investor Director (as defined in the Shareholders Agreement);
- (f) prior to the QIPO Effective Date in respect of a QIPO, EBRD transfers or assigns all or any part of the Loan or any of its rights under the Convertible Loan Agreement to any other party;

- (g) prior to the QIPO Effective Date in respect of a QIPO, EBRD ceases to be a Shareholder;
- (h) prior to the QIPO Effective Date in respect of a QIPO, International Finance Corporation ceases to be a Shareholder; or
- (i) Diall Alliance may be deemed to be engaged in an activity of "strategic significance" for purposes of the Law on Foreign Ownership Restrictions.

"Relevant Event/Illegality Notice" has the meaning provided in Condition 7(j).

"Relevant Event/Illegality Period" means the period commencing on the date on which EBRD shall give an Illegality Prepayment Request or, as the case may be, on which a Relevant Event shall occur and ending 60 calendar days following such date or, if later, 60 calendar days following the date on which a Relevant Event/Illegality Notice is given to Bondholders as required by Condition 7(j).

"Relevant Event/Illegality Put Date" has the meaning provided in Condition 6(e)(ii).

"Relevant Event/Illegality Put Exercise Notice" has the meaning provided in Condition 6(e)(ii).

"Relevant Page" means the relevant page on Bloomberg or such other information service provider that displays the relevant information.

"Relevant Party" means the Issuer, Royal Atlantic and Diall Alliance.

"Relevant Stock Exchange" means the London Stock Exchange or if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or dealt in.

"Retroactive Adjustment" has the meaning provided in Condition 5(c).

"Royal Atlantic" means Royal Atlantic Energy (Cyprus) Limited, a company incorporated in Cyprus with registered number 173074.

"Scheme of Arrangement" has the meaning provided in the definition of "Newco Scheme".

"Second Creditor" means the Trustee.

"Second Creditor Debt" means all present and future moneys, debts and liabilities due, owing or incurred from time to time by the Issuer to the Second Creditor under or in connection with the Second Creditor Documents.

"Second Creditor Documents" means the Trust Deed, the Deed of Priority, the Share Retention Agreement and the Bond Deed of Pledge.

"Securities" means any securities including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer.

"Security" means the security created, expressed to be created or agreed to be created pursuant to the Security Documents to secure all amounts owing to EBRD under the Transaction Documents and/or the Trustee and the Bondholders under the Trust Deed and the Bonds.

"Security Documents" means the EBRD Deed of Pledge, the Bond Deed of Pledge and any other document entered into from time to time granting Security in favour of EBRD and/or the Trustee and the Bondholders.

"Share Retention Agreement" means the agreement dated 13 October 2010 between Royal Atlantic and the Trustee pursuant to which Royal Atlantic agrees not to effect any change in

its equity interest in, or transfer or pledge (or otherwise grant any Lien over), any of its shares in the capital of, Diall Alliance without the prior written consent of the Trustee or with the approval of an Extraordinary Resolution.

"Shareholders" means the holders of Ordinary Shares.

"Shareholders Agreement" means the agreement dated 23 September 2009 between the Issuer and the Founders, the Investors, the New Investors and the Optionholders (as referred to therein).

"Specified Date" has the meaning provided in Conditions 5(b)(vii) and (viii).

"Spin-Off" means:

- (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Issuer or any of its Subsidiaries.

"Spin-Off Securities" means equity share capital of an entity other than the Issuer or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Issuer.

"Subordinated Debt" means Debt of the Issuer which is subordinated, on terms satisfactory to the Trustee or approved by an Extraordinary Resolution, to the payment of all amounts payable by the Issuer under the Bonds and the Trust Deed.

"Subsidiary" has the meaning provided in Section 1159 of the Companies Act.

"Tax" or **"Taxes"** means any tax, royalty, stamp or other duty, assessment, levy, charge, value added tax, or impost of any nature whatsoever (including any related penalty or interest) imposed under any law.

"Tax Redemption Date" has the meaning provided in Condition 6(c).

"Tax Redemption Notice" has the meaning provided in Condition 6(c).

"Transaction Documents" means the Trust Deed, the Agency Agreement, the Bond Deed of Pledge, the Share Retention Agreement, the Escrow Deed and the Deed of Priority.

"Trustee Expenses" means all costs, losses, liabilities and expenses of or incurred by or on behalf of the Second Creditor in its role as Trustee under the Trust Deed (including any remuneration owing to the Second Creditor) and which are not Enforcement Expenses.

"UK Listing Authority" means the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000.

"Volume Weighted Average Price" means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page VAP or (in the case of a Security (other than Ordinary Shares), Spin-Off Security options, warrants or other rights) from the principal stock exchange or securities market on which such Securities, Spin-Off Securities options, warrants or other rights are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined to be appropriate by an Independent Financial Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security, a Spin-Off Security option, warrant

or other right, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined.

"£" and "sterling" means the lawful currency for the time being of the United Kingdom.

"US dollars" and "US\$" means the lawful currency of the United States of America.

References to "ordinary share capital" has the meaning provided in Section 1119 of the Corporation Tax Act 2010 and "equity share capital" has the meaning provided in Section 548 of the Companies Act.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders "as a class" or "by way of rights" shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Conditions 5(a), (b), (c), (h) and (i) and Condition 10 only, (a) references to the "issue" of Ordinary Shares or Ordinary Shares being "issued" shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any of its Subsidiaries, and (b) Ordinary Shares held by or on behalf of the Issuer or any of its respective Subsidiaries (and which, in the case of Condition 5(b)(iv) and (vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as "in issue" or "issued" or entitled to receive the relevant Dividend, right or other entitlement.

4. Interest

(a) Interest Rate

The Bonds bear interest from (and including) the Closing Date at the Interest Rate, calculated by reference to their principal amount. Interest shall be payable quarterly in arrear in equal instalments on each Interest Payment Date.

The amount of interest (including any Additional Interest) in respect of any Interest Period shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the actual number of days elapsed during that month.

Interest accrued pursuant to this Condition 4(a) shall be payable in cash in US dollars.

(b) Additional Interest Rate

If the QIPO Effective Date shall not have occurred on or prior to 13 October 2011 (the "PIK Interest Commencement Date") then the Bonds will (in addition to continuing to bear interest at the Interest Rate as provided in Condition 4(a)), bear additional interest ("Additional Interest") at the Additional Interest Rate, calculated by reference to their principal amount, from and including the PIK Interest Commencement Date up

to the Interest Payment Date falling on or immediately following the QIPO Effective Date.

Additional Interest accrued on the Bonds in respect of each relevant Interest Period ending on a PIK Interest Payment Date shall, unless such PIK Interest Payment Date is also the due date for redemption or repayment of the relevant Bonds, be satisfied upon presentation and surrender of the relevant Coupon(s) by the issuance of Additional Bonds to the holders of the Bonds on the relevant PIK Interest Payment Date in an aggregate principal amount equal to the Additional Interest accrued on such Bonds in respect of the Interest Period ending on such PIK Interest Payment Date.

Where Bonds are to be redeemed or repaid pursuant to these Conditions, any Additional Interest accrued on such Bonds from the Interest Payment Date immediately preceding the due date for redemption or repayment up to such due date for redemption or repayment shall be payable in cash in US dollars.

The aggregate principal amount of Additional Bonds to be issued to each holder on a PIK Interest Payment Date will be determined by reference to the aggregate principal amount of Bonds held by such holder on the relevant PIK Interest Payment Date, provided that for so long as the Bonds are represented by the Global Bond, the aggregate principal amount of Additional Bonds to be issued on a PIK Interest Payment Date shall be determined by reference to the aggregate principal amount of Bonds represented by the Global Bond.

Fractions of an Additional Bond will not be issued and any Additional Bonds to be issued pursuant to these Conditions, either to a particular holder in circumstances where the Bonds are not represented by the Global Bond or in respect of the Global Bond where the Bonds are represented by the Global Bond, shall (if necessary) be rounded down to the nearest whole number of Additional Bonds.

Where the Bonds are represented by the Global Bond, any Additional Bonds will be represented by a further global bond in bearer form and without Coupons which shall be delivered to a common depository for Euroclear and Clearstream, Luxembourg, and references in these Conditions to the Global Bond shall be deemed to include any and all such further global bonds. Where the Bonds are not represented by the Global Bond, any Additional Bonds to be issued to a holder will be delivered to such holder upon presentation by such Bondholder of the Bonds held by it on the relevant PIK Interest Payment Date at the specified office of any Paying and Conversion Agent at any time on or after the relevant PIK Interest Payment Date, provided that such date of presentation is a business day in the place of the specified office of the relevant Paying and Conversion Agent.

(c) Accrual of Interest

Each Bond will cease to accrue interest pursuant to Condition 4(a) and, if applicable, 4(b) (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Closing Date (subject in any such case as provided in Condition 5(j)) or (ii) where such Bond is redeemed or repaid pursuant to Condition 6 or Condition 9, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused, in which event such interest will continue to accrue at the Interest Rate and, if applicable, the Additional Interest Rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder; and (b) the day falling seven days after the Trustee or the Principal Paying and Conversion Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest shall accrue on the Bonds at the Additional Interest Rate pursuant to Condition 4(b), such interest will cease to accrue on the relevant Bonds (in addition to

the circumstances provided in Condition 4(c)(i) or (ii), as applicable) from the PIK Interest Payment Date falling on or immediately following the QIPO Effective Date.

(d) *Notice*

The Issuer shall notify Bondholders in accordance with Condition 16 and the Trustee by not later than five London business days prior to each PIK Interest Payment Date of the aggregate principal amount of Additional Bonds to be issued on such PIK Interest Payment Date and of the aggregate principal amount of Bonds, as increased by such Additional Bonds.

(e) *Definitions*

"Interest Payment Date" means:

- (i) each Quarterly Interest Date in each year (commencing with the Quarterly Interest Date falling on 13 January 2011 and ending on the Original Maturity Date or, if there is a Maturity Extension and the Extended Maturity Date does not fall on a Quarterly Interest Date, ending on the Quarterly Interest Date immediately preceding the Extended Maturity Date); and
- (ii) if there is a Maturity Extension, the Extended Maturity Date.

"Interest Period" means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"PIK Interest Payment Date" means, if the QIPO Effective Date shall not have occurred on or prior to the PIK Interest Commencement Date, each Interest Payment Date falling after the PIK Interest Commencement Date up to and including the Interest Payment Date falling on or immediately following the QIPO Effective Date.

"Quarterly Interest Date" means 13 January, 13 April, 13 July and 13 October in each year.

References in these Conditions to **"interest"** shall include interest accrued at the Interest Rate and, where applicable, interest accrued at the Additional Interest Rate.

5. **Conditional Conversion Rights**

(a) *Conversion Period and Conversion Price*

Subject to and as provided in these Conditions, if the QIPO Effective Date in respect of a QIPO shall occur, then each Bond shall be convertible at the option of the holder thereof into fully-paid Ordinary Shares at the prevailing conversion price (the **"Conversion Price"**) at any time during the Conversion Period (a **"Conversion Right"**).

The number of Ordinary Shares to be issued or transferred and delivered on exercise of a Conversion Right shall be determined by dividing the principal amount of the relevant Bonds to be converted by the Conversion Price (determined as at the relevant Conversion Date) in effect on the relevant Conversion Date.

The initial Conversion Price (the **"Initial Conversion Price"**) shall be determined as follows:

- (i) if the QIPO Effective Date shall occur on or before 13 October 2011, 100 per cent. of the Reference Price;
- (ii) if the QIPO Effective Date shall occur after 13 October 2011 and on or before 13 April 2012, 95 per cent. of the Reference Price;

- (iii) if the QIPO Effective Date shall occur after 13 April 2012 and on or before 13 October 2012, 92.5 per cent. of the Reference Price; and
- (iv) if the QIPO Effective Date shall occur after 13 October 2012, 90 per cent. of the Reference Price,

in each case rounded (if necessary) to four decimal places with US\$0.00005 being rounded up and provided that the Initial Conversion Price shall not be less than the lower of US\$3.05 and the Reference Price.

The Conversion Price is subject to adjustment in the circumstances described in Condition 5(b).

The Issuer shall notify Bondholders in accordance with Condition 16 and the Trustee as soon as reasonably practicable of the QIPO Effective Date. Such notice shall also specify the commencement of the Conversion Period, the Reference Price, the Initial Conversion Price, the Gross Proceeds in respect of the QIPO and the Free Float Value on the QIPO Effective Date.

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond, together with a duly completed Conversion Notice, to the specified office of any Paying and Conversion Agent in accordance with Condition 5(h) whereupon the Issuer shall (subject as provided in these Conditions) procure the delivery, to or as directed by the relevant Bondholder, of Ordinary Shares credited as paid up in full as provided in this Condition 5.

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 9 or (ii) in respect of a Bond in respect of which the relevant Bondholder has exercised its right to require the Issuer to redeem that Bond pursuant to Condition 6(e).

Conversion Rights may only be exercised by a holder in respect of an aggregate principal amount of Bonds of not less than US\$100,000.

Fractions of Ordinary Shares will not be issued or delivered on exercise of Conversion Rights or pursuant to Condition 5(c) and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be delivered on conversion or pursuant to Condition 5(c) are to be registered in the same name, the number of such Ordinary Shares to be delivered in respect thereof shall be calculated on the basis of the total principal amount of such Bonds (determined as at the relevant Conversion Date) being so converted and rounded down to the nearest whole number of Ordinary Shares.

The Issuer will procure that Ordinary Shares to be issued or delivered on exercise of Conversion Rights will be issued or delivered to the holder of the Bonds completing the relevant Conversion Notice or his nominee. Such Ordinary Shares will be deemed to be issued or delivered as of the relevant Conversion Date. Any Additional Ordinary Shares to be issued or transferred and delivered pursuant to Condition 5(c) will be deemed to be issued or delivered as of the relevant Reference Date.

"Conversion Period" means the period commencing 7 days after the QIPO Effective Date and ending on the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling 7 days prior to the Original Maturity Date, or if there is a Maturity Extension, the Extended Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 6(b) or 6(c), then up to (and including) the close of business (at the place aforesaid) on the 7th day before the date fixed for redemption thereof pursuant to Condition 6(b) or 6(c) unless there shall be a default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right shall extend up to (and including) the close of business (at the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given to Bondholders in accordance with Condition 16 or, if earlier, the Original

Maturity Date, or if there is a Maturity Extension, the Extended Maturity Date or, if not a London business day, the immediately preceding London business day; provided that, in each case, if such final date for the exercise of Conversion Rights is not a business day at the place aforesaid, then the period for exercise of Conversion Rights by Bondholders shall end on the immediately preceding business day at the place aforesaid.

"Free Float" means all issued and outstanding Ordinary Shares on the QIPO Effective Date less the aggregate of those Ordinary Shares that, as at the QIPO Effective Date, are held by any person or persons and/or any associate (as defined in Section 988(1) of the Companies Act) of such person or persons holding more than 5 per cent. of such number of Ordinary Shares (other than, in any such case, Ordinary Shares held by any unit trust, investment trust or other collective investment undertaking or entity).

"Free Float Value" means the amount determined in accordance with the following formula:

$A \times RP$

where:

A means the number of Ordinary Shares comprising the Free Float on the QIPO Effective Date.

RP means the Reference Price in relation to the QIPO.

"Gross Proceeds" means, in respect of a QIPO, the aggregate gross offer or sale price before deduction of or in respect of commissions, fees and expenses and disregarding any greenshoe or over-allotment or other option to the extent not exercised prior to the relevant Pricing Date, and disregarding any discount, rebate, or other allowance to retail investors or employees or any other class of investor.

"Pricing Date" means the date on which the offer or sale price of the Ordinary Shares in respect of the QIPO is first publicly announced by the Issuer.

"QIPO" means an offering and sale to investors of Ordinary Shares by the Issuer and/or any one or more Shareholders for subscription or sale for cash, and if and to the extent that the issued and outstanding Ordinary Shares are not already admitted to a premium listing on the Official List of the UK Listing Authority and admitted to trading on the EEA Regulated Market of the London Stock Exchange, accompanied by the grant of such listing and admission to trading, and which complies with the following conditions (or such other conditions as may be approved by an Extraordinary Resolution or the Trustee, at the request of holders of at least one-quarter in principal amount of the Bonds then outstanding provided that it is indemnified and/or secured and/or prefunded to its satisfaction in respect thereof, within 12 months after the date of the admission to trading of any Ordinary Shares offered and sold as aforesaid which would, but for conditions (ii) or (iii) below, otherwise constitute a QIPO):

- (i) the QIPO Effective Date occurs prior to the QIPO Cut-off Date;
- (ii) the Gross Proceeds receivable by the Issuer (translated to the extent not in US dollars, into US dollars at the Prevailing Rate as at the Pricing Date) of the offering and sale are not less than US\$100,000,000;
- (iii) the Free Float Value on the QIPO Effective Date is not less than US\$150,000,000.

"QIPO Cut-off Date" means the date falling 14 London business days prior to the Original Maturity Date.

"QIPO Effective Date" means, in the case of a QIPO, the date on which the Ordinary Shares the subject of the QIPO are admitted to a premium listing on the Official List of the UK Listing Authority and admitted to trading on the EEA Regulated Market of the London Stock Exchange.

"Reference Price" means the price at which the Ordinary Shares are offered in the QIPO, before deduction of or in respect of any discount, rebate or other allowance to reach investors, employees or any other class of investor and, if not in US dollars, translated into US dollars at the Prevailing Rate as at the relevant Pricing Date (such translation being rounded, if necessary to four decimal places, with US\$0.00005 being rounded up).

(b) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) (A) If and whenever the Issuer shall pay or make any Dividend to Shareholders, the Conversion Price shall be adjusted by multiplying

the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
- B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

"Effective Date" means, in respect of this sub-paragraph (b)(iii)(A), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buy back is made or, in the case of a Spin-Off, on the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

- (B) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the Effective Date.
- (C) For the purposes of the above, Fair Market Value shall (subject as otherwise provided above or in paragraph (a) of the definition of "Dividend" or in the definition of "Fair Market Value") be determined as at the Effective Date.
- (D) In making any calculations for the purposes of this Condition 5(b)(iii), such adjustments (if any) shall be made as an Independent Financial Adviser may determine in good faith to be appropriate to reflect any consolidation or sub-division of any Ordinary Shares or the issue of Ordinary Shares by way of capitalisation of profits or reserves (or any like or similar event) or any increase in the number of Ordinary Shares in issue in relation to the fiscal year of the Issuer in question.
- (iv) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase Ordinary Shares, or any Securities which by their terms of issue

carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the Effective Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share on the Effective Date; and
- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (b)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (v) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
- B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (b)(v), the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

- (vi) If and whenever the Issuer shall issue (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or if and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall issue or grant (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Bonds, which term shall for this purpose include any Further Bonds and any Additional Bonds), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share on the date of such first public announcement; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (b)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

- (vii) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity (otherwise than as mentioned in sub-paragraphs (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds which term shall for this purpose exclude any Further Bonds and any Additional Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by the Issuer or any Subsidiary of the Issuer (or at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share on the date of such first public announcement; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation;

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this sub-paragraph (b)(vii), the "**Specified Date**") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided), then for the purposes of this sub-paragraph (b)(vii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (b)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

- (viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds, which term shall for this purpose include any Further Bonds and any Additional Bonds) as are mentioned in sub-paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the dealing day immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Issuer or any Subsidiary of the Issuer (or at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share on the date of such first public announcement or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Financial Adviser shall consider appropriate for any previous adjustment under this sub-paragraph (b)(viii) or sub-paragraph (b)(vii) above;

provided that if at the time of such modification (as used in this sub-paragraph (b)(viii), the "**Specified Date**") such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then for the purposes of this sub-paragraph (b)(viii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

"**Effective Date**" means, in respect of this sub-paragraph (b)(viii), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- (ix) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under sub-paragraphs (b)(ii), (b)(iii), (b)(iv), (b)(v), (b)(vi) or (b)(vii) above or (b)(x) below (or, where applicable, would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant day)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date;
and
- B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

"Effective Date" means, in respect of this sub-paragraph (b)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

- (x) If a Change of Control shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Change of Control Period, the Conversion Price shall be adjusted by dividing the Conversion Price in effect immediately prior to such Change of Control by a figure calculated in accordance with the following formula and subsequent proviso set out below:

$$A \times \frac{C}{B}$$

where:

- A is the average of the Bond Price, expressed as a percentage of the principal amount of a Bond, on each dealing day in the Calculation Period;
- B is the average of the Volume Weighted Average Price of an Ordinary Share on each dealing day in the Calculation Period, translated, if not expressed in US dollars, into US dollars at the Prevailing Rate on such dealing day; and
- C is the average of the Conversion Price in effect (or deemed to be in effect) on each dealing day in the Calculation Period,

provided that no increase of the Conversion Price shall be made pursuant to this Condition 5(b)(x) and provided that the Conversion Price, as so adjusted, shall also be subject to any subsequent adjustment required to be made pursuant to the foregoing provisions of this Condition 5(b), following the occurrence of the Change of Control.

"Bond Price" means, in respect of any dealing day, the average of the midpoint of the bid/ask prices per Bond as appearing on Bloomberg under page ALLQ (of if such page is not available, such other screen based page that provides such information) as at or about 19.00 (London time) on such dealing day that are determined by Deutsche Bank AG or any of its affiliates in good faith to reflect "live" market prices, or if no such prices appear, the fair market value of such Bond as determined by Deutsche Bank AG or any of its affiliates in good faith;

"Calculation Period" means a period of 15 consecutive dealing days ending on the fifth dealing day prior to the Commencement Date;

"Commencement Date" means the commencement of an offer period (as determined in accordance with the Takeover Code and being an offer period in respect of which or in relation to which a Change of Control occurs, provided that if the Commencement Date would otherwise have occurred less than 90 days after the end of a previous offer period (as determined in accordance with

the Takeover Code), then the Commencement Date shall be the commencement of such previous offer period (determined as above); and

"**Takeover Code**" means the City Code on Takeovers and Mergers issued by the United Kingdom Panel on Takeovers and Mergers.

- (xi) If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this Condition 5(b) (even if the relevant circumstance is specifically excluded from the operation of sub-paragraphs (b)(i) to (x) above), the Issuer shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (b)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this Condition 5(b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result; and
- (b) such modification shall be made to the operation of these Conditions as may be advised by an Independent Financial Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to sub-paragraphs (b)(iv), (b)(vi), (b)(vii) and (b)(viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such

options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of first public announcement as referred to in paragraph (b)(vi), (b)(vii) or (b)(viii), as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (a) above) or the relevant date of first public announcement (in the case of (b) above);
- (d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity.

(c) *Retroactive Adjustments*

If the Conversion Date in relation to the conversion of any Bond shall be after the record date in respect of any consolidation, reclassification or sub-division as is mentioned in Condition 5(b)(i), or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 5(b)(ii), (iii) (iv), (v) or (ix), or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in Condition 5(b)(vi) and (vii) or of the terms of any such modification as is mentioned in Condition 5(b)(viii), but before the relevant adjustment to the Conversion Price becomes effective under Condition 5(b) (such adjustment, a "**Retroactive Adjustment**"), then the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or transferred and delivered to the converting Bondholder, in accordance with the instructions contained in the Conversion Notice, such additional number of Ordinary Shares (if any) (the "**Additional Ordinary Shares**") as, together with the Ordinary Shares issued or to be transferred and delivered on conversion of the relevant Bonds (together with any fraction of an Ordinary Share not so issued or delivered), is equal to the number of Ordinary Shares which would have been required to be issued or delivered on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date.

(d) *Decision of an Independent Financial Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following

consultation between the Issuer and an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect thereof shall be conclusive and binding on the Issuer, the Bondholders and the Trustee, save in the case of manifest error.

(e) *Share Option Schemes, Dividend Reinvestment Plans*

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its Subsidiaries or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme.

(f) *Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment, the resultant Conversion Price, if not an integral multiple of US\$0.01, shall be rounded down to the nearest whole multiple of US\$0.01. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to Bondholders in accordance with Condition 16 and to the Trustee and the Paying and Conversion Agents as soon as reasonably practicable after the determination thereof.

The Conversion Price shall not in any event be reduced to below the nominal value of the Ordinary Shares. The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Conversion Price to below such nominal value or any minimum level permitted by applicable laws or regulations.

(g) *Notice of Change of Control*

Within 5 calendar days following the occurrence of a Change of Control, the Issuer shall give notice thereof to the Trustee and the Paying and Conversion Agents and to the Bondholders in accordance with Condition 16 (a "**Change of Control Notice**"). The Change of Control Notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 6(e)(i).

The Change of Control Notice shall also specify:

- (i) all information material to Bondholders concerning the Change of Control;
- (ii) the Conversion Price immediately prior to the occurrence of the Change of Control and the Conversion Price applicable pursuant to Condition 5(b)(x) during the Change of Control Period on the basis of the Conversion Price in effect immediately prior to the occurrence of the Change of Control;
- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of the Change of Control Notice;

- (iv) the last day of the Change of Control Period;
- (v) the Change of Control Put Date; and
- (vi) such other information relating to the Change of Control as the Trustee may require.

The Trustee shall not be required to monitor or take any steps to ascertain whether a Change of Control or any event which could lead to a Change of Control has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

(h) Procedure for exercise of Conversion Rights

Conversion Rights may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bonds to the specified office of any Paying and Conversion Agent, during its usual business hours, accompanied by a duly completed and signed notice of conversion (a "**Conversion Notice**") in the form (for the time being current) obtainable from any Paying and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If such delivery is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Any determination as to whether a Conversion Notice has been duly completed and properly delivered shall be made by the relevant Paying and Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Trustee, the Paying and Conversion Agents and the relevant Bondholder.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the "**Conversion Date**") shall be the business day in London immediately following the date of the delivery of the relevant Bond and the Conversion Notice as provided in this Condition 5(h) and, if applicable, the making of any payment to be made as provided below.

Where Conversion Rights shall have been exercised in respect of any Bonds, all Coupons relating to such Bonds in respect of Interest Payment Dates falling on or after the relevant Conversion Date (whether or not attached to the relevant Bond) shall become void and no payment shall be made in respect of them.

A Bondholder exercising Conversion Rights must pay directly to the relevant authorities any capital, stamp, issue and registration and transfer taxes and duties arising on conversion (other than any capital, stamp, issue, registration and transfer taxes and duties payable in the United Kingdom in respect of the issue or transfer and delivery of any Ordinary Shares in respect of such exercise (including any Additional Ordinary Shares), which shall be paid by the Issuer). If the Issuer shall fail to pay any taxes and capital, stamp, issue and registration and transfer taxes and duties payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

The Trustee shall not be responsible for determining whether any such taxes or capital, stamp, issue and registration and transfer taxes and duties are payable or the amount thereof and it shall not be responsible or liable for any failure by the Issuer to pay such taxes or capital, stamp, issue and registration and transfer taxes and duties.

Such Bondholder must also pay all, if any, taxes imposed on it and arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with the exercise of Conversion Rights by it.

The Ordinary Shares will not be available for issue (i) to, or to a nominee or agent for, Euroclear Bank S.A./N.V. or Clearstream Banking, *société anonyme* or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the "**abolition day**" as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom.

Ordinary Shares to be delivered on exercise of Conversion Rights (including any Additional Shares) will be delivered by or on behalf of the Issuer in uncertificated form through the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, unless at the relevant time the Ordinary Shares are not a participating security in CREST. Where Ordinary Shares are to be delivered through CREST, they will be delivered by or on behalf of the Issuer to the account specified by the relevant Bondholder in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Ordinary Shares, not later than seven London business days following the Reference Date). Where Ordinary Shares are to be delivered in certificated form, a certificate in respect thereof will be dispatched by mail free of charge (but uninsured and at the risk of the recipient) to the relevant Bondholder or as it may direct in the relevant Conversion Notice within 28 days following the relevant Conversion Date or, as the case may be, the Reference Date.

(i) *Ordinary Shares*

- (i) Ordinary Shares issued or transferred and delivered on exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or, as the case may be, the relevant Reference Date.
- (ii) Save as provided in Condition 5(j), no payment or adjustment shall be made on exercise of Conversion Rights for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

(j) *Interest on Conversion*

If any notice requiring the redemption of the Bonds is given pursuant to Condition 6(b) on or after the fifteenth London business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) in respect of any Dividend or distribution payable in respect of the Ordinary Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue at the Interest Rate and, where applicable, the Additional Interest Rate on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date,

from the Closing Date) to but excluding such Conversion Date. The Issuer shall pay any such interest by not later than 14 days after the relevant Conversion Date by transfer to a sterling account with a bank in London in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(k) *Purchase or Redemption of Ordinary Shares*

The Issuer or any Subsidiary of the Issuer may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Issuer (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Bondholders or Couponholders.

(l) *No Duty to Monitor*

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists or may happen or exist and which requires or may require an adjustment to be made to the Conversion Price and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so, nor shall the Trustee be responsible or liable to any person for any determination of whether or not an adjustment to the Conversion Price is required or should be made nor as to the determination or calculation of any such adjustment.

6. **Redemption and Purchase**

(a) *Final Redemption*

- (i) Unless previously purchased and cancelled, redeemed or converted as herein provided and subject as provided in Condition 6(a)(ii), the Bonds will be redeemed on the Original Maturity Date at their principal amount as at such date.
- (ii) If the QIPO Effective Date in respect of a QIPO shall occur after 13 April 2012 but on or prior to the QIPO Cut-off Date, then the maturity of the Bonds shall be extended (a "**Maturity Extension**") and unless previously purchased and cancelled, redeemed or converted as provided herein will be redeemed on the date falling 12 months after the QIPO Effective Date (the "**Extended Maturity Date**") at their principal amount as at such date.
- (iii) The Bonds may only be redeemed at the option of the Issuer prior to the Original Maturity Date or, as the case may be, the Extended Maturity Date in accordance with Condition 6(b) or 6(c).

(b) *Redemption at the Option of the Issuer*

On giving not less than 45 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Bondholders in accordance with Condition 16, the Issuer may redeem all but not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount as at such date, together with accrued but unpaid interest to such date:

- (i) at any time on or after the date falling 180 days after the QIPO Effective Date (the "**First Call Date**"), if the Parity Value on each of at least 20 dealing days in any period of 30 consecutive dealing days ending not earlier than 7 days prior to the giving of the relevant Optional Redemption Notice, shall have exceeded US\$150,000 on such dealing day; or
- (ii) at any time after the First Call Date if prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any Further Bonds and any Additional Bonds).

(c) *Redemption for Taxation Reasons*

At any time after the Bonds are admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange the Issuer may, having given not less than 45 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders redeem (subject to the second following paragraph) all but not some only of the Bonds for the time being outstanding on the date (the "**Tax Redemption Date**") specified in the Tax Redemption Notice at their principal amount as at such date, together with accrued but unpaid interest to such date, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer has or will become obliged to pay additional amounts in respect of payments of interest on the Bonds pursuant to Condition 8 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the 11 October 2010, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred and that the Issuer has or will be obliged to pay such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective) and the Trustee shall accept without any liability for so doing such certificate and opinion as sufficient evidence of the matters set out in (i) and (ii) above in which event it shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date the Issuer shall (subject to the next following paragraph) redeem the Bonds at their principal amount as at the Tax Redemption Date, together with accrued interest to such date.

If the Issuer gives a Tax Redemption Notice, each Bondholder will have the right to elect that his Bonds shall not be redeemed and that the provisions of Condition 8 shall not apply in respect of any payment of interest at the Interest Rate to be made on such Bonds which falls due after the relevant Tax Redemption Date, whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 8 and payment of all amounts of such interest on such Bonds shall be made subject to the deduction or withholding of any United Kingdom taxation required to be withheld or deducted. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying and Conversion Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying and Conversion Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(d) *Optional Redemption and Tax Redemption Notices*

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Date, which shall be a London and New York City business day, (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Notice; (iii) the last day on which Conversion Rights may be exercised by Bondholders; and (iv) if the Issuer is electing to make payment in sterling pursuant to Condition 6(f), that such election is being made.

(e) *Redemption at the Option of Bondholders*

(i) *Upon a Change of Control*

If, a Change of Control shall occur, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Change of Control Put Date at its principal amount as at such date, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Bond must deliver such Bond, together with all Coupons relating to it which mature after the Change of Control Put Date, to the specified office of any Paying and Conversion Agent, together with a duly completed and signed notice of exercise in the form for the time being current obtainable from the specified office of any Paying and Conversion Agent (a "**Change of Control Put Exercise Notice**"), at any time during the Change of Control Period. The "**Change of Control Put Date**" shall be the fourteenth London business day after the expiry of the Change of Control Period.

Payment in respect of any such Bond shall be made by transfer to a US dollar account with a bank in New York City as specified by the relevant Bondholder in the relevant Change of Control Put Exercise Notice.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

(ii) *Upon a Relevant Event or Repayment of Loan on Illegality*

If:

- (a) it is or becomes unlawful in any jurisdiction for EBRD to make or maintain the Loan or perform any of its obligations under the Convertible Loan Agreement or for any participant (as defined in the Convertible Loan Agreement) to maintain or fund its Participation (defined as aforesaid) (an "**Illegality Event**") and EBRD shall request (an "**Illegality Prepayment Request**") the Issuer to prepay all or part of the Loan; or
- (b) a Relevant Event shall occur,

then the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Relevant Event/Illegality Put Date at its principal amount as at such date, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Bond must deliver such Bond, together with all Coupons relating to it which mature after the Relevant Event/Illegality Put Date, to a specified office of any paying and conversion agent, together with a duly completed and signed notice of exercise in the form for the time being current, obtainable from the specified office of any paying and conversion agent (a "**Relevant Event/Illegality Put Exercise Notice**"), at any time during the Relevant Event/Illegality Period. The "**Relevant Event/Illegality Put Date**" shall be the 14th London business day after the expiry of the Relevant Event/Illegality Period.

Payment in respect of any such Bond shall be made by transfer to a US dollar account with a bank in New York City as specified by the relevant Bondholder in the Relevant Event/Illegality Put Exercise Notice.

A Relevant Event/Illegality Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Relevant Event/Illegality Put Exercise Notices delivered as aforesaid on the Relevant Event/Illegality Put Date.

(iii) *Redemption on a Maturity Extension*

If there shall be a Maturity Extension, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Original Maturity Date at its principal amount as at such date. To exercise such right, the holder of the relevant Bond must deliver such Bond, together with all Coupons relating to it which mature after the Original Maturity Date, to the specified office of any Paying and Conversion Agent, together with a duly completed and signed notice of exercise in the form for the time being current obtainable from the specified office of any Paying and Conversion Agent (the "**Optional Put Exercise Notice**") not less than five London and New York City business days prior to the Original Maturity Date.

Payment in respect of any such Bond shall be made by transfer to a US dollar account with a bank in New York City as specified by the relevant Bondholder in the relevant Optional Put Exercise Notice.

An Optional Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Optional Put Exercise Notices delivered as aforesaid on the Original Maturity Date.

(f) *Issuer option to redeem in sterling*

The amount (including accrued interest) to be paid by the Issuer (the "**Redemption Amount**") on the due date for redemption of the Bonds ("**Redemption Date**") in accordance with Condition 6(a) will be payable in US dollars unless the Issuer elects to make payment in sterling, in which case the Issuer shall give not less than 20 nor more than 60 days notice prior to the Original Maturity Date or, as the case may be, the Extended Maturity Date to the Trustee and the Principal Paying and Conversion Agent and to the Bondholders in accordance with Condition 16.

The sterling amount payable shall in respect of each Bond be calculated by multiplying the Redemption Amount in US dollars by 1.005 and converting such US dollars amount into sterling at the Prevailing Rate on the second London business day prior to the relevant Redemption Date and rounding the resulting figure, if necessary, to the nearest £0.01, with £0.005 being rounded upwards.

(g) *Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or any Subsidiary of the Issuer may at any time purchase any Bonds (provided that all unmatured Coupons relating to them are purchased therewith or attached thereto) in the open market or otherwise at any price.

(h) *Cancellation*

All Bonds which are redeemed or in respect of which Conversion Rights are exercised will be cancelled (together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds) and may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries shall be surrendered to the Principal Paying and Conversion Agent for cancellation and may not be reissued or re-sold.

(i) *Multiple Notices*

If more than one notice of redemption is given pursuant to this Condition 6, the first of such notices to be given shall prevail.

7. **Payments**

(a) *Principal*

Payment in respect of the Bonds (including accrued interest, other than due on an Interest Payment Date) will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Bond, at the specified office of any Paying and Conversion Agent.

(b) *Interest and other amounts*

(i) Payments of interest due on an Interest Payment Date will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Coupons, at the specified office of any of the Paying and Conversion Agents.

(ii) Payments of all amounts other than as provided in Condition 7(a) and (b)(i) will be made as provided in these Conditions.

(c) *Coupons*

Upon the due date for redemption of any Bond, unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them.

(d) *Payments*

Each payment in respect of the Bonds pursuant to Condition 7(a) and (b)(i) will be made by transfer to a US dollar account maintained by the payee with a bank in New York City or, if the Issuer elects to make payment in sterling pursuant to Conditions 6(f), by transfer to a sterling account maintained by the payee with a bank in London.

(e) *Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to Condition 8.

(f) *Presentation Date*

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if the due date for payment is not a Presentation Date or if the relevant Bond or Coupon is presented for payment after the due date.

(g) *Paying and Conversion Agents, etc.*

The initial Paying and Conversion Agents and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying and Conversion Agent and appoint additional or other Paying and Conversion Agents, provided that it will (i) maintain a Principal Paying and Conversion Agent and (ii) maintain a Paying and Conversion Agent (which may be the Principal Paying and Conversion Agent) with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any change in the Paying and Conversion Agents or their specified offices will promptly be given by the Issuer to the Bondholders in accordance with Condition 16.

(h) *No Charges*

None of the Paying and Conversion Agents shall make or impose on a Bondholder any charge or commission in relation to any payment or conversion in respect of the Bonds.

(i) *Fractions*

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

(j) *Notice of Relevant Event or Repayment of Loan on Illegality*

Within five calendar days following an Illegality Prepayment Request or, as the case may be, following the occurrence of a Relevant Event, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 16 (a "**Relevant Event/Illegality Notice**"). The Relevant Event/Illegality Notice shall contain a statement informing Bondholders of their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 6(e) (ii) and, if given after the QIPO Effective Date, of their entitlement to exercise their Conversion Rights as provided in these Conditions.

The Relevant Event/Illegality Notice should also specify:

- (i) all information material to Bondholders concerning the Relevant Event or Illegality Event, as the case may be;
- (ii) (where applicable) the Conversion Price immediately prior to the occurrence of the Relevant Event or Illegality Event, as the case may be;
- (iii) (where applicable) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of the Relevant Event/Illegality Notice;
- (iv) the last day of the Relevant Event/Illegality Period;
- (v) the Relevant Event/Illegality Put Date; and
- (vi) such other information relating to the Relevant Event or Illegality Event, as the case may be as the Trustee may require.

The Trustee shall not be required to monitor or take any steps to ascertain whether a Relevant Event or Illegality Event or any event which could lead to a Relevant Event or Illegality Event has occurred or may occur or to ascertain whether an Illegality Prepayment Request has been given or to ascertain the accuracy or completeness of the content of any Relevant Event/Illegality Notice and shall not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

8. **Taxation**

All payments made by or on behalf of the Issuer in respect of the Bonds and Coupons and all issues of Additional Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required to be made by law.

In the event that any such withholding or deduction is required to be made, the Issuer will pay such additional amounts or, in the case of an issue of Additional Bonds, issue such further Additional Bonds as will result in the receipt by the Bondholders of the amounts or, as the case may be, the number of Additional Bonds which would otherwise have been receivable

had no such withholding or deduction been required, except that, so long as the Bonds are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange or are listed on the Luxembourg Stock Exchange, no such additional amount shall be payable or, as the case may be, no such further Additional Bonds will be issued in respect of interest on any Bond or Coupon:

- (a) presented for payment by or on behalf of a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom otherwise than merely by holding the Bond or Coupon or by the receipt of amounts or, as the case may be, Additional Bonds in respect of the Bond or Coupon; or
- (b) if such Bond or Coupon is surrendered more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amount or, as the case may be, such further Additional Bonds on surrendering the relevant Bond or Coupon for payment on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying and Conversion Agent in a Member State of the European Union.

References in these Conditions to the principal amount and/or interest and/or any other amounts payable in respect of the Bonds and/or Additional Bonds to be delivered shall be deemed also to refer to any additional amounts which may be payable or, as the case may be, such further Additional Bonds which may be required to be issued under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. **Events of Default**

If any of the following events (each an "**Event of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution and provided in each case that it is indemnified and/or secured and/or prefunded to its satisfaction shall, give notice to the Issuer at its registered office that the Bonds are, and they shall accordingly immediately become due and repayable at their principal amount as at such date together with accrued interest (if any) to the date of payment:

- (a) **Payments.** the Issuer fails to pay when due any principal of, or interest on, or any other amount payable in respect of, the Bonds or any of them when due and such failure continues for a period of seven days in the case of principal and 14 days in the case of interest and any other amount payable in respect of the Bonds; or
- (b) **Conversion.** the Issuer fails to deliver Ordinary Shares as and when such Ordinary Shares are required to be delivered following the exercise of Conversion Rights and such failure continues for a period of seven days; or
- (c) **Breach of other Obligations.** the Issuer or any Relevant Party fails to perform or comply with any of its other obligations under the Transaction Documents or the Bonds and, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days or any such longer period as the Trustee may agree in its absolute discretion after notice thereof has been given to the Issuer by the Trustee; or

- (d) **Licences.** Diall Alliance fails to perform or comply with any of its obligations in relation to the Licences, and such failure would entitle any person to terminate or suspend or materially and adversely amend the terms of the Licences, and, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days or any such longer period as the Trustee may agree in its absolute discretion after notice thereof has been given to the Issuer by the Trustee; or
- (e) **Nationalisation.** any Governmental Authority condemns, nationalises, seizes or otherwise expropriates all or any substantial part of the property or other assets of any Relevant Party or of the share capital thereof, or assumes custody or control of such property or other assets or of the business or operations of any Relevant Party or of the share capital thereof, or takes any action for the dissolution or disestablishment of any Relevant Party or any action that would prevent any Relevant Party or any of the officers of any Relevant Party from carrying on the business or operations of any Relevant Party or a substantial part thereof; or
- (f) **Bankruptcy.** a decree or order by a competent court is entered against any Relevant Party adjudging that Relevant Party bankrupt or insolvent or ordering its winding up or liquidation; or a petition is filed seeking reorganisation (save where such reorganisation is on terms previously approved in writing by the Trustee or an Extraordinary Resolution), administration, arrangement, adjustment, composition or liquidation of or in respect of any Relevant Party under any applicable law; or a receiver, administrator, liquidator, trustee, sequestrator or other similar official is appointed over or in respect of any Relevant Party or any substantial part of its property or assets; or any Relevant Party institutes proceedings to be adjudicated bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against it, or files a petition or answer or consent seeking reorganisation (save in respect of a solvent reorganisation the terms of which have been previously approved in writing by the Trustee or an Extraordinary Resolution), administration, relief or liquidation under any applicable law, or consents to the filing of any such petition or to the appointment of a receiver, administrator, liquidator, trustee, sequestrator or other similar official of that Relevant Party or of any substantial part of its property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they fall due; or any other event occurs which under any applicable law would have an effect analogous to any of the events listed in this paragraph (g) except for any petitions presented or proceedings commenced which are discharged or struck out within 30 days; or
- (g) **Financial Debt.**
- (i) any Financial Debt of a Relevant Party is not paid when due or within any applicable grace period; or
 - (ii) any creditor of a Relevant Party declares any Financial Debt of such Relevant Party due and payable prior to its specified maturity as a result of an event of default (however described); or
 - (iii) any commitment for any Financial Debt of any Relevant Party is cancelled or suspended by a creditor of such Relevant Party as a result of an event of default (however described);
- in each case in an aggregate amount exceeding US\$10,000,000 or its equivalent in any other currency; or
- (h) **Material Adverse Effect.** any circumstance or event occurs which is reasonably likely to have a Material Adverse Effect,

provided that in the case of paragraphs (c) and (d) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

10. **Undertakings**

(A) **General Covenants**

For so long as any of the Bonds remain outstanding, save with the approval of an Extraordinary Resolution or with the approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (a) **Dividends of Issuer:** if the QIPO Effective Date in respect of a QIPO shall not have occurred then the Issuer shall not declare or pay any dividends.
- (b) **Capital Expenditures:** if the QIPO Effective Date in respect of a QIPO shall not have occurred then the Issuer shall not, and shall procure that each Relevant Party shall not, incur expenditures or commitments for expenditures for fixed and other non-current assets in an aggregate amount in excess of US\$5,000,000 (or the equivalent thereof in other currencies at then current rates of exchange) in any Financial Year, and determined by reference to the annual Financial Statements for such Financial Year (other than expenditures required for carrying out the Project or for maintenance, repairs or replacements for the operation of the Project in an aggregate amount in respect of any Financial Year not exceeding the amount specified below in respect of such Financial Year (or the equivalent thereof in other currencies at then current rates of exchange)).

Financial Year	Amount
2010:	US\$90,000,000;
2011:	US\$25,000,000;
2012:	US\$15,000,000;
2013:	US\$55,000,000.

(c) **Financial Debt:**

- (i) if the QIPO Effective Date in respect of a QIPO shall not have occurred then the Issuer shall not, and shall procure that each Relevant Party shall not, incur, assume or permit to exist any Financial Debt except:
 - (1) the Bonds;
 - (2) the Loan and any refinancing or replacement of the Loan, provided the outstanding principal amount shall not at any time exceed US\$60,000,000 (or the equivalent thereof in other currencies at then current rates of exchange);
 - (3) Subordinated Debt;
 - (4) Short-term Debt in an aggregate amount not to exceed US\$10,000,000 (or the equivalent thereof in other currencies at then current rates of exchange); and
 - (5) Financial Debt due from one Relevant Party to another Relevant Party.
 - (ii) the Issuer shall not, and shall procure that each Relevant Party shall not, enter into any agreement or arrangement to guarantee or, in any way or under any condition, to become obligated for all or any part of any financial or other obligation of another person other than a Relevant Party.
- (d) **Debt service coverage - Group:** the Issuer shall ensure that Cash as at each Applicable Date, as shown in and derived from the Financial Statements prepared as at and for the 3 months ended on such Applicable Date, shall be not less than the aggregate of all

scheduled payments of principal, premium and interest due and payable in the 6 months following such Applicable Date.

- (e) **Debt service coverage - Issuer:** the Issuer shall ensure that Cash as at each Applicable Date, as shown in and derived from its management accounts, shall be not less than the aggregate of all scheduled payments of principal, premium and interest due and payable in the 3 months following such Applicable Date.
- (f) **Liens:** the Issuer shall not, and shall procure that each Relevant Party shall not, create or permit to exist any Lien to secure Financial Debt on any property, revenues or other assets, present or future, of the Issuer or a Relevant Party (including without limitation the shares held by the Issuer in Royal Atlantic and the shares held by Royal Atlantic in Diall Alliance), except:
 - (1) the Security;
 - (2) any Tax or other non-consensual Lien arising by operation of law or other statutory Lien arising in the ordinary course of business, provided that such Lien (other than a Lien for a sum which is not yet delinquent) is discharged within 30 days after the date it is created or, if the validity or amount of such Lien or the sum secured by such Lien is being contested in good faith and by proper proceedings and adequate reserves have been set aside for the payment of such sum, within 30 days after final adjudication;
 - (3) any renewal, extension or replacement in whole or in part of the Security;
 - (4) retention of title arrangements having the effect of creating a Lien on industry standard terms and conditions;
 - (5) any security existing at the time of its acquisition on any asset acquired after the issue of the Bonds and not created in contemplation of that acquisition and any substitute security created on that asset in connection with the refinancing of the indebtedness secured on that asset; and
 - (6) following the QIPO Effective Date in respect of a QIPO, any Lien securing any Financial Debt having a maximum aggregate amount outstanding at any time not exceeding US\$40,000,000 (or the equivalent thereof in other currencies at then current rates of exchange).
- (g) **Arm's Length Transactions:** the Issuer shall not, and shall procure that each Relevant Party shall not, enter into any transaction with any person except in the ordinary course of business, on ordinary commercial terms and on the basis of arm's-length arrangements, or enter into any transaction whereby the Issuer or a Relevant Party would pay more than the ordinary commercial price for any purchase or would receive less than the full ex-works commercial price (subject to normal trade discounts) for its products, services or assets.
- (h) **Licences:**
 - (i) the Issuer shall not, and shall procure that Diall Alliance shall not amend any provision of the Licences save where such amendment would not have a Material Adverse Effect;
 - (ii) the Issuer shall, and shall procure that Diall Alliance shall:
 - (1) maintain the Licences in full force and effect without modification, save where such modification would not have a Material Adverse Effect.
 - (2) perform its obligations under, and not commit any breach of or default under the Licences which would result in the Licence being terminated, suspended or the terms of the Licence being materially or adversely amended.

- (3) not terminate nor assign or transfer any Licence or any of its rights under or in relation to any Licence to any other party.
- (i) **Sale of Assets; Merger:**
 - (i) the Issuer shall not, and shall procure that each Relevant Party shall not, sell, transfer, lease or otherwise dispose of all or a substantial part of its assets (whether in a single transaction or in a series of transactions, related or otherwise) but, for the avoidance of doubt, nothing in this Condition 10(A)(i) shall prevent the Issuer from disposing of produced oil and gas in the ordinary course of its business.
 - (ii) the Issuer shall not, and shall procure that each Relevant Party shall not, undertake or permit any merger, consolidation or reorganisation (save in respect of a solvent reorganisation the terms of which have been previously approved in writing by the Trustee or by an Extraordinary Resolution).
- (j) **Change of business:** the Issuer shall not, and shall procure that each Relevant Party shall not:
 - (i) make material changes, or permit material changes to be made, to the nature of its present business or operations or change in any material respect the nature or scope of the Project; or
 - (ii) if the QIPO Effective Date in respect of a QIPO has not occurred, carry out any business or activity other than businesses or activities substantially related to the Project.
- (k) **Environmental compliance:** the Issuer shall, and shall procure that each Relevant Party shall:
 - (i) comply with all Environmental Law;
 - (ii) obtain, maintain and ensure compliance with all requisite Environmental Permits; and
 - (iii) implement procedures to monitor compliance with, and to prevent liability under, any Environmental Law.
- (l) **Conduct of business:**
 - (i) The Issuer shall, and shall procure that each Relevant Party shall:
 - (1) maintain its corporate existence in compliance with all applicable laws;
 - (2) conduct its business with due diligence and efficiency, in accordance with sound engineering, financial and business practices and in compliance with all applicable laws, including all money laundering laws; and
 - (3) use procurement methods which ensure a sound selection of goods and services at fair market value and that it is making its capital investments in a cost effective manner.
 - (ii) The Issuer shall, and shall procure that each Relevant Party shall, apply and be committed to good corporate governance practices based on general principles of fairness, disclosure and transparency, management accountability, separation of responsibility and sound internal controls, in compliance with all applicable laws.
- (m) **Insurance:** The Issuer shall, and shall procure that each Relevant Party shall, maintain insurances with reputable independent insurance companies or underwriters on and in

relation to its business and assets against those risks and to the extent as is usual for companies carrying on the same or substantially similar business.

- (n) **Taxes:** the Issuer shall, and shall procure that each Relevant Party shall:
 - (i) pay when due all of its Taxes, including any Taxes against any of its properties, other than Taxes which are being contested in good faith and by proper proceedings and as to which adequate reserves have been set aside for the payment thereof; and
 - (ii) make timely filings of all Tax returns and governmental reports required to be filed or submitted in relation to such Taxes under any applicable law.
- (o) **Profit-sharing and Management Arrangements:** the Issuer shall not, and shall procure that each Relevant Party shall not:
 - (i) enter into any partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Issuer's or a Relevant Party's income or profits are, or might be, shared with any other person; and
 - (ii) enter into any management contract or similar arrangement whereby its business or operations are managed by any other person.
- (p) **Prepayment of Loan:** the Issuer shall not voluntarily prepay all or any part of the Loan.
- (q) **Diall Alliance:** the Issuer shall give notice to the Bondholders (in accordance with Condition 16) and the Trustee if Diall Alliance may be deemed to be engaged in an activity of "strategic significance" for purposes of the Law on Foreign Ownership Restrictions.
- (r) **Use of Proceeds:** the Issuer shall use the net proceeds from the issue of the Bonds solely in connection with the development of an oil field and the production of natural gas and oil in the western part of the Bortovoye Licence area, located in the Saratov region of the Russian Federation, including reasonable administrative and related expenses.
- (s) **Furnishing of Information:**
 - (i) As soon as available, but in any event within 45 days after each Quarter Date, the Issuer shall furnish to the Trustee and, prior to the QIPO Effective Date in respect of a QIPO only, the Bondholders two copies of the Financial Statements for the three months ending on such Quarter Date, certified by two directors of the Issuer.
 - (ii) As soon as available, but in any event within 120 days after the end of each Financial Year, the Issuer shall furnish to the Trustee and, prior to the QIPO Effective Date in respect of a QIPO only, the Bondholders two copies of the audited Financial Statements of the Group (prepared in accordance with IFRS) for the relevant Financial Year.
 - (iii) The Issuer shall furnish to the Trustee, with each set of Financial Statements delivered pursuant to paragraph (i) and (ii) above and also within 14 days of any request of the Trustee, a certificate of two directors of the Issuer as to there not having occurred any breach of Conditions 10(A)(a) to 10(A)(r) since the date of the last such certificate (or if such breach has occurred as to the details of such breach) and, if so requested by the Trustee or by an Extraordinary Resolution no later than 15 days after the relevant Quarter Date (in the case of (i) above) or 30 days after the relevant Financial Year (in the case of (ii) above) setting out (in reasonable detail) computations as to compliance with Conditions 10(A)(b) to 10(A)(g) and Condition 10(A)(r) as at the date at which the relevant Financial Statements were drawn up and, in relation to Condition 10(A)(e), setting out the

amount of Cash in each account of the Issuer and each of its Subsidiaries as at the relevant Applicable Date and details of all scheduled payments of principal, premium and interest due and payable in the 3 months after the relevant Applicable Date, and confirmation that the recoverable reserves of Diall Alliance will not result in Diall Alliance being deemed to be engaged in an activity of "strategic significance" for purposes of the Law on Foreign Ownership Restrictions. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the covenants set forth in this Condition 10(A) or to ascertain or enquire as to the accuracy or completeness of the content of any such certificate, nor be liable to any person for not so doing.

- (iv) The Issuer shall furnish to the Trustee, with each set of Financial Statements delivered pursuant to paragraph (i) (in respect of the 30 June and 31 December Quarter Dates only) and (ii) above and also within 14 days of any request of the Trustee, all information and documentation that may be required from time to time in connection with the Issuer obtaining any necessary consent from the Federal Anti-Monopoly Service of the Russian Federation.

For so long as the Bonds are represented by the Global Bond, the delivery of information required to be furnished to Bondholders pursuant to paragraphs (i) and (ii) above may be satisfied by delivery of the relevant information to Bondholders through Euroclear and Clearstream, Luxembourg.

(B) Undertakings in respect of Conversion Rights

Whilst any Conversion Right remains exercisable, the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (a) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
 - (i) by the issue of fully paid Ordinary Shares or other Securities to Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other shares or Securities on a capitalisation of profits or reserves; or
 - (ii) by the issue of Ordinary Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a Dividend in cash; or
 - (iii) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or
 - (iv) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of the Issuer or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or otherwise gives rise (or would, but for the provisions of Condition 5(f) relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price;

- (b) not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Ordinary Shares but so that nothing in this Condition 10(b) shall prevent:
 - (i) any consolidation, reclassification or subdivision of the Ordinary Shares; or
 - (ii) any modification of such rights which is not, in the opinion of an Independent Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or
 - (iii) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of Condition 5(f) relating to roundings and minimum adjustments or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefor is at least 95 per cent. of the Current Market Price per Ordinary Share, otherwise result, in an adjustment to the Conversion Price; or
 - (iv) without prejudice to any rule of law or legislation (including regulations made under Sections 783, 784(3), 785 and 788 of the Companies Act or any other provision of that or any other legislation), the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the Articles of Association of the Issuer to enable title to securities (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other alteration to the Articles of Association of the Issuer made in connection with the matters described in this Condition 10(b) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or
 - (v) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto the Issuer shall have instructed an Independent Financial Adviser to determine what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in a decrease in the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);
- (c) procure that no Securities (whether issued by the Issuer or any Subsidiary of the Issuer or procured by the Issuer or any Subsidiary of the Issuer to be issued or issued by any other person pursuant to any arrangement with the Issuer or any Subsidiary of the Issuer) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 5(f) relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
- (d) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on the exercise of Conversion Rights, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;

- (e) not reduce its issued share capital, share premium account, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
- (i) pursuant to the terms of issue of the relevant share capital; or
 - (ii) by means of a purchase or redemption of share capital of the Issuer to the extent permitted by applicable law; or
 - (iii) as permitted by Section 610 (2) and (3) of the Companies Act; or
 - (iv) where the reduction does not involve any distribution of assets to Shareholders; or
 - (v) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed; or
 - (vi) a reduction of its share premium account to facilitate the writing off of goodwill arising on consolidation which requires the confirmation of the High Court and which does not involve the return, either directly or indirectly, of an amount standing to the credit of the share premium account of the Issuer and in respect of which the Issuer shall have tendered to the High Court such undertaking as it may require prohibiting, so long as any of the Bonds remains outstanding, the distribution (except by way of capitalisation issue) of any reserve which may arise in the books of the Issuer as a result of such reduction; or
 - (vii) to create distributable reserves; or
 - (viii) pursuant to a Newco Scheme; or
 - (ix) by way of transfer to reserves as permitted under applicable law; or
 - (x) where the reduction is permitted by applicable law and the Trustee is advised by an Independent Financial Adviser, acting as an expert, that the interests of the Bondholders will not be materially prejudiced by such reduction; or
 - (xi) where the reduction is permitted by applicable law and results in (or would, but for the provisions of Condition 5(f) relating to roundings or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made,

provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (f) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates (as defined in Section 988(1) of the Companies Act) of the offeror to acquire the whole or any part of the issued Ordinary Shares, or if any person proposes a scheme with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Bondholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Issuer, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders and/or to the holders of the Bonds;

- (g) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the Scheme of Arrangement, at its option, either (a) Newco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Issuer providing a guarantee) subject to and as provided in the Trust Deed; or (b) Newco becomes a guarantor under the Bonds and the Trust Deed and, in either case, that (i) such amendments are made to these Conditions and the Trust Deed as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed and (ii) the ordinary shares or units or the equivalent of Newco are:
 - (A) admitted to a premium listing on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market; or
 - (B) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market.
- (h) use all reasonable endeavours to ensure that the Ordinary Shares issued upon exercise of Conversion Rights will, as soon as is practicable, be admitted to listing and to trading on the Relevant Stock Exchange and will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (i) with effect from the QIPO Effective Date, for so long as any Bond remains outstanding, use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares shall be admitted to listing on the Relevant Stock Exchange; and
- (j) procure that it shall not become domiciled or resident in or subject generally to the taxing authority of any jurisdiction (other than the United Kingdom) unless it would not thereafter be required pursuant to then current laws and regulations to withhold or deduct for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of such jurisdiction or any applicable sub-division thereof or therein having power to tax in respect of any payment on or in respect of the Bonds.

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually a certificate of two directors of the Issuer, as to there not having occurred, *inter alia*, an Event of Default or Potential Event of Default since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the undertakings set forth in this Condition 10, nor be liable to any person for not so doing.

11. **Prescription**

Claims against the Issuer for payment in respect of the Bonds or Coupons shall be prescribed and become void unless made within 10 years (in the case of the principal amount) or five years (in the case of interest) from the appropriate Relevant Date in respect of such payment.

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

12. **Replacement of Bonds and Coupons**

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying and Conversion Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

13. **Meetings of Bondholders, Modification and Waiver, Substitution**

(a) *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of any Transaction Document. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if requested in writing by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to change the Original Maturity Date or the Extended Maturity Date, or the First Call Date (other than deferring the First Call Date) or the dates on which interest is payable in respect of the Bonds, (ii) to modify the circumstances in which the Issuer or Bondholders are entitled to redeem the Bonds pursuant to Condition 6(b), (c) or (e), (iii) to reduce or cancel the principal amount of, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds or to reduce the Interest Rate or the Additional Interest Rate, (iv) to modify the basis for calculating the principal amount or the interest payable in respect of the Bonds, (v) to modify the provisions relating to the determination of the Initial Conversion Price, (vi) to modify the provisions relating to, or cancel, the Conversion Rights (other than pursuant to or as a result of any amendments to these Conditions and the Trust Deed made pursuant to and in accordance with the provisions of Condition 10(B)(g) ("**Newco Scheme Modification**"), and other than a reduction to the Conversion Price), (vii) to increase the Conversion Price (other than in accordance with these Conditions or pursuant to a Newco Scheme Modification), (viii) to change the currency of the denomination or any payment in respect of the Bonds, (ix) to amend the definition of QIPO, (x) to change the governing law of the Bonds or any Transaction Document (other than the governing law of the Trust Deed and the Bonds in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 13(c)) or (xi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-half, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

No consent or approval of Bondholders or Couponholders shall be required in connection with any Newco Scheme Modification.

(b) *Modification and Waiver*

The Trustee may agree, without the consent of the Bondholders or the Couponholders, to (i) any modification of any of the provisions of any Transaction Document or any deed or agreement supplemental to any Transaction Document, the Bonds, the Coupons or these Conditions which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or an error which, in the opinion of the Trustee, is proven or to comply with mandatory provisions of law, and (ii) any other modification to any Transaction Document or any deed or agreement supplemental to any Transaction Document, the Bonds, the Coupons or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of any Transaction Document or any deed or agreement supplemental to any Transaction Document, the Bonds,

the Coupons or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders and Couponholders. The Trustee may, without the consent of the Bondholders or Couponholders, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders and the Couponholders will not be materially prejudiced thereby. Any such modification, authorisation, waiver or determination shall be binding on the Bondholders and the Couponholders and, if the Trustee so requires, shall be notified to the Bondholders promptly in accordance with Condition 16.

(c) *Substitution*

The Trustee may, without the consent of the Bondholders or Couponholders, agree to any substitution as provided in, and for the purposes of, Condition 10(g) or to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of any Subsidiary of the Issuer subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer, and (b) the Bonds continuing to be convertible or exchangeable into Ordinary Shares as provided in these Conditions *mutatis mutandis* as provided in these Conditions, with such amendments as the Trustee shall consider appropriate provided that in any such case, (x) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (y) certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified to the Bondholders promptly in accordance with Condition 16.

(d) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

14. **Enforcement**

The Trustee may at any time, at its discretion and without notice, take such steps, action or proceedings against the Issuer as it may think fit to enforce the provisions of any Transaction Document, the Bonds and the Coupons, but it shall not be bound to take any such proceedings or any other steps or action in relation to the Trust Deed, the Bonds or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

15. **The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial

institution or other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders and Couponholders in the absence of manifest error.

16. Notices

All notices regarding the Bonds will be valid if published in one leading daily newspaper in the United Kingdom (which is expected to be the Financial Times) or, if this is not possible, in one other leading English language daily newspaper with general circulation in Europe and (so if the Bonds are listed on the London Stock Exchange and the rules of the London Stock Exchange so permit or require) given by filing a notice with a Regulatory Information Service approved by the UK Listing Authority. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

17. Further Issues

The Issuer may from time to time without the consent of the Bondholders and the Couponholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) or in all respects except for the first payment of interest on them and the first date on which Conversion Rights may be exercised and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

18. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

19. Governing Law

The Trust Deed, the Agency Agreement, the Bonds and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

The Bond Deed of Pledge is governed by Cyprus law and the Deed of Priority and Share Retention Agreement are governed by English law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Bond contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of certain terms of those provisions. References herein to "**Global Bond**" shall be to the global bond representing the Initial Bonds and the global bond representing the First Tranche of Additional Bonds.

1. General

The Bonds are represented by the Global Bond without coupons attached.

On the Closing Date the Global Bond was deposited on behalf of the subscribers of the Bonds with the Common Depository. Upon deposit of the Global Bond, Euroclear or Clearstream, Luxembourg or the Alternative Clearing Stream (each as defined under "*Notices*" below) (as the case may be) will credit each subscriber of the Bonds with the principal amount of Bonds for which it has subscribed and paid.

2. Exchange

This Global Bond is exchangeable in whole but not in part (free of charge to the holder) for the definitive Bonds described below if the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or the Alternative Clearing System (each as defined under "*Notices*" below) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or permanently ceases business by the holder giving notice to the Principal Paying and Conversion Agent.

On or after the Exchange Date the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying and Conversion Agent. In exchange for the Global Bond, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying and Conversion Agent is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System (each defined under "*Notices*" below) are located.

Except as otherwise described therein, the Global Bond is subject to the Conditions and the Trust Deed and, until the Global Bond is exchanged for definitive Bonds, its holder shall be entitled to the same benefits as if it were the holder of the definitive Bonds for which it may be exchanged and as if such definitive Bonds had been issued on the date of the Global Bond.

3. Payments

Principal, and interest and any other amounts in respect of the Global Bond shall be paid to its holder against presentation and (if no further payment falls to be made on it) surrender of it to or to the order of the Principal Paying and Conversion Agent in respect of the Bonds (or to or to the order of such other Paying and Conversion Agent as shall have been notified to the Bondholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in the appropriate schedule to the Global Bond (such endorsement being *prima facie* evidence that the payment in question has been made). No person shall however be entitled to receive any payment on the Global Bond falling due after the Exchange Date, unless exchange of the Global Bond for definitive Bonds is improperly withheld or refused by or on behalf of the Issuer.

For the purposes of any payments made in respect of the Global Bond, Condition 7(f) (*Presentation Date*) shall not apply, and all such payments shall be made on a day on which commercial banks are foreign exchange markets are open in the financial centre of the currency of the Bonds.

4. **Notices**

So long as the Global Bond is held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") or any other clearing system as shall have been approved by the Trustee (the "**Alternative Clearing System**"), notices required to be given to Bondholders may be given by their being delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, rather than by publication as required by the Conditions. Any notice is deemed to have been given to the Bondholders on the day on which such notice is delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

5. **Prescription**

Claims in respect of principal and interest in respect of the Global Bond will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 3).

6. **Meetings**

For the purposes of any meeting of Bondholders, the holder of the Global Bond shall (unless the Global Bond represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US\$0.01 in principal amount of Bonds.

7. **Purchase and Cancellation**

Cancellation of the Bond represented by the Global Bond which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Global Bond.

8. **Trustee's Powers**

In considering the interests of Bondholders in circumstances where the Global Bond is held on behalf of any one or more of Euroclear, Clearstream, Luxembourg and an Alternative Clearing System, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Global Bond and (b) consider such interests on the basis that such accountholders were the holder of the Global Bond.

9. **Redemption at the option of the Issuer**

The options of the Issuer provided for in Conditions 6(b) and 6(c) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the relevant Condition.

10. **Conversion**

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Right (as defined in the Conditions) attaching to Bonds represented by the Global Bond may be exercised by the presentation of one or more Conversion Notices (as defined in the Conditions) together with the Global Bond to the Principal Paying and Conversion Agent or such other Agent as shall have been notified to the holder of the Global Bond for such purpose for annotation and the principal amount of the Bonds will be reduced in the register accordingly. The provisions of Condition 5 of the Bonds will otherwise apply.

TAXATION

The following summary is based upon UK law and what is understood by the Issuer to be HM Revenue and Customs' practice as at the date of this document. Both law and practice may change, possibly with retrospective effect. The summary is intended as a general guide, not a complete analysis, and may not apply to certain categories of Bondholder, such as Bondholders who hold their Bonds for the purposes of a trade, and deals with only some of the UK tax consequences of acquiring, holding and disposing of Bonds and Ordinary Shares.

Bondholders who are in any doubt as to their tax position, whether resident in the UK or elsewhere and whether subject to tax in the UK or under the laws of any other jurisdiction, should consult their professional advisers without delay.

Withholding Tax

There is generally an obligation to withhold or deduct an amount for or on account of UK income tax from payments of interest on interest-bearing securities where the interest in question has a UK source. The interest payable on the Bonds is from a UK source. However, the Bonds should constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 (the "ITA 2007") for so long as they carry a right to interest and continue to be listed on a recognised stock exchange within the meaning of section 1005 ITA 2007. The LSE is a recognised stock exchange for these purposes and the Bonds will be treated as listed if they are included in the Official List of the UKLA (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the LSE. HM Revenue and Customs ("HMRC") have confirmed that securities that are admitted to trading on the Professional Securities Market satisfy the condition of being admitted to the LSE. While the Bonds are and continue to be "quoted Eurobonds", payments of interest on the Bonds may be made without withholding or deduction for or on account of UK income tax as the withholding obligation does not apply to quoted Eurobonds.

If the Bonds are not listed or cease to be listed on a recognised stock exchange, interest on the Bonds will, on any date when the Bonds are not listed, generally be paid under deduction of UK income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

The Issuer will not be required to withhold or deduct any amount for or on account of UK tax from dividend payments on the Ordinary Shares.

Provision of Information

Bondholders should note that where any interest on the Bonds is paid or credited to them (or to any person acting on their behalf) by any person in the UK acting on behalf of the Issuer (a "**Paying Agent**") or is received by any person in the UK acting on behalf of the relevant Bondholder (other than solely by clearing or arranging the clearing of a cheque) (a "**Collecting Agent**"), then the Paying Agent or the Collecting Agent (as the case may be) may, in certain circumstances, be required to supply to HMRC details of the payment and certain details relating to the Bondholder (including the Bondholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of UK income tax and whether or not the Bondholder is resident in the UK for UK tax purposes. Where the Bondholder is not so resident, the details provided to HMRC may, in certain circumstances, be passed by HMRC to the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual or certain other limited types of entities resident in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply withholdings in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other similar income may request that no interest be withheld) deducting tax at rates rising over time to 35 per cent., unless during such period they elect otherwise. The transitional period is to terminate at the end of the first

full fiscal year following agreement with certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain member states, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependant or associated territories in relation to payments made by a person in a Member State to an individual or certain other residual entities resident in one of those territories.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009 but discussions relating to the proposal are still ongoing at Council level. If any of those proposed changes (or indeed any other changes) are made to the Directive, they may amend or broaden the scope of the requirements described above. Investors who are in any doubt as to these positions should consult their professional advisers.

UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No United Kingdom stamp duty or SDRT should be payable on the issue of the Bonds.

No United Kingdom stamp duty will be payable on the transfer by delivery of Bonds. No SDRT will generally be payable on an agreement to transfer the Bonds, including transfers within a clearance system so long as: (1) the Bonds are held by (or by a nominee or agent for) a provider of clearance services and such person has not made an election under section 97A of the Finance Act 1986; or (2) no such agreement to transfer is entered into in contemplation of, or as part of, an arrangement for a takeover of the Issuer and both the Bonds and the Ordinary Shares into which they can convert are and continue to be listed (as is intended) on a recognised stock exchange (HMRC have confirmed that securities that are admitted to trading on the PSM satisfy the condition of being admitted to the LSE, and that the LSE is a recognised stock exchange for these purposes).

No UK stamp duty or SDRT is payable on any issue of Ordinary Shares upon conversion of the Bonds.

The written conveyance or transfer on sale of an Ordinary Share will be liable to ad valorem stamp duty, generally at the rate of 0.5 per cent. of the amount or value of the consideration for the transfer, and rounded-up to the nearest £5. The purchaser normally pays the stamp duty. An exemption from ad valorem stamp duty is available on an instrument transferring Ordinary Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

An unconditional agreement to sell an Ordinary Share will generally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration for the sale. If a duly stamped transfer in respect of the agreement is produced within six years of the date that the agreement is entered into or (if later) the date that it becomes unconditional, any SDRT paid is repayable generally with interest, and the SDRT charge (including any outstanding liability to SDRT) is cancelled.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the CREST system unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty at the rate of 0.5 per cent. of the amount or value of the consideration payable.

Intergovernmental Agreement to Improve International Tax Compliance and Implement the US Foreign Account Tax Compliance Act ("FATCA")

On 12 September 2012, the UK and the United States entered into an intergovernmental agreement ("IGA") to improve international tax compliance and implement FATCA. On 18 September 2012, the UK Government launched a consultation on implementing the IGA in the UK. Draft legislation for this purpose will be published later in 2012. Such implementing legislation, when introduced, may impose a withholding tax in certain circumstances and may impact Bonds which have already been issued

IF YOU ARE NOT RESIDENT IN THE UK OR ARE SUBJECT TO TAX IN ANY OTHER JURISDICTION OR IF YOU ARE IN ANY DOUBT AS TO YOUR TAX POSITION, YOU SHOULD CONSULT AN APPROPRIATE PROFESSIONAL ADVISER WITHOUT DELAY.

THIS SUMMARY DOES NOT DETAIL THE INCOME TAX, CORPORATION TAX OR CAPITAL GAINS TAX CONSEQUENCES OF A DISPOSAL OR HOLDING OF ORDINARY SHARES.

SUBSCRIPTION AND SALE

United States

The Bonds and the Ordinary Shares to be issued or delivered upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds may not be offered or sold within the United States except in accordance with Rule 903 of Regulation S under the Securities Act ("**Regulation S**").

United Kingdom

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any Bonds has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

In addition, anything done in relation to the Bonds in, from or otherwise involving the United Kingdom must be done in compliance with all applicable provisions of the FSMA.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of the Listing Particulars or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

GENERAL INFORMATION

1. Listing

Application has been made to the FSA in its capacity as competent authority under the FSMA for the Bonds to be admitted to the Official List of the UKLA. Application has been made to the LSE for the Bonds to be admitted to trading on the PSM. It is expected that admission of the Bonds to the Official List and admission to trading of the Bonds on the PSM will be granted on or around 10 January 2013. It is expected that dealings in the Bonds will commence on 11 January 2013.

The Issuer shall apply to have the Ordinary Shares issuable upon conversion of the Bonds listed for trading on the LSE's EEA Regulated Market.

2. Stock Exchange

The listing of the Bonds on the LSE will be expressed in pounds sterling as a percentage of their principal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in pounds sterling for delivery on the third business day in London after the date of the transaction.

3. Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Bonds. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 6 May 2012 and a resolution of a committee of the Board of Directors of the Issuer dated 12 January 2012.

4. Expenses

The Issuer estimates that the total expenses related to the issue of the Bonds will be approximately US\$30,000.

5. Clearing

The Bonds have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The Common Code for the Bonds is 054102496. The International Securities Identification Number for the Bonds is XS0541024963. The address of Euroclear is 1 Boulevard du Roi Albert I, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

6. Financial and Trading Position

There has been no material adverse change in the prospects of the Issuer since 31 December 2011, nor has there been any significant change in the financial or trading position of the Group since 31 December 2011.

7. Financial Information

The consolidated financial statements of the Issuer contained in Annex A (*Issuer's 2010 Annual Report*) and Annex B (*Issuer's 2011 Annual Report*) have been audited without qualification for the financial years ended 31 December 2010 and 31 December 2011, respectively by Ernst & Young LLP of 1 More Place, London SE1 2AF, United Kingdom, a member of the Institute of Chartered Accountants. The auditors' report to the consolidated financial statements of the Issuer for the year ended 31 December 2011 contains an emphasis of matter, which has been reproduced on page 41 of these Listing Particulars.

8. Material Contracts

(a) *Contracts relating to the Bonds*

The following contracts directly concerning the issue of the Bonds were entered into by a member of the Group and are, or may be, material:

- (i) the fourth supplemental trust deed dated 15 October 2012 between the Issuer and the Trustee, *inter alia*, constituting the Fourth Tranche of Additional Bonds and appointing the Trustee to act in that capacity (the "**Fourth Supplemental Trust Deed**");
- (ii) the third supplemental trust deed dated 13 July 2012 between the Issuer and the Trustee, *inter alia*, constituting the Third Tranche of Additional Bonds and appointing the Trustee to act in that capacity (the "**Third Supplemental Trust Deed**");
- (iii) the second supplemental trust deed dated 13 April 2012 between the Issuer and the Trustee, *inter alia*, constituting the Second Tranche of Additional Bonds and appointing the Trustee to act in that capacity (the "**Second Supplemental Trust Deed**");
- (iv) the first supplemental trust deed dated 13 January 2012 between the Issuer and the Trustee, *inter alia*, constituting the First Tranche of Additional Bonds and appointing the Trustee to act in that capacity (the "**First Supplemental Trust Deed**");
- (v) the trust deed dated 13 October 2010 between the Issuer and the Trustee, *inter alia*, constituting the Issuer's US\$50,000,000 Conditional Convertible Bonds due 2013 and appointing the Trustee to act in that capacity (the "**Original Trust Deed**") which, together with the First Supplemental Trust Deed constitute the "**Trust Deed**";
- (vi) the paying and conversion agency agreement dated 13 October 2010 between, the Issuer, Deutsche Bank AG, London Branch and the Trustee setting out, *inter alia*, the terms of appointment and duties of Deutsche Bank AG, London Branch in its capacity as Principal Paying and Conversion Agent (the "**Paying and Conversion Agency Agreement**"); and
- (vii) the bond deed of pledge dated 13 October 2010, between the Issuer and the Trustee, under which the Issuer's obligations under the Bonds are secured by a second priority security over pledged shares and other charged assets of RAECL (the "**Bond Deed of Pledge**");
- (viii) the deed of priority dated 13 October 2010, between the Issuer, the Trustee and EBRD, pursuant to which the security granted under the Bond Deed of Pledge and the EBRD Deed of Pledge (as defined below) is shared as between EBRD and the Trustee and the Bondholders in respect of the obligations secured by the EBRD Deed of Pledge (as defined below) and the Bond Deed of pledge as described therein (the "**Deed of Priority**");
- (ix) the share retention agreement dated 13 October 2010, between RAECL and the Trustee pursuant to which RAECL has agreed not to effect any change in its equity interest in, or transfer or pledge (or otherwise grant any lien over), any of its shares in the capital of, Diall without prior written consent of the Trustee or with the approval of an extraordinary resolution of Bondholders (the "**Share Retention Agreement**");
- (x) the purchase agreement dated 11 October 2010, between the Issuer and Deutsche Bank AG, London Branch.

(b) ***Other Contracts***

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group and are, or may be material or contain provisions under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of these Listing Particulars:

(i) The EBRD Facility

The Convertible Loan Agreement

On 18 September 2009, the Issuer entered into the Convertible Loan Agreement with EBRD to borrow up to US\$60 million prior to 18 March 2011 (the "**Convertible**

Loan"). The loan was fully drawn up prior to 18 March 2011. The Convertible Loan was obtained to finance the development of the Western Fields, including the construction of the Western Plant, and to provide the capital requirements for exploration and appraisal drilling as well as the preparation of a feasibility study for the second gas plant in the Eastern Fields.

The agreement contains a number of covenants in favour of EBRD.

The EBRD Deed Of Pledge

On 18 September 2009 the Issuer entered into a deed of pledge with EBRD, pursuant to which the Issuer's obligations under the Convertible Loan Agreement are secured by a first priority security over pledged shares and other charted assets of RAECCL (the "**EBRD Deed of Pledge**");

The EBRD Share Retention Agreement

In connection with the Convertible Loan Agreement, on 18 September 2009, RAECCL entered in a share retention agreement with EBRD, pursuant to which RAECCL agreed not to effect any change in its equity interest in, or transfer or pledge (or otherwise grant any lien over), any of its shares in the capital of, Diall without prior written consent of EBRD (the "**EBRD Share Retention Agreement**").

(ii) The Gazprom Contract

On 11 August 2010, Diall entered into an agreement with OOO Saratov Gas Company, a subsidiary of Gazprom for the sale and purchase of gas (the "**Gazprom Contract**"). The Gazprom Contract is valid until 31 December 2015. The Gazprom Contract provides that from September 2010 to December 2010 (the "**Initial Period**") Diall may deliver up to 140 million cubic meters of gas to Saratov Gas at the rate of approximately US\$62 per 1000 cubic meters of gas. Under the Gazprom Contract, Diall sold 237 million cubic meters of gas during 2011. On 1 July 2011 the sales price increased to approximately US\$72 per 100 cubic meters of gas. The sale price is calculated as a discount to a weighted average selling price for industrial and residential gas consumers in Saratov region determined by the Russian Federal Tariff Service. The Gazprom contract also sets out monthly contractual volumes and average daily contractual volumes of the gas to be delivered in each month within the Initial Period. The average daily contractual volume is calculated by dividing the monthly contractual volume by the number of days in the month in which the gas will be delivered.

The Gazprom Contract may be terminated by Saratov Gas if Diall repeatedly fails to deliver gas of the quality as agreed in the Gazprom Contract. The Gazprom Contract may also be terminated by Diall if Saratov Gas repeatedly fails to make timely payments for the delivered gas. Either party shall be entitled to terminate the Gazprom Contract should the occurrence and/or effect of the force majeure circumstances last longer than three months. The party terminating the Gazprom Contract must notify the other party not later than 90 days before the expected date of termination of the Gazprom Contract.

(iii) The EPCM Contract

On 10 July 2007, Diall entered into an agreement with Ventech Engineers International Corp. ("**Ventech**") for the re-engineering, dismantling, relocation, procurement and construction management of Diall's sulphur recovery unit, tail gas plant and gas plant (the "**EPCM Contract**").

The EPCM Contract provides that Diall is entitled at any time and for any reason to terminate the EPCM Contract, in whole or in part, by giving a written notice to Ventech. Ventech, on the other hand, may terminate the EPCM Contract if Diall fails to make any payment within 45 days after receipt of an invoice from Ventech. In the event of a failure by Diall to fulfil any of its obligations under the EPCM Contract, if

such failure is not cured within 15 days of receipt from Ventech of written notice to this effect, Ventech shall have the right to immediately terminate the EPCM Contract. The governing law of the EPCM Contract is the laws of the state of Texas in the US.

As at 31 December 2011, the outstanding amounts payable to Ventech amounted to US\$7 million.

(iv) The RNK Contract

On 30 January 2009, Diall entered into an infrastructure development agreement with OOO RosNefteComplect ("**RNK**") for the gas construction and re-engineering of the Western Plant supplied by Ventech (the "**RNK Contract**").

As at 31 December 2011, the outstanding amount payable by the Group to RNK amounted to US\$2.3 million.

(v) The NewTech Contract

On 30 December 2009, Diall entered into an agreement with OOO NewTech Services ("**NewTech**") for the drilling of an exploration well in the Nepryakhinskoye area. The total contractual value is approximately US\$15.7 million. On 5 April 2011, Diall entered into an agreement with NewTech for the drilling of an additional exploration well in the Muravlinskoye area. The total contractual value is approximately US\$14.8 million.

As at 31 December 2011, the outstanding amount payable by the Issuer to NewTech amounted to US\$2.1 million.

9. Documents on Display

Copies of the following documents may be inspected during normal business hours at the offices of the Paying and Conversion Agent during the 12 months starting on the date on which these Listing Particulars are made available to the public as required by the prospectus rules made by the FSA:

- (a) the Articles of Association of the Issuer;
- (b) the Issuer's 2010 annual report, which contains the annual audited consolidated financial statements of the Issuer as at and for the financial year ended 31 December 2010, together with the notes thereto and the auditors' report thereon (the "**2010 Annual Report**");
- (c) the Issuer's 2011 annual report, which contains the annual audited consolidated financial statements of the Issuer as at and for the financial year ended 31 December 2011, together with the notes thereto and the auditors' report thereon (the "**2011 Annual Report**");
- (d) the First Supplemental Trust Deed;
- (e) the Second Supplemental Trust Deed;
- (f) the Third Supplemental Trust Deed;
- (g) the Fourth Supplemental Trust Deed;
- (h) the Trust Deed;
- (i) the Paying and Conversion Agency Agreement;
- (j) the Bond Deed of Pledge;
- (k) the Deed of Priority;
- (l) the Escrow Deed;
- (m) the Share Retention Agreement;

- (n) the Convertible Loan Agreement;
- (o) the EBRD Deed of Pledge; and
- (p) the EBRD Share Retention Agreement.

In addition, these Listing Particulars are also available at the website of the Regulatory News Service operated by the LSE at www.londonstockexchange.com/gbpricenews/marketnews. The content of this, or any other website, does not form part of the Listing Particulars.

10. Information relating to the Ordinary Shares

The International Securities Identification Number for the Ordinary Shares is: GB00B64Z0D56. If a QIPO occurs, the prospectus for the QIPO will contain further details relating to the Ordinary Shares.

GLOSSARY OF TECHNICAL TERMS

"2D seismic"	<i>seismic data acquired in a grid that is relatively broad, and is processed in two dimensions;</i>
"3D seismic"	<i>seismic data acquired in a grid that is relatively close spaced and dense, and is processed in three dimensions;</i>
"appraisal well"	<i>a well drilled as part of an appraisal drilling programme which is carried out to determine the physical extent, reserves and likely production rate of a field;</i>
"bbl/bbls"	<i>barrels;</i>
"bcfa"	<i>billion cubic feet per annum;</i>
"bcma"	<i>billion cubic metres per annum;</i>
"carbonate"	<i>a class of sedimentary rock whose chief mineral constituents (95 per cent. or more) are calcite and aragonite (both CaCO₃) and dolomite CaMg(CO₃)₂, a mineral that can replace calcite during the process of dolomitisation. Limestone, dolostone or dolomite, and chalk are carbonate rocks. Carbonate rocks can serve as hydrocarbon reservoir rocks, particularly if the porosity has been enhanced through dissolution. They rely on fractures for permeability;</i>
"Carboniferous"	<i>a geological period 295 million to 354 million years before present;</i>
"Caspian Depression"	<i>low-lying flatland region encompassing the northern part of the Caspian Sea;</i>
"condensate"	<i>hydrocarbons which are in the gaseous state under reservoir conditions and which become liquid when temperature or pressure is reduced. A mixture of pentanes and higher hydrocarbons;</i>
"/d"	<i>per day;</i>
"Devonian"	<i>a geological period between 417 million and 354 million years before present;</i>
"flaring"	<i>a process by which waste gas, which is not feasible to use or transport, is eliminated. Flaring is also used as a safety system for plant operations in case additional gas needs to be flared due to operational issues;</i>
"fracturing"	<i>fracturing reservoir rock hydraulically to enhance productivity;</i>
"hydrocarbon"	<i>a compound containing only the elements hydrogen and carbon. May exist as a solid, a liquid or a gas. The term is mainly used in a catch-all sense for oil, gas and condensate.</i>

"km"	<i>kilometre;</i>
"km²"	<i>square kilometre;</i>
"km³"	<i>thousand cubic metres per day;</i>
"Lower Permian"	<i>the earliest epoch of the Permian geological period;</i>
"MMscfd"	<i>million cubic feet per day;</i>
"m³"	<i>cubic metre;</i>
"Permian"	<i>a geological period 250 million to 295 million years before present;</i>
"Pre-Caspian basin"	<i>a major salt dome basin and the deepest such basin in the world located to the north of the Caspian Sea;</i>
"possible reserves"	<i>those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves;</i>
"probable reserves"	<i>those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves;</i>
"proved reserves"	<i>those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations;</i>
"prospective resources"	<i>those quantities of petroleum which are estimated as of a given date to be potentially recoverable from undiscovered accumulations;</i>
"reservoir"	<i>a porous and permeable rock formation in which gas and oil has accumulated and can be produced;</i>
"reserves"	<i>those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves include proved, probable and possible reserve categories, which are defined elsewhere in this glossary;</i>
"resources"	<i>quantities of petroleum which includes prospective resources, defined elsewhere in this glossary;</i>
"tcf"	<i>trillion cubic feet;</i>

ANNEX A
ISSUER'S 2010 ANNUAL REPORT



Vostok Energy Plc
(Registered No. 05806076)

Annual Report and Financial Statements

31 December 2010

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Registered No. 05806076

Company Information

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Executive Chairman's Statement

Vostok Energy Public Limited Company ("the Company") and its subsidiaries ("the Group" or "Vostok") remain focused on adding shareholder value through increasing reserves and production. The Group's work programme has been based on three principal objectives: continued exploration of the hydrocarbon potential of the Bortovoy licence (the "licence") via additional seismic and exploratory drilling; appraisal of the Group's known reserves through appraisal/development drilling and re-evaluation of existing seismic and other technical data; and commercialising the gas reserves through construction of a gas processing facility while increasing available production capacity through development drilling and acid matrix and fracturing programmes on selected wells.

Exploration Activities

In December 2010 the Group completed drilling its first Devonian well in the eastern area of the licence. Testing of the well began in January 2011. Subsequent to year-end the deeper horizons in the Devonian were successfully tested resulting in a significant increase in reserves for the eastern licence area.

The Devonian prospect was identified by our geological team based on the 3D seismic acquired during the previous year as part of our on-going seismic acquisition. At year-end, a 300 square kilometre 3D seismic acquisition programme was underway to further delineate prospects in the eastern area of the licence.

Appraisal/Development Activities

During the year an extensive acid matrix programme was completed in the western area of the licence providing production capabilities for the western gas plant that now exceed production capacity by over 50%.

Commercialisation

With the start-up of the gas processing facility in November 2010, the Group achieved a key milestone in its strategy with the commercialisation of the reserves in the western area of the licence.

The Company expects now to be able to fund its current operations and a basic capital programme from cash flow. The goal is to obtain funds for the construction of a second gas processing plant in the eastern area of the licence through an Initial Public Offering of shares or other fundraising to be completed in the latter part of 2011.

Business Review

Review of Operations

Drilling and re-entries

Exploration drilling

West Area:

No exploratory drilling was undertaken in the west area of the licence during 2010.

East Area:

Lower Permian:

In the eastern area of the licence the Group completed drilling the Timoninskoye 44 exploration well which was begun during Q4 of 2009 in fulfilment of licence commitment obligations. The well was drilled to a total depth of 1800m. to test a lower Permian Timoninskoye bank margin reef prospect. Geophysical logs and core data over the prospective lower Permian intervals indicated that the reservoir section was of lower than anticipated porosity and permeability albeit hydrocarbon (oil) saturated. Initial completion and testing of this interval failed to recover hydrocarbons in commercial quantities and at year end the well was suspended pending proposed further evaluation and possible acid fracturing. Two additional lower Permian exploration wells, Muravlinskaya -1 and East Lipovskaya -1 were drilled during Q1 and Q2 2010, however, both wells encountered similar hydrocarbon, oil and gas saturated, low porosity and permeability reservoir sections in the prospective lower Permian reservoir intervals. Completion and testing undertaken on the Muravlinskaya-1 well recovered both oil and gas in non-commercial quantities whilst the anticipated reservoir interval in the East Lipovskoye -1 well failed to recover significant quantities of hydrocarbons.

The drilling location of both wells had been selected based upon structural interpretation of the initial processing of 2008-2009 3D seismic data undertaken by the acquisition company. During 2010 Vostok's technical staff subsequently commissioned the reprocessing of this data to be undertaken by Paradigm Geophysical Ltd., the contractor which had previously processed all of the 2D seismic data acquired by Vostok during 2007 – 2009. The interpretation of the Paradigm processing of the 3D data available during Q3 2010 indicates that both the Muravlinskaya-1 and East Lipovskoye-1 were likely not optimally located on the lower Permian bank margin reef structure. At year end both wells were suspended pending further evaluation and possible further completion and testing using acid fracturing techniques.

Devonian:

The Nepryakhinskaya -1 Devonian exploration well commenced drilling in April 2010 and completed drilling at a total depth of 4650 metres in the lower Devonian in late November. The well was logged using both Russian and western geophysical logging services and based upon both preliminary log analysis and high background gas shows whilst drilling the well was being cased to total depth at year end.

Development drilling

As a result of a successful development drilling in the Karpenskoye Field during 2009 no additional development wells were required to be drilled for gas deliverability in the west area of the Licence in 2010.

Well re-entries and recompletions

During 2010 the Company acquired all rights to three additional wells within the Karpenskoye field area, wells No. 7, No. 19, and No. 52. These wells are located within the hydrocarbon-bearing area of the field and are scheduled for re-completion and testing during 2011.

Acid fracturing and stimulation

Two wells, Karpenskoye-13 and Karpenskoye 17 of Vostok's 7 well acid fracturing and stimulation programme began in the Karpenskoye Field during Q4 2009 were successfully treated and tested early in 2010. The additional gas production from these 2 wells resulted in production capability of the field exceeding the 1.47 million m³ per day maximum capacity requirement of the gas plant.

Seismic activity

Conventional 2D seismic

During 2010 further seismic interpretation work and selected custom reprocessing was ongoing on the Group's extensive 2D seismic data base which was acquired in 2007 and 2008 and upon older existing 2D seismic data.

Where possible this data was integrated with data from existing wells to increase the inventory of exploration prospects and leads on the licence.

Business Review

Review of Operations (continued)

3D Seismic

Interpretation of the deeper Devonian and Carboniferous intervals in the easternmost licence area revealed a number of prospective exploration plays based upon which the Group commenced drilling the Nepryakhinskaya-1 Devonian exploration well during April 2010. In addition, the structural detail provided by 3D data for the Devonian interval has assisted in developing play concepts elsewhere on the licence. A 150 square kilometers 3D seismic acquisition programme covering the West Lipovskoye field and Timoninskoye prospect areas located immediately to the west of the 2008-09 3D programme was begun during Q4 2009 and continued during Q1 2010. Acquisition of this survey was, however only partially completed due to surface access problems caused by an early spring thaw. A third 180 km² 3D seismic acquisition campaign was begun late in 2010 and was ongoing at year end. This survey will complete the acquisition of data outstanding in the 2009 -10 programme area and will extend the Company's area of 3D coverage to the west to include the Kochkurovskoye area.

Geological and geophysical evaluations

West Area

In the western area of the licence geophysical and geological work undertaken since 2007 has provided for the identification of prospect leads on the continuation of the lower Permian bank margin between the Karpenskoye and Mokrousovskoye fields and for refinement of potential future lower Permian exploration drilling prospects in the Krasnokutskoye area. In the area to the north and west of the Mokrousovskoye field this work has also allowed for refinement of prospect leads relating to the upper Carboniferous bank margin which was identified in 2008 and possible deeper middle and upper Devonian structural prospects. No further geophysical or geological work was undertaken in the west area during 2010.

Central Area

Interpretation of the conventional 2D seismic acquired in 2008 across the central area of the licence demonstrated that the central area, of the licence lying between the Mokrousovskoye and Pavlovskoye fields, is occupied by a basement uplift which has structurally elevated older, Devonian and Carboniferous sediments by about 1000m relative to the east and west areas and displaced the basin margin southwards beyond the boundary of the licence. The central licence area is currently indicated to be less prospective than the remaining areas of the licence and no additional geological or geophysical work was conducted on the area during 2010.

East Area

The east area of the licence has been the Company's main area of focus for geophysical and geological work during 2010 in support of proposed future development and exploitation of both gas and liquids.

Devonian and Carboniferous:

Due to their potential magnitude and significance the emphasis of geological and geophysical work conducted during 2010 has been primarily upon the potential prospective resources of the Devonian interval. This work was undertaken in an effort to further identify the depositional, structural and tectonic controls that have been in play to develop seismically identified prospects, and to understand the influences that these factors have exerted upon defining the prospectivity of overlying sedimentary intervals, particularly the Carboniferous.

Based upon positive indications that were encountered whilst drilling the Nepryakhinskaya-1 Devonian exploration well during Q3 and Q4 of 2010, the company developed a contingent schedule and strategy for drilling additional Devonian wells in combination with superimposed Carboniferous prospects during 2011.

Lower Permian:

Additional work on lower Permian prospects drilled during 2010 as well as prospects proposed for future drilling was also initiated during 2010. This involved attempting to rationalize the results of recently drilled lower Permian wells based upon interpretation of customized reprocessing of 3D seismic data by Paradigm Geophysical Ltd in Moscow in combination with seismic character analysis. It is hoped that these studies will aid in defining those areas of lower Permian carbonate reef build ups with higher primary (depositional) porosity that can serve as hydrocarbon reservoirs.

Reserves evaluation

In October 2010 Vostok's independent engineers, Miller and Lents, prepared a revised reserves evaluation report as of 1 September 2010 in support of the Company's initiative to secure a UK public listing. Miller and Lents revised their 31 May 2010 estimate of economic recoverable 3P reserves of the Group from 728.5 Bcf of natural gas and 21.7 MMBbl of oil and condensate to 714 Bcf and 20.0 MMBbl of oil and condensate and their estimate of Proven P1 Reserves from 526 to 519 Bcf of gas and from 15.6 to 13.3 MMBbl of oil. Proven natural gas reserves of the Group increased overall from 390 Bcf to 545 Bcf.

Business Review

Review of Operations (continued)

Future developments

Other than for two infill oil development wells in the Karpenskoye field no further drilling is proposed for the west area during 2011. Instead the Group will continue to focus its drilling and completion activities together with its geological and geophysical activity upon evaluating and increasing reserves and resources in the eastern area of the licence. This will involve an exploration drilling programme comprising at least one Devonian exploration well to be drilled on the Muravlinskaya prospect, a possible second Devonian exploration well to be drilled based upon the interpretation results of 3D seismic currently being acquired and one lower Permian exploration well.

Business Review

Financial review

Review of 2010 results

The Annual Report and Financial Statements are prepared under International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”). The Group uses US dollars as its presentation currency. The Group revenue for 2010 was 276 thousand USD (2009 – 46 thousand USD) and the loss after taxation was 22.490 million USD (2009 – 11.860 million USD). Detailed Group financial information is set out in the audited financial statements for 2010 on pages 13-45 of this report.

The Group is predominantly in an exploration and development phase and standard key performance indicators such as growth in sales, returns on invested capital and employee retention figures are not true indicators of group performance. The key performance indicators at 31 December were:

	2010	2009
Proven gas reserves in billion cubic feet (1)	519.0	544.8
Proven oil reserves in millions of barrels (1)	13.3	14.6
Available production capacity of gas in million cubic feet per day	72.2	59.5
Revenue for the year (in millions of USD) (2)	0.3	0.0
Loss for the year (in millions of USD)	22.5	11.1

- (1) The gas and oil reserves are based on the most recent independent engineer’s reports. The decrease in reserves resulted from re-evaluating the field structures on the licence based on recent drilling and re-entry results and the interpretation of recently acquired 3D seismic.
- (2) The increase in revenue resulted from the gas plant which was under commissioning and had some limited production from November 2010 to the end of the year.

On 26 November 2010 the Company achieved a major milestone with first gas production from the Karpenskoye gas plant. At year-end, the gas plant was still going through commissioning and had only intermittent production.

Corporate events

On 20 July 2010 the Company issued an additional 1,840,000 shares to the Employee Benefit Trust (the “EBT”) bringing the total number shares issued to the EBT for employees to 3,800,000.

On 13 October 2010 the Company finalised a convertible debt financing of 50 million USD with Deutsch Bank, the proceeds of which were to be used to complete the development of the gas plant and cover corporate administrative expenses. The debt is convertible at a price of an Initial Public Offering (“IPO”) which is being planned by the Company for 2011.

Charitable donations and social responsibility

The primary Group operations are in the Saratov region in Russia and it is one of the goals of the Group to provide support to the local community to ensure the region benefits from the Group’s presence on an enduring basis. During the year, the Group spent 121 thousand USD (2009 – 201 thousand USD) on sponsorships and charitable donations for local government and non-governmental agencies that support local development and industry and for agencies focusing on maintaining and improving local environmental standards.

Events since the end of the year

There have been no significant events since the end of the year.

Business Review

Risk management

Financial

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

Operations and commercial

The main activity of the Group is the exploration, development and production of gas. The Group currently sells all gas produced to a subsidiary of OJSC Gazprom, the Saratov Gas Company LLC. The selling price as set out in the agreement is calculated at a 20% discount to the weighted average selling price for commercial and domestic gas consumers in the Saratov region as determined by the Russian Tariff Service. For 2010, this price was 61.72 USD (1,927 roubles) per thousand cubic meters of gas. The contract sets out volumes to be delivered however the volumes can be amended based on mutual agreement and Gazprom is only required to pay for the gas actually delivered.

There is oil and condensate associated with the production of gas reserves. The Group sells the oil and condensate at "spot" rates based on contracts with selected customers who pay for the oil at or prior to delivery. Given the limited oil production to date, the Group does not maintain any fixed price or long term marketing contracts. Although gas and oil market prices may fluctuate, as a general policy, the Group does not and does not intend to hedge gas and oil sales. Under appropriate circumstances such as taking advantage of attractive prices, the Group may engage in longer term sales contracts and price hedging.

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

Operating environment

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

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal inflation, lack of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal and economic reforms.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group in Russia may be challenged by the relevant regional and federal authorities. Based on reviews and audits performed to date by the relevant authorities, there have been no significant tax fines or penalties incurred and management believes that as of 31 December 2010, its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained.

Strategic and reputational

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

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

Financial Risks

A review of financial risks is included in note 26 to the Financial Statements.

Directors' Report

The directors of the Company present their report and financial statements for the year ended 31 December 2010.

Principal activity and review of the business

The principal activities of the Group during the year were exploration, development and production of natural gas and hydrocarbon liquids. The Group's operating activities during 2010 were in Russia where the Group holds a sub-soil licence for geological exploration and production of hydrocarbons.

Business Review

A review of the Group's business during the year and its future prospects is included in the Executive Chairman's Statement and Business Review on pages 3-8 which should be read in conjunction with this report of which they form part and in which they are incorporated by reference.

Board of Directors

The directors at 31 December 2010 and 2009 are as given below except where noted otherwise:

Charles Jamieson
Robert Cathery
Blaine Karst
Roger Cagle
Ronald Harris
John Orange (*appointed 9 September 2010*)
Mark Sadykhov
Jacob Ulrich
Aric Cunningham (*resigned 17 February 2011*)
Kevin Bortz (*resigned 14 March 2011*)
Alexander Capelson (*resigned 21 April 2011*)

Dividends

The directors do not recommend a dividend for the year (2009 – \$nil).

Audit and Risk Committee and Remuneration Committee

The Board currently has an Audit and Risk Committee and a Remuneration Committee.

The role of the Audit and Risk Committee is to review and monitor the integrity of the financial reporting by the Company, to review the Group's internal control and risk management systems and oversee the relationship with the external auditors. The Audit and Risk Committee meets and discusses issues throughout the year and approves the audit plan and audited financial report for submission to the Board for approval.

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

Directors' Report

Subsidiaries

The Company had the following subsidiaries at 31 December 2010 (all are owned directly by the Company unless otherwise noted):

<i>Active subsidiaries</i>	<i>Country of incorporation</i>	<i>Effective ownership percentage</i>	
		<i>2009</i>	<i>2010</i>
Royal Atlantic Energy (Cyprus) Limited ("RAECL")	Cyprus	100	100
Diall Alliance LLC – 100% subsidiary of RAECL ("DIALL")	Russia	100	100
Vostok Energy Ltd.	United States	100	100
Vostok Energy Resources Limited ("VERL")	United Kingdom	100	100
Vostok (Cyprus) Limited ("VCL")	Cyprus	100	100
<i>Inactive subsidiaries</i>			
Zhaikin LTD LLP ("Zhaikin") – inactive since 2007	Kazakhstan	75	75
Vostok Energy Company, CJSC ("VEC") – inactive since 2009	Russia	100	100

Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law to prepare Group and Company financial statements in accordance with IFRS as adopted by the EU.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

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

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

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

Directors' Report

Statement as to disclosure of information to the auditor

The directors who were in office on the date of approval of these financial statements have each confirmed that as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has also confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

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

By order of the Board

Tony Hunter
Secretary
20 May 2011

INDEPENDENT AUDITOR'S REPORT to the members of Vostok Energy Plc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Vostok Energy Plc

We have audited the financial statements of Vostok Energy Plc. for the year ended 31 December 2010 which comprise the Group and Parent Company Statements of Financial Position, the Group Statements of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's and the parent company's loss for the year then ended;
- ▶ the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ▶ The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

**INDEPENDENT AUDITOR'S REPORT
to the members of Vostok Energy Plc**

20 May 2011

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010

	Notes	2010 USD '000	2009 USD '000
Revenue		267	46
Operating expenses	4	(4,364)	(3,410)
Administrative expenses	5	(13,252)	(10,291)
Other gains/(losses)	7	(540)	1,921
Total expenses		(18,156)	(11,780)
Operating Loss		(17,889)	(11,734)
Finance income	8	19	250
Finance costs	9	(4,620)	(376)
Loss before taxation		(22,490)	(11,860)
Income tax benefit/(expense)	13	2,981	(1,341)
Loss for the year		(19,509)	(13,201)
Other comprehensive income:			
Foreign exchange movements on Translation of foreign entities		(2,060)	3,369
Total comprehensive income		(21,569)	(9,832)
		2010 USD	2009 USD
Loss per share during the year (Note 13):			
-basic		0.10	0.07
-diluted		0.10	0.07

Consolidated Balance Sheet at 31 December 2010

	Notes	2010 USD '000	2009 USD '000
Non-current assets			
Intangible assets	15	58,140	36,233
Property, plant and equipment	16	210,433	160,651
Trade and other receivables	17	8,993	13,430
Deferred tax	13	6,828	5,389
		<hr/>	<hr/>
		284,394	215,703
		<hr/>	<hr/>
Current assets			
Inventories	18	60	33
Trade and other receivables	19	24,522	15,570
Cash and cash equivalents	20	18,147	18,361
		<hr/>	<hr/>
		42,729	33,964
		<hr/>	<hr/>
Total assets		<u>327,123</u>	<u>249,667</u>
Current liabilities			
Trade and other payables	21	10,754	6,087
		<hr/>	<hr/>
Non-current liabilities			
Borrowings	22	99,801	8,018
Provisions	23	7,922	9,900
		<hr/>	<hr/>
		107,723	17,918
		<hr/>	<hr/>
Total liabilities		<u>118,477</u>	<u>24,005</u>
		<hr/>	<hr/>
Net assets		<u>208,646</u>	<u>225,662</u>
		<hr/>	<hr/>
Equity			
Share capital	24	1,870	1,851
Share premium	24	50,569	295,674
Own shares held	24	(11,600)	(5,983)
Equity component of convertible debt	24	6,048	1,964
Currency translation reserve	24	(11,759)	(9,699)
Share option reserve	24	2,598	1,426
Accumulated reserves/(deficit)	24	170,920	(59,571)
		<hr/>	<hr/>
Total equity attributable to owners of the parent		<u>208,646</u>	<u>225,662</u>
		<hr/>	<hr/>

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

Signed on behalf of the Board of Directors

Blaine Karst,
Director
20 May 2011

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital USD '000	Share premium USD '000	Own shares held USD '000	Equity component of convertible debt USD '000	Currency translation reserve USD '000	Share option reserve USD '000	Accumulated reserves/ (deficit) USD '000	Total equity USD '000
Balance at 1st January 2009	1,701	252,195	-	-	(13,068)	594	(46,370)	195,052
Total comprehensive income for the period	-	-	-	-	3,369	-	(13,201)	(9,832)
Transactions with owners								
Share issues	150	45,833	-	-	-	-	-	45,983
Own shares issued to the employee benefit trust	-	-	(5,983)	-	-	-	-	(5,983)
Equity element of convertible debt	-	-	-	1,964	-	-	-	1,964
Share issue costs	-	(2,354)	-	-	-	-	-	(2,354)
Share option charge	-	-	-	-	-	832	-	832
Total of transactions with owners	150	43,479	(5,983)	1,964	-	832	-	40,442
Balance at 31 December 2009	1,851	295,674	(5,983)	1,964	(9,699)	1,426	(59,571)	225,662
Total comprehensive income for the year	-	-	-	-	(2,060)	-	(19,509)	(21,569)
Transactions with owners								
Share issues	19	(244,402)	-	-	-	-	250,000	5,617
Own shares issued to the employee benefit trust	-	-	(5,617)	-	-	-	-	(5,617)
Equity element of convertible debt	-	-	-	4,084	-	-	-	4,084
Share issue costs	-	(703)	-	-	-	-	-	(703)
Share option charge	-	-	-	-	-	1,172	-	1,172
Total of transactions with owners	19	(245,105)	(5,617)	4,084	-	1,172	250,000	4,553
Balance at 31 December 2010	1,870	50,569	(11,600)	6,048	(11,759)	2,598	170,920	208,646

**CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2010**

	Notes	2010 USD '000	2009 USD '000
Operating activities			
Loss for the year		(19,509)	(13,201)
<i>Adjustments to reconcile loss for the year to net cash flow used from operating activities:</i>			
Tax for the year	13	(2,981)	1,341
Net finance costs	8,9	4,601	126
Foreign exchange losses/(gains)	7	178	(638)
Depreciation, depletion and amortisation	15,16	1,073	596
Share based payments	12	1,172	832
Movement in provisions		122	(1,504)
<i>Working capital adjustments:</i>			
Decrease/(Increase) in trade and other receivables		4,787	87
Decrease/(Increase) in inventories		(27)	22
(Decrease)/Increase in trade and other payables		4,816	3,077
Net cash flow used in operating activities		(5,768)	(9,262)
Investing activities			
Interest received	8	19	250
Payments to acquire intangible assets		(21,957)	(8,068)
Purchase of property, plant and equipment		(58,360)	(93,891)
Net cash flow used in investing activities		(80,298)	(101,709)
Financing activities			
Proceeds on issue of share capital		-	36,943
Costs on share capital transactions		(4,355)	-
Interest paid		(2,278)	(113)
Proceeds from new borrowings		93,364	6,693
Repayment of long-term borrowings		-	(2,168)
Net cash flow from financing activities		86,731	41,355
Increase / (decrease) in cash and cash equivalents		665	(69,616)
Net foreign exchange difference		(879)	2,507
Cash and cash equivalents at beginning of the year	20	18,361	85,470
Cash and cash equivalents at the end of the year		18,147	18,361

Notes to the Consolidated Financial Statements

1 Corporate Information

a) Organisation and principal activities

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

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

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

b) Russian business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in Russia. These risks include matters arising out of the policies of the Government, economic conditions, imposition of, or changes to, taxes and regulations and foreign exchange rate fluctuations. Refer to Note 26 for more information on key risks.

c) Financial risk management

The Group's long term success is exposed to the effect of fluctuations of oil and gas prices in the local markets which are influenced by international prices. Refer to Note 26 for a description of other risks.

2 Significant Accounting Policies

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

The financial statements for the Group for the year ended 31 December 2010 were authorised for issue by the board of directors and the balance sheet was signed on the board's behalf by Blaine Karst.

The financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2010.

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

b) Basis of preparation

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

c) Changes in accounting policies

The accounting policies adopted by the Group at 31 December 2010 have been consistently applied in all periods presented. During the period, the following standards have been adopted in these financial statements:

IFRS 2 Share based payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group in any of the periods presented.

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

As there were no business combinations or changes in the ownership interest of a subsidiary without loss of control, the change in accounting policy as a result of the changes in the standards has had no impact on the financial position or performance of the Group in any of the periods presented.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges in any period presented, the Group has concluded that the amendment will have no impact on the financial position or performance of the Group.

IFRIC 17 Distribution of Non-cash Assets to Owners

The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of the interpretation did not have any impact on the Group.

IFRIC 18 Transfers of Assets from Customers

The interpretation applies to entities that receive from customers items of property, plant and equipment or cash for the acquisition of construction of such items. These assets are then used to connect customers to a network or to provide ongoing access to a supply of goods or services. As the group does not enter into such transactions this interpretation has no impact on the Group.

Improvements to IFRSs 2009

In May 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording. The adoption of the amendments did not have any impact on the financial position or performance of the Group in any period presented.

IAS 24	Related Party Disclosures (Amendment)
IAS 32	Financial Instruments: Presentation – Classification of Rights Issues
IFRS 9	Financial Instruments: Classification and Measurement
IFRIC 14	Prepayments of a minimum funding requirement (Amendment)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (Endorsed)

Improvements to IFRSs 2010

In May 2010 the IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 July 2010 or 1 January 2011. The amendments listed below are considered to have a reasonably possible impact on the Group:

IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 27	Consolidated and Separate Financial Statements

The Directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group.

At the date of authorisation of these financial statements, there were no Standards and Interpretations relevant to the Group operations in issue but not yet effective or endorsed (unless otherwise stated).

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

d) Basis of consolidation

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

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

e) Comparative figures

Where a change in presentational format of the consolidated financial statements has been made during the year, comparative figures have been restated accordingly.

f) Business combinations

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

g) Foreign currency translation

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

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

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

The functional currency of the Company is the US dollar while the functional currency of its Russian subsidiaries is the Russian ruble ("RUB").

h) Revenue recognition

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

Sale of goods

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

Finance income

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

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

i) Borrowing costs

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

j) Taxation

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

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

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

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

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

k) Share-based payments

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

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

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

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

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

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

l) Intangible assets – exploration and evaluation expenditures

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

Drilling, seismic and other costs

All costs incurred in technical services, seismic data, and for exploration and appraisal activities are initially capitalised as intangible assets on a well by well basis until the results of the drilling have been determined. If commercial reserves have been discovered and development has been approved, the carrying values of the related intangible assets are reclassified as development and production assets. If commercial reserves have not been discovered, the costs are charged to profit or loss after appraisal activities are completed.

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

Sub-soil licences

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

For amortization purposes, useful lives are estimated as follows:

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

m) Property, plant and equipment

Oil and gas assets

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

Motor vehicles, office equipment and furniture

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

Depletion

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

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

Depreciation

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

For depreciation purposes, useful lives are estimated as follows:

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

Decommissioning and environmental restoration provision

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

n) Impairment of intangible assets and property, plant and equipment

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

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. Impairment losses are recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

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

o) Inventories

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

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

p) Financial assets

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

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

Loans and receivables

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

Trade and other receivables

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

Cash and cash equivalents

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

q) Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

r) Interest bearing loans and borrowings

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

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

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

s) Financial liabilities and equity

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

t) Equity Instruments

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

Convertible debt

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

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

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

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

u) Derecognition of financial assets and liabilities

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

v) Employee benefit trust

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

w) Judgements and key sources of estimation uncertainty

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

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

Notes to the Consolidated Financial Statements

2 Significant accounting policies (continued)

Taxation

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

Estimates and assumptions

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

Fair value of acquisition

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

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

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

Sub-soil licences (Note 15)

The Group is subject to periodic reviews of its activities by governmental authorities in Russia with respect to the requirements of its sub-soil licences and seeks amendments to the licences when supported by the results of ongoing exploration and development activities. The requirements under the licences are subject to interpretation and enforcement policies of the relevant authorities. In management's opinion, as of 31 December 2010, there are no serious non-compliance issues that will have an adverse effect on the financial position or the operating results of the Group.

Decommissioning and environmental restoration (Note 23)

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

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

Share-based payments (Note 12)

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management is also required to use judgement in determining the most appropriate inputs to the valuation model including expected life of the option, volatility and dividend yield. The assumptions and models used are disclosed in Note 12.

Notes to the Consolidated Financial Statements

3 Segment information

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

4 Operating expenses

	2010 USD '000	2009 USD '000
Repair and maintenance	195	870
Depreciation, depletion and amortisation	891	425
Rental, heating and other operating costs	443	369
Environmental and conservation	206	294
Material and transport services	1,150	292
Operations and property insurance	204	273
Property, transport, environmental and water utilization taxes	521	243
Expensed exploration and development costs	145	238
Salaries and benefits	333	223
Subsoil usage royalties	38	55
Mineral extraction tax	14	46
Other costs	154	43
Land rental	70	39
	<hr/>	<hr/>
	4,364	3,410
	<hr/> <hr/>	<hr/> <hr/>

5 Administrative expenses

	2010 USD '000	2009 USD '000
Salaries and benefits	6,986	4,869
Professional fees	3,348	2,930
Office	1,615	1,280
Travel and training	890	976
Depreciation	182	171
Insurance	231	65
	<hr/>	<hr/>
	13,252	10,291
	<hr/> <hr/>	<hr/> <hr/>

6 Auditor's remuneration

	2010 USD '000	2009 USD '000
Auditor's remuneration for services included in professional fees:		
Statutory audit - Company	152	150
Subsidiary audits	40	138
Taxation and advisory services	61	157

Notes to the Consolidated Financial Statements

7 Other gains and losses

	2010 USD '000	2009 USD '000
Exceptional operating items:		
Reversal of impairment of intangible assets	-	(41)
Reversal of impairment of property, plant and equipment	-	(1,602)
Provision against prepayments	122	139
Exchange (gain)/loss	178	(638)
Sponsorships and charitable donations	121	201
Other losses	119	20
	540	(1,921)
	540	(1,921)

The reversal of the impairment charges for 2009 is a reversal of a provision set up in 2007. The reversal is primarily for gas plant costs of 873 thousand USD that are now believed to have future value and for well drilling and re-entry costs of 770 thousand USD that the Group had not expected to be recovered based on production tests in 2007. During 2009 the decision was made to re-enter the wells and apply further acid fracturing stimulation of old and new target zones and it has now been determined that the well costs will be recoverable through future production revenues.

The provision against prepayments of 122 thousand USD (2009 – 139 thousand USD) is for advance payments on contracts where the services were not provided and costs are not recoverable (Note 19).

The exchange (gain)/loss is the result of changes in exchange rates from the time a transaction is recorded until it is settled. The majority of the loss of 178 thousand USD (2009 – 638 thousand USD gain) was incurred by subsidiary operations in Russia.

8 Finance income

	2010 USD '000	2009 USD '000
Interest on short-term deposits	19	250
	19	250

9 Finance costs

	2010 USD '000	2009 USD '000
Interest on non-current liabilities	-	113
Unwinding of discount on provisions	1,089	101
Other finance costs	3,531	162
	4,620	376
	4,620	376

For 2009 the interest on non-current liabilities relates to non-current borrowings (Note 22). The unwinding of the discount on provisions relates to the decommissioning provision (Note 23). For 2010 other finance costs relate to costs incurred in contemplation of a planned public listing of the Company shares. In 2009 the other finance costs relate to a commitment charge on the loan facility (Note 22).

Notes to the Consolidated Financial Statements

10 Directors' emoluments

Included in staff costs are directors' emoluments of 2.381 million USD (2009 – 2.192 million USD) and fees payable to non-executive directors of 66 thousand USD (2009 – 23 thousand USD).

The highest paid director's emoluments was 1.246 million USD (2009 – 1.084 million USD) which includes an accrual for share based payments of 796 thousand USD (2009 – 455 thousand USD).

During 2009 the Company advanced funds to the Chief Operating Officer to cover employment taxes in Russia. At 31 December 2009 the Company had advances receivable of 133 thousand USD as a result of the actual Russian employment tax liability being less than originally estimated. All advances were recovered in 2010 and there were no advances receivable at 31 December 2010.

11 Staff costs

	2010 USD '000	2009 USD '000
Wages and salaries	5,816	3,424
Share-based payment benefits	1,172	832
Social security costs	795	657
Rental benefits	383	354
	<u>8,166</u>	<u>5,267</u>

Total salaries and benefits for the Group includes 333 thousand USD (2009 – 223 thousand USD) recorded as operating expenses, 6.986 million USD (2009 – 4.869 million) included in administrative expenses and 847 thousand (2009 – 175 thousand USD) recorded as seismic, development and drilling included in intangible assets and construction costs included in property, plant and equipment.

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

	2010 No.	2009 No.
Operations	89	38
Head office and administration	76	65
	<u>165</u>	<u>103</u>

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

Notes to the Consolidated Financial Statements

12 Share-based payments

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

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

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

	2010 Shares	2009 Shares
As at 1 January	2,460,000	1,960,000
Granted during the year	1,340,000	500,000
	<hr/>	<hr/>
As at 31 December	3,800,000	2,460,000
	<hr/>	<hr/>
Vested at 31 December	2,820,000	896,667
	<hr/> <hr/>	<hr/> <hr/>

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

	2010	2009
Award grant date	20 July	1 October
Number of awards	1,340,000	500,000
Fair value at grant date	\$1.52	\$1.52
Share price at grant date	\$1.53	\$1.53
Amount payable by executive	\$3.05	\$nil
Risk free rate	6%	6%
Dividend yield	nil	nil
Expected volatility	29.7%	32.7%
Expected life of awards	1.5 years	2 years
Weighted average remaining contractual life of share options at the end of the year	0.96 years	1.1 years

Expected volatility is based on historic share price movements. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Maximum term for the awards is three years. For key employees the probability that not all the awards will vest due to the resignation was set at 0% (2009 – 20%). No other features of options' terms were incorporated into the measurement of fair value.

The following table lists liabilities arising from share-based payment transactions (amounts are in thousand US\$):

	2010	2009
Carrying value of liability on share-based awards	2,598	1,426
Number of awards	1,959	852

The expense recognized for share-based payments in respect of employee services received during the year is 1.172 million USD (2009 – 832 thousand USD).

Share options

In 2010, 1,340,000 shares (2009 – 500,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions being met, such shares vesting over a three year period from the date set in the joint operating agreements between employees and the EBT. The actual shares issued to the EBT for the year were 1,840,000 (2009 – 1,960,000 shares).

Notes to the Consolidated Financial Statements

13 Tax

The tax charge for the year comprises:

	2010 USD '000	2009 USD '000
Current tax – UK tax	(1,495)	1,495
Current tax – foreign tax	-	36
Deferred tax	(1,486)	(190)
	<u>(2,981)</u>	<u>1,341</u>

The income tax benefit in the statement of comprehensive income is lower than the standard rate of corporation tax in the UK of 28% (2009 - 28%). The differences are reconciled below:

	2010 USD '000	2009 USD '000
Loss before taxation	(22,490)	(11,860)
Tax at applicable rate of tax of 28% (2009 – 28%)	(6,297)	(3,321)
Tax effect of:		
- unrecognized tax losses	3,492	1,341
- effect of different foreign tax rates	606	202
- items not deductible for tax	661	985
- non-taxable expense	-	(180)
- derecognition of items from prior year	52	308
- foreign exchange loss	-	458
- other	(1,495)	1,548
	<u>(2,981)</u>	<u>1,341</u>
Total tax (benefit)/expense reported in profit or loss	<u>(2,981)</u>	<u>1,341</u>

The effect of different foreign tax rates is the result of losses incurred in subsidiaries located in countries where lower levels of tax rates are applied.

As at 31 December 2010 the Group has unrecognised deferred tax asset on tax losses which arose in the UK of 16.386 million USD (2009 – 11.949 million USD), in the US of 1.623 million USD (2009 – 727 thousand USD) and in Russia of 1.994 million USD (2009 – 1.882 million USD).

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

There was no tax charge / (credit) to equity during the year (2009 – nil).

Notes to the Consolidated Financial Statements

13 Tax (continued)

Deferred tax

The deferred tax included in the balance sheet is as follows:

	2010 USD '000	2009 USD '000
Deferred tax assets		
- tax losses carried forward	8,926	6,180
- current assets	518	1,072
- property, plant and equipment	334	-
Deferred tax liabilities		
- intangible assets	(2,950)	(1,633)
- property, plant and equipment	-	(230)
	<u>6,828</u>	<u>5,389</u>

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

	2010 USD '000	2009 USD '000
As at 1 January	5,389	5,344
Credited to profit or loss	1,486	190
Net exchange adjustment	(47)	(145)
As at 31 December	<u>6,828</u>	<u>5,389</u>

A net deferred tax asset has been recognised on the basis that there will be sufficient taxable profits, based on the group's profit forecast, against which these temporary differences can be utilised.

The deferred tax included in profit or loss is as follows:

	2010 USD '000	2009 USD '000
Deferred tax assets		
- tax losses carried forward	(2,804)	(1,755)
- property, plant and equipment	(562)	-
- current assets	-	(1,375)
Deferred tax liabilities		
- intangible assets	1,326	1,633
- property, plant and equipment	-	1,078
- other allowances	-	229
- current assets	554	-
	<u>(1,486)</u>	<u>(190)</u>

Notes to the Consolidated Financial Statements

14 Loss per share

The calculation of basic loss per ordinary share is based on the loss for the period and the weighted average number of shares in issue (\$ amounts in USD'000).

	2010	2009
Loss for the purposes of basic loss per share	19,509	13,201
Weighted average number of ordinary shares for the purposes of basic loss per share	186,143,458	175,280,273
Loss per share (amounts in USD):		
Basic	0.10	0.07
Diluted	0.10	0.07

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

Notes to the Consolidated Financial Statements

15 Intangible Assets

	<u>Exploration and evaluation expenditures</u>			
	Sub-soil licence rights USD'000	Drilling, seismic & other costs USD '000	Sub-soil licenses USD '000	Total USD '000
Cost:				
Balance at 1 January 2009	1,000	16,942	17,604	35,546
Translation difference	-	(16)	(2)	(18)
Additions (write-offs)	(1,000)	6,831	-	5,831
	-----	-----	-----	-----
At 31 December 2009	-	23,757	17,602	41,359
Translation difference	-	(201)	(21)	(222)
Additions and reclassifications		22,397	-	22,397
	-----	-----	-----	-----
At 31 December 2010	-	45,953	17,581	63,534
	=====	=====	=====	=====
Amortisation and impairment:				
Accumulated balance at 1 January 2009	(1,000)	(5,150)	(7)	(6,157)
Amortisation for the year	-	-	(10)	(10)
Reversal of impairment charge	-	41	-	41
Write-offs	1,000	-	-	1,000
	-----	-----	-----	-----
At 31 December 2009	-	(5,109)	(17)	(5,126)
Amortisation for the year	-	(260)	(8)	(268)
	-----	-----	-----	-----
At 31 December 2010	-	(5,369)	(25)	(5,394)
	=====	=====	=====	=====
Net book value:				
At 31 December 2009	-	18,648	17,585	36,233
	-----	-----	-----	-----
At 31 December 2010	-	40,584	17,556	58,140
	=====	=====	=====	=====

The subsoil licence rights related to Zhaikinvest, a subsidiary of the Group, for a licence to operate in Kazakhstan. The decision was made not to proceed with this project and the asset was fully provided for in 2007 and written off in 2009.

Amortisation is recognized in profit or loss as part of operating expenses (Note 4). Impairment and reversal of impairment provisions are recognized in profit or loss as part of other gains and losses (Note 7).

Included in sub-soil licences is the Bortovoy license, which is the license area that the Group operates, located in the Saratov region of Russia. The sale of the licence and the sale of major assets belonging to the Group are restricted pursuant to the convertible loan agreement and the conditional convertible bond agreement (Note 22).

In management's opinion, as at 31 December 2010 there is no serious non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group.

Notes to the Consolidated Financial Statements

16 Property, plant and equipment

	Oil and gas assets USD '000	Motor vehicles USD '000	Other equipment and furniture USD '000	Total USD '000
Cost:				
Balance at 1 January 2009	60,869	400	450	61,719
Translation differences	1,678	(11)	142	1,809
Additions	98,700	33	12	98,745
Disposals	(158)	(10)	(7)	(175)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	161,089	412	597	162,098
Translation differences	(985)	(1)	(1)	(987)
Additions	55,478	65	55	55,598
Disposals	(3,747)	-	(2)	(3,749)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	211,835	476	649	212,960
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation:				
Accumulated balance at 1 January 2009	(2,119)	(113)	(166)	(2,398)
Translation differences	(9)	-	(12)	(21)
Depreciation and depletion	(451)	(78)	(119)	(648)
Disposals	8	7	3	18
Reversal of impairment charge	1,602	-	-	1,602
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	(969)	(184)	(294)	(1,447)
Depreciation and depletion	(870)	(87)	(126)	(1,083)
Disposals	1	-	2	3
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010	(1,838)	(271)	(418)	(2,527)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value:				
At 31 December 2009	160,120	228	303	160,651
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2010	209,997	205	231	210,433
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Depletion is charged to profit or loss through operating expenses (Note 4). Depreciation is charged to the profit or loss through operating expenses (Note 4) and administrative expenses (Note 5). During the year 278 thousand USD (2009 – 62 thousand USD) of depreciation was capitalized and included as additions to property plant and equipment.

The sale of all or a substantial part of the assets belonging to the Group is restricted pursuant to the convertible loan agreement and the conditional convertible bond agreement (Note 22).

The amount of interest capitalized into property, plant and equipment was 3.509 million USD (2009 – 68 thousand USD).

Notes to the Consolidated Financial Statements

17 Trade and other receivables – non current

	2010 USD '000	2009 USD '000
Other receivables	3,043	8,659
Prepayments	5,950	4,771
	<u>8,993</u>	<u>13,430</u>

Prepayments are advance payments on contracts for capital projects relating to exploration, development and production and therefore classified as non-current assets. Other receivables are for value added taxes which are to be used as an offset against future value added tax liabilities but are not expected to be recovered within the next twelve months.

18 Inventories

	2010 USD '000	2009 USD '000
Natural gas and hydrocarbon liquids	60	33
	<u>60</u>	<u>33</u>

Inventory represents amounts of natural gas and hydrocarbon liquids held in storage pending sales to customers. The major component of inventory costs expensed during the period as a part of operating expenses was 52 thousand USD (2009 – 101 thousand USD) for mineral extraction and sub-soil usage royalty taxes (Note 4).

19 Trade receivables and other receivables - current

	2010 USD '000	2009 USD '000
Tax receivables	20,017	10,164
Prepayments	2,222	4,629
Other	2,168	775
Trade receivables	115	2
	<u>24,522</u>	<u>15,570</u>

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

Other receivables includes 1.767 million USD (2009 – 430 thousand USD) relating to the current portion of amortized costs for non-current borrowings (Note 22). For 2009 other receivables also includes 3.516 million USD of prepaid costs for the non drawn-down portion of the convertible loan.

The amounts shown in prepayments are net of provisions as the Group does not expect to recover advance payments on the related contracts. Movements in the provision were as follows:

	2010 USD '000	2009 USD '000
At 1 January	1,004	1,068
Charge for the year	122	139
Amounts written off	(232)	(203)
	<u>894</u>	<u>1,004</u>

No trade receivables have been pledged as security for any credit facilities.

Notes to the Consolidated Financial Statements

20 Cash and cash equivalents

Cash is kept on deposit with banks and earns interest at the daily deposit rates or placed in short-term deposits such as money market funds which can be redeemed upon demand. At 31 December 2010 the cash and cash equivalents totaled 18.147 million USD (2009 – 18.361 million USD).

21 Current liabilities

	2010 USD '000	2009 USD '000
Trade and other payables	8,351	3,421
Accruals	2,403	1,171
Current tax payable	-	1,495
	<u>10,754</u>	<u>6,087</u>

22 Non-current borrowings

	Effective Interest Rate	2010 USD '000	2009 USD '000
Amounts due in less than 5 years:			
Convertible loan issued 18 September 2009	LIBOR + 4%	51,923	3,183
Convertible bond issued 13 October 2010	10%	46,111	-
		<u>98,034</u>	<u>3,183</u>
Net amounts due in more than 5 years:			
Convertible loan	LIBOR + 4%	-	4,405
		<u>98,034</u>	<u>7,588</u>
Current borrowings (assets) (Note 19)		(1,767)	(430)
Non-current borrowings (liabilities)		99,801	8,018
Net convertible debt		<u>98,034</u>	<u>7,588</u>
Convertible loan comprises:			
Drawdown of the loan		60,000	10,000
Equity element		(6,048)	(1,964)
		<u>53,952</u>	<u>8,036</u>
Cost of borrowing		(5,538)	(516)
Capitalized interest		3,509	68
Net convertible loan		<u>51,923</u>	<u>7,588</u>
Convertible bond comprises:			
Drawdown of the bond		50,000	-
Cost of borrowing		(3,889)	-
Net convertible bond		<u>46,111</u>	<u>-</u>

Notes to the Consolidated Financial Statements

22 Non-current borrowings (continued)

On 18 September 2009, the Company entered into a convertible loan agreement to borrow up to 60 million USD. The convertible loan was drawn down in full at 31 December 2010.

The loan is convertible into ordinary shares of the Company at any time up to 18 March 2012 at the loan holder's option. Conversions done prior to 19 March 2011 are to be converted at a price of 3.0531 USD per share. From 19 March 2011 to 18 March 2012, the loan is convertible at 3.0531 USD per share plus a pro-rated amount of margin payments at 4% interest made up to the time of the conversion. For any unconverted amounts, the loan is to be repaid in six equal semi-annual installments beginning 15 June 2013 and ending on 15 December 2015.

On 13 October 2010 the Company entered into a convertible bond agreement (the "bond") to borrow up to 50 million USD. The bond was drawn down in full at 31 December 2010.

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

The net proceeds received from the issue of the convertible loan are split between a debt component and an embedded equity element. The fair value of the convertible loan component for the drawdowns taken in 2010 have been calculated as the present value of the contracted future cash flows using an assumed market interest rate of LIBOR plus 7% (2009 – 9%). The equity element is calculated as the difference between the principal amount and the fair value of the convertible loan. The fair value of the convertible bond drawdown has been calculated at the present value of the contracted future cash flows using an assumed market interest rate of 12%.

The interest charged for the year for the convertible loan and bond is calculated by applying the effective market interest rate of the assumed market interest rate to the liability component for the period since the convertible loan or bond was drawn-down. The short term part of the convertible loan calculated at amortized cost using the effective interest rate is negative.

23 Decommissioning Provision

	2010 USD '000	2009 USD '000
Beginning of period	9,900	675
Change in provision	588	5,917
Unwinding of discount	1,089	101
Reserve adjustment due to estimates change	(3,599)	2,931
Translation of differences	(56)	276
	7,922	9,900
	7,922	9,900

The provision is for decommissioning and environmental restoration costs relating to the Bortovoy licence. The decrease in the provision recorded in 2010 of 1.978 million USD was due to the revision of inflation and discount rates used in the calculation of the present value of future decommissioning and environment restoration costs.

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

The liability becomes payable at the end of the useful life of each well and the gas plant which ranges from 20 to 30 years.

Notes to the Consolidated Financial Statements

24 Equity

Authorised and issued share capital

				2010 USD '000	2009 USD '000
<i>Allotted, called up and fully paid</i>	<i>Ordinary Shares No.</i>	<i>Amount USD '000</i>	<i>Share capital USD '000</i>	<i>Share Premium USD '000</i>	<i>Own shares held USD '000</i>
250,000,000 ordinary shares of USD 0.01 each				2,500	2,500
At 1 January 2009	170,068,760	260,023	1,701	252,195	-
Share issue 20 January 2009	1,460,000	4,457	14	4,443	(4,457)
Share issue 15 June 2009	500,000	1,526	5	1,521	(1,526)
Share issue 24 September 2009	13,101,438	40,000	131	39,869	-
Share issue costs	-	-	-	(2,354)	-
At 31 December 2009	185,130,198	306,006	1,851	295,674	(5,983)
Share premium reduction 30 June 2010	-	-	-	(250,000)	-
Share issue 20 July 2010	1,840,000	5,607	19	5,598	(5,617)
Share issue costs	-	-	-	(703)	-
At 31 December 2010	186,970,198	311,613	1,870	50,569	(11,600)

Redeemable shares

At 31 December 2010 there were 50,000 redeemable shares at 1 pound sterling in issue. The shares were issued during the year in connection with the conversion of the Company to a public limited company.

Own shares held

The Company has approval to transfer up to 4,460,000 shares to the EBT for allocation to officers and employees of the Group. The formal establishment of the EBT was completed on 20 January 2009. In 2010 1,840,000 shares equal to one percent of called up share capital were issued pursuant to the EBT (2009 – 1,960,000 shares). For presentation purposes, the shares held in the EBT are included as own shares held.

On 30 June 2010 the Company reduced share premium by 250 million USD as part of the process of converting to a public limited company.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency are not in US dollars into the group's presentation currency.

Share option reserve

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

Equity element of convertible debt

The equity element of convertible debt is the difference between the principal amount and the fair value of the loan and bond convertible debts reflecting values of the convertible option of the debt instruments.

Notes to the Consolidated Financial Statements

25 Operating lease obligations

Operating lease payments are mainly rentals by the Group for land, office space and equipment required for use on a temporary basis. Leases are normally signed on a short term basis of one to two years with options to extend.

Lease payments under operating leases recognized in the statement of comprehensive income for the year were 1.021 million USD (2009 – 918 thousand USD).

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 USD '000	2009 USD '000
Within one year	781	510
In two to five years	243	35
More than five years	191	201
	<u> </u>	<u> </u>

Notes to the Consolidated Financial Statements

26 Financial instruments

Financial instruments recognised in the balance sheet

	Loans and receivables USD '000	Other financial liabilities at amortised cost USD '000	Total USD '000
Year ended 31 December 2010			
Financial assets			
Trade and other receivables	299	-	299
Current borrowings	-	1,767	1,767
Cash and cash equivalents	18,147	-	18,147
	<hr/>	<hr/>	<hr/>
	18,446	1,767	20,213
	<hr/>	<hr/>	<hr/>
Financial liabilities			
Trade and other payables	-	8,351	8,351
Non-current borrowings	-	99,801	99,801
	<hr/>	<hr/>	<hr/>
	-	108,152	108,152
	<hr/>	<hr/>	<hr/>
As at 31 December 2009			
Financial assets			
Trade and other receivables	205	-	205
Current borrowings	-	430	430
Cash and cash equivalents	18,361	-	18,361
	<hr/>	<hr/>	<hr/>
	18,566	430	18,996
	<hr/>	<hr/>	<hr/>
Financial liabilities			
Trade and other payables	-	3,421	3,421
Non-current borrowings	-	8,018	8,018
	<hr/>	<hr/>	<hr/>
	-	11,439	11,439
	<hr/>	<hr/>	<hr/>

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

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

Interest rate risk

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

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

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

Notes to the Consolidated Financial Statements

26 Financial instruments (continued)

The following tables set out the carrying amount, by maturity of the Group's financial instruments that are exposed to interest rate risk:

	Within 1 year USD '000	1-2 years USD '000	3 + years USD '000	Total USD '000
Year ended 31 December 2010				
<i>Floating rate</i>				
Cash and cash equivalents	18,147	-	-	18,147
Borrowings	1,767	2,152	(101,953)	(98,034)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Year ended 31 December 2009				
<i>Floating rate</i>				
Cash and cash equivalents	18,361	-	-	18,361
Borrowings	430	440	(8,458)	(7,588)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

A one per cent increase/decrease in interest rates on floating rate assets and liabilities would have decreased/increased property, plant and equipment by 449 thousand USD. In 2009 a one percent increase/decrease in interest rates on floating rate assets and liabilities would have decreased/increased loss before taxation by 4 thousand USD and would impact the Group's equity by the same value.

Credit Risk

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

This risk arises principally from cash and cash equivalents. Management's policy is to hold cash and cash equivalents in reputable financial institutions of which 91.9% (2009 – 66.4%) of cash and cash equivalents are held in reputable financial institutions in the UK. To limit exposure to credit risk on trade receivables, management's policy is to sell only to financially solid customers and use prepayments or payment upon delivery for product sales whenever possible. The average credit period taken on sale of goods is less than seven days. There is no allowance for estimated irrecoverable amounts from sale of goods for the year (2009 – nil).

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

Foreign currency risk

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

The Group's primary operations are within Russia where the functional currency of the Group's subsidiaries is the Russian ruble ("RUB"). The currencies giving rise to this foreign currency risk are US dollar based intra-group borrowings and payables. The recent instability of the RUB to US dollar has increased the risks of significant unrealized gains and losses associated with the intra-group borrowings. To mitigate this risk the Group has restructured the majority of intra-group borrowings to ruble based loans using Group companies with ruble functional currencies.

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

Notes to the Consolidated Financial Statements

26 Financial instruments (continued)

The following table demonstrates the Group's exposure to foreign currency risk based on gross amounts:

	US dollar USD '000	Sterling USD '000	Euro USD '000	Russian ruble USD '000	Total USD '000
Year ended 31 December 2010					
Cash and cash equivalents	16,536	188	1	1,422	18,147
Trade and other receivables	30	72	-	197	299
Trade and other payables	(2,577)	(1,041)	(13)	(4,720)	(8,351)
Borrowings	(98,034)	-	-	-	(98,034)
	<u>(84,045)</u>	<u>(781)</u>	<u>(12)</u>	<u>(3,101)</u>	<u>(87,939)</u>
Year ended December 2009					
Cash and cash equivalents	12,601	174	-	5,586	18,361
Trade and other receivables	30	172	-	3	205
Trade and other payables	(828)	(86)	(9)	(2,498)	(3,421)
Borrowings	(7,588)	-	-	-	(7,588)
	<u>4,215</u>	<u>260</u>	<u>(9)</u>	<u>3,091</u>	<u>7,557</u>

A ten per cent strengthening of US dollar against the following currencies would have decreased loss before tax and impact the Group's equity by the amounts shown below. For a ten per cent strengthening of the US dollar against the euro there is no significant impact on loss before tax or on the Group's equity. This analysis assumes that all other variables remain constant and the analysis is performed on the same basis for 2009.

	Effect on loss before tax/equity USD '000
Year ended 31 December 2010	
Pounds sterling	78
Russian ruble	310
Year ended 31 December 2009	
Pounds sterling	(26)
Russian ruble	(309)

A ten percent weakening of the US dollar against the above currencies would have had an equal but opposite effect on the basis that all other variables remain constant.

Liquidity risk

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

Management is continually monitoring cash requirements for the Group and evaluating potential sources to fund its operating and capital expenditures. All Group entity operations are controlled through annual and monthly budget reviews to mitigate liquidity risk. It is the goal of management to ensure adequate funding is available through an appropriate mix of debt and equity instruments. In 2010 the Group arranged a convertible debt financing facility (Note 22) of 50.0 million USD (2009 – 60.0 million USD) to complete the construction of its gas processing facility and cover other development and exploration costs.

Notes to the Consolidated Financial Statements

26 Financial instruments (continued)

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

	On demand USD '000	Less than 3 months USD '000	3 to 12 months USD '000	1 to 5 years USD '000	>5 years USD '000	Total USD '000
Year ended 31 December 2010						
Trade and other payables	-	8,351	-	-	-	8,351
Non-current borrowings	-	1,925	5,775	126,956	-	134,656
Year ended 31 December 2009						
Trade and other payables	-	3,421	-	-	-	3,421
Non-current borrowings	-	113	351	8,531	3,496	12,491

Fair values of financial assets and financial liabilities

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

	Book Value		Fair Value	
	2010 USD '000	2009 USD '000	2010 USD '000	2009 USD '000
Cash and cash equivalents	18,147	18,361	18,147	18,361
Trade and other receivables	299	205	299	205
Trade and other payables	(8,351)	(3,421)	(8,351)	(3,421)
Borrowings	(98,034)	(7,588)	(98,034)	(7,588)

Capital management

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

The Group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2009.

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

	2010 USD '000	2009 USD '000
Borrowings	98,034	7,588
Capital	208,646	225,662
Gearing ratio	47%	3%

Notes to the Consolidated Financial Statements

27 Related party transactions

Transactions with related parties

	Charges to related parties USD '000	Purchases from related parties USD '000	Amounts owed by related parties USD '000	Amounts owed to related parties USD '000
Entities with key management personnel of the Group:				
2010	226	11,358	127	665
2009	92	375	172	236

Transactions primarily relate to the provision of goods and services from companies whose Boards have common directors with the Company's Board.

Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within thirty days of invoice. Terms and conditions for transactions with subsidiaries are the same, with the exception that balances are placed on intercompany accounts with no specified credit period. The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2010, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2009 – nil).

Key management compensation

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

	2010 USD '000	2009 USD '000
Salaries and other short-term employee benefits	2,523	2,052
Share-based payments	1,172	832
	<hr/>	<hr/>
	3,695	2,884
	<hr/> <hr/>	<hr/> <hr/>

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

28 Capital commitments

The Group has commitments pursuant to its sub-soil licence agreements to continue to explore and develop the licence area. Management estimates that at 31 December 2010 no such non-accrued licence commitments exist (2009 – 2.8 million USD).

Prior to 31 December 2010 the Group entered into contracts relating to work on the new gas plant, drilling, work-over and seismic services as part of the normal business activity. Pursuant to these contracts, there were outstanding work commitments still to be delivered of 8.4 million USD (2009 – 14.8 million USD).

29 Contingencies

Russian business operating environment

During the year ended 31 December 2010 all of the Group's business was conducted in Russia through its investment in subsidiaries operating in the oil and gas industry. These operations and those of similar companies in Russia are subject to the economic, political and regulatory uncertainties prevailing in Russia.

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

Notes to the Consolidated Financial Statements

29 Contingencies (continued)

Taxation

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

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

Restoration, rehabilitation, and environmental costs

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

Sub-soil licenses

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

30 Post balance sheet events

There were no significant post balance sheet events.

31 Foreign exchange rates

The exchange rate at the year-end was 30.4769 RUB to 1 USD (2009 – 30.3135) and the average exchange rate for the year was 30.3692 RUB to 1 USD (2009 – 31.7409). For UK operations, the exchange rate at the period end was 0.6464 £ to 1 USD (2009 – 0.6193) and the average exchange rate for the period was 0.6329 £ per 1 USD (2009 – 0.6408).

Parent company balance sheet

at 31 December 2010

	Notes	2010 USD'000	2009 USD'000
Non –current assets			
Property, plant and equipment	5	233	298
Investments in subsidiaries	6	348,229	264,465
		348,462	264,763
Current assets			
Trade and other receivables	7	3,952	4,567
Cash and cash equivalents		16,752	12,287
		20,704	16,854
Total assets		369,166	281,617
Current liabilities			
Trade and other payables	8	4,889	2,784
Non-current borrowings			
	9	99,801	8,018
Total liabilities		104,690	10,802
Net assets		264,476	270,815
Equity			
Share capital	10	1,870	1,851
Share premium	10	50,569	295,674
Own shares held	10	(11,600)	(5,983)
Currency translation reserve	10	45	27
Share option reserve	10	2,598	1,426
Equity component of convertible debt	9	6,048	1,964
Accumulated reserves/(deficit)		214,946	(24,144)
Total equity attributable to owners of the parent		264,476	270,815

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

Signed on behalf of the Board of Directors

Blaine Karst
Director
20 May 2011

Parent company statement of changes in equity

for the year ended 31 December 2010

	Share capital USD'000	Own shares held USD'000	Equity element of convertible debt USD'000	Share premium USD'000	Currency translation reserve USD'000	Share option reserve USD'000	Accumulated deficit USD'000	Total equity USD'000
Balance at 1 January 2009	1,701	–	–	252,195	29	594	(15,645)	238,874
Total comprehensive income for the year	–	–	–	–	(2)	–	(8,499)	(8,501)
Transactions with owners								
Share issues	150	–	–	45,833	–	–	–	45,983
Own shares issued to the employee benefit trust	–	(5,983)	–	–	–	–	–	(5,983)
Equity element of convertible debt	–	–	1,964	–	–	–	–	1,964
Share issue costs	–	–	–	(2,354)	–	–	–	(2,354)
Share option charge	–	–	–	–	–	832	–	832
Total of transactions with owners	150	(5,983)	1,964	43,479	–	832	–	40,442
Balance at 31 December 2009	1,851	(5,983)	1,964	295,674	27	1,426	(24,144)	270,815
Total comprehensive income for the year	–	–	–	–	18	–	(10,910)	(10,892)
Transactions with owners								
Share issues	19	–	–	(244,402)	–	–	250,000	5,617
Own shares issued to the employee benefit trust	–	(5,617)	–	–	–	–	–	(5,617)
Equity element of convertible debt	–	–	4,084	–	–	–	–	4,084
Share issue costs	–	–	–	(703)	–	–	–	(703)
Share option charge	–	–	–	–	–	1,172	–	1,172
Total of transactions with owners	19	(5,617)	4,084	(245,105)	–	1,172	250,000	4,553
Balance at 31 December 2010	1,870	(11,600)	6,048	50,569	45	2,598	214,946	264,476

Parent company statement of cash flows

for the year ended 31 December 2010

	Notes	2010 USD'000	2009 USD'000
Operating activities			
Net cash flow used in operating activities	11	(5,518)	(8,314)
Net cash used in operating activities		(5,518)	(8,314)
Investing activities			
Investments in subsidiaries		(76,617)	(103,516)
Interest income on cash investments		5	210
Purchase of property, plant and equipment	5	(58)	(126)
Net cash used in investing activities		(76,670)	(103,432)
Financing activities			
Proceeds on issue of share capital		(4,335)	36,943
Interest payments on long term liabilities		(2,278)	(112)
Proceeds from convertible debt		93,364	6,693
Repayment of non-current borrowings		–	(2,168)
Net cash provided by financing activities		86,751	41,356
Net (decrease)/increase in cash and cash equivalents		4,563	(70,390)
Cash and cash equivalents at beginning of year		12,287	82,695
Effect of exchange rate changes on cash and cash equivalents		(98)	(18)
Cash and cash equivalents at end of year		16,752	12,287

Notes to the parent company financial statements

for the year ended 31 December 2010

1. Corporate information

Organisation and principal activities

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

2. Significant accounting policies

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

Basis of preparation

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

Investments in subsidiaries

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

3. Taxation

As at 31 December 2010 the Company has unrecognised deferred tax assets which arose in the UK of 16.386 million USD (2009 - 11.949 million USD). Deferred tax has not been provided for these losses on the basis that it is not sufficiently certain there will be adequate taxable profits arising in the future to offset against the tax losses. The losses incurred in the UK are available to carry forward indefinitely for offset against future taxable profits.

4. Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company is 10.910 million USD (2009 – 8.499 million USD).

Notes to the parent company financial statements

for the year ended 31 December 2010

5. Property, plant and equipment

	Office equipment and furniture USD'000	Motor vehicles USD'000	Total USD'000
Cost:			
At 1 January 2009	346	–	346
Additions	114	61	175
Disposals	(6)	–	(6)
Translation differences	12	3	15
	<hr/>	<hr/>	<hr/>
At 31 December 2009	466	64	530
Additions	26	32	58
Disposals	(2)	–	(2)
Translation differences	–	(1)	(1)
	<hr/>	<hr/>	<hr/>
At 31 December 2010	490	95	585
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation:			
Accumulated depreciation at 1 January 2009	115	–	115
Charge for the year	96	10	106
Disposals	(2)	–	(2)
Translation differences	13	–	13
	<hr/>	<hr/>	<hr/>
At 31 December 2009	222	10	232
Charge for the year	104	18	122
Disposals	(2)	–	(2)
	<hr/>	<hr/>	<hr/>
At 31 December 2010	324	28	352
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value:			
At 31 December 2009	244	54	298
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2010	166	67	233
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

6. Investments in subsidiaries

	Investment in subsidiary undertakings USD'000	Loans to subsidiary undertakings USD'000	Total USD'000
Balance at 1 January 2009	30,593	128,070	158,663
Additions	11,213	94,589	105,802
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2009	41,806	222,659	264,465
Additions	253,819	–	253,819
Disposals	–	(170,055)	(170,055)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	295,625	52,604	348,229
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

All loans to subsidiaries are demand loans but are classified as long term as the Company does not expect to demand repayment of the advances in 2011.

No interest was charged on loans to subsidiaries in the year (2009 – \$nil).

Notes to the parent company financial statements

for the year ended 31 December 2010

7. Trade and other receivables

	2010 USD'000	2009 USD'000
Prepayments and deposits	325	372
Tax receivables	614	46
Other receivables	3,013	4,149
	<u>3,952</u>	<u>4,567</u>

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

Other receivables includes 1.767 million USD (2009 – 430 thousand USD) relating to the current portion of amortized costs for non-current borrowings (Note 9). For 2009 other receivables also includes 3.516 million USD of prepaid costs for the non drawn-down portion of the convertible loan.

8. Trade and other payables

	2010 USD'000	2009 USD'000
Trade payables	3,641	804
Accruals and other payables	1,248	1,940
Short-term borrowings	–	40
	<u>4,889</u>	<u>2,784</u>

9. Non-current borrowings

	Effective interest rate	2010 USD'000	2009 USD'000
Net amounts due in less than 5 years:			
Convertible loan issued 18 September 2009	LIBOR + 4%	51,923	3,183
Convertible bond issued 13 October 2010	10%	46,111	–
		<u>98,034</u>	<u>3,183</u>
Amounts due in more than 5 years:			
Convertible loan	LIBOR + 4%	–	4,405
		<u>98,034</u>	<u>7,588</u>
Current borrowings (assets) (Note 7)		(1,767)	(430)
Non-current borrowings (liabilities)		<u>99,801</u>	<u>8,018</u>
Net convertible bond		<u>98,034</u>	<u>7,588</u>

Notes to the parent company financial statements

for the year ended 31 December 2010

9. Non-current borrowings (continued)

Convertible debt comprises:

Drawdown of the loan	60,000	10,000
Equity element	(6,048)	(1,964)
	<u>53,952</u>	<u>8,036</u>
Cost of borrowing	(5,538)	(516)
Capitalized interest	3,509	68
	<u>51,923</u>	<u>7,588</u>

Convertible bond comprises:

Drawdown of the bond	50,000	–
Cost of borrowing	(3,889)	–
	<u>46,111</u>	<u>–</u>

On 18 September 2009 the Company entered into a convertible loan agreement to borrow up to 60 million US\$. The convertible loan was drawn down in full at 31 December 2010.

The loan is convertible into ordinary shares of the Company at any time up to 18 March 2012 at the loan holder's option. Conversions done prior to 19 March 2011 are to be converted at a price of 3.0531 US\$ per share. From 19 March 2011 to 18 March 2012, the loan is convertible at 3.0531 US\$ per share plus a pro-rated amount of margin payments at 4% interest made up to the time of the conversion. For any unconverted amounts, the loan is to be repaid in six equal semi-annual installments beginning 15 June 2013 and ending on 15 December 2015.

On 13 October 2010 the Company entered into a convertible bond agreement (the "bond") to borrow up to 50 million US\$. The bond was drawn down in full at 31 December 2010.

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

The net proceeds received from the issue of the convertible loan are split between a debt component and an embedded equity element. The fair value of the convertible loan for the drawdowns taken in 2010 has been calculated as the present value of the contracted future cash flows using an assumed market interest rate of LIBOR plus 7% (2009 — 9%). The equity element is calculated as the difference between the principal amount and the fair value of the convertible loan. The fair value of the convertible bond drawdown has been calculated at the present value of the contracted future cash flows using an assumed market interest rate of 12%.

The interest charged for the year for the convertible loan and bond is calculated by applying the effective market interest rate of the assumed market interest rate to the liability component for the period since the convertible loan or bond was drawn-down. The short term part of the convertible loan calculated at amortized cost using the effective interest rate is negative.

Notes to the parent company financial statements

for the year ended 31 December 2010

10. Equity

Authorised and issued share capital

	2010 USD'000	2009 USD'000
Authorised		
250,000,000 ordinary shares of USD 0.01 each	2,500	2,500

In 2009, the shareholders approved an increase in the authorized share capital of the Company from 200,000,000 to 250,000,000 shares.

	Ordinary shares		Share	Share	Own
	Shares No.	Amount USD'000	capital USD'000	premium USD'000	shares held USD'000
Allotted, called up and fully paid					
At 1 January 2009	170,068,760	260,023	1,701	252,195	–
Share issue 20 January 2009	1,460,000	4,457	14	4,443	(4,457)
Share issue 15 June 2009	500,000	1,526	5	1,521	(1,526)
Share issue 24 September 2009	13,101,438	40,000	131	39,869	–
Share issue costs	–	–	–	(2,354)	–
At 31 December 2009	185,130,198	306,006	1,851	295,674	(5,983)
Share premium reduction 30 June 2010	–	–	–	(250,000)	–
Share issue 20 July 2010	1,840,000	5,607	19	5,598	(5,617)
Share issue costs	–	–	–	(703)	–
At 31 December 2010	186,970,198	311,613	1,870	50,569	(11,600)

Redeemable shares

At 31 December 2010 there were 50,000 redeemable shares at 1 pound sterling in issue. The shares were issued during the year in connection with the conversion of the Company to a public limited company.

Own shares held

The Company has approval to transfer up to 4,460,000 shares to the EBT for allocation to officers and employees of the Group. The formal establishment of the EBT was completed on 20 January 2009. In the current year 1,840,000 shares were issued pursuant to the EBT (2009 – 1,960,000). For presentation purposes, the shares held in the EBT are included as own shares held.

On 30 June 2010 the Company reduced the share premium account by 250 million US\$ as part of the process of converting to a public liability company.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency are not in US Dollars into the Group's presentation currency.

Share option reserve

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

Equity element of convertible debt

The equity element of convertible debt is the difference between the principal amount and the fair value of the loan and bond convertible debts reflecting values of the convertible option of the debt instruments.

Notes to the parent company financial statements

for the year ended 31 December 2010

11. Reconciliation of loss from operations to net cash used in operating activities

	2010	2009
	USD'000	USD'000
Loss before taxation	(10,910)	(8,499)
Adjustments for:		
Foreign exchange losses	52	17
Tax for the year	(705)	1,495
Depreciation, depletion and amortization	122	106
Net finance costs	3,531	275
Interest income on cash invested	(5)	(210)
Accrued share based payments	1,172	832
Increase in trade and other receivables	615	(4,217)
Increase in trade and other payables	610	1,887
Net cash flow used in operating activities	(5,518)	(8,314)

Notes to the parent company financial statements

for the year ended 31 December 2010

12. Share-based payments

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

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

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

	2010	2009
	Shares	Shares
As at 1 January	2,460,000	1,960,000
Granted during the year	1,340,000	500,000
As at 31 December	3,800,000	2,460,000
Vested at 31 December	2,820,000	898,667

The following table lists the inputs to the model:

	2010	2009
Award grant date	20 July	1 October
Number of awards	1,340,000	500,000
Fair value at grant date	\$1.52	\$1.52
Share price at grant date	\$1.53	\$1.53
Amount payable by executive	\$3.05	\$nil
Risk free rate	6%	6%
Dividend yield	nil	nil
Expected volatility	29.7%	32.7%
Expected life of awards	1.5 years	2 years
Weighted average remaining contractual life of share options at the end of the year	0.96 years	1.1 years

Expected volatility is based on historic share price movements. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Maximum term for the awards is three years. For key employees the probability that not all the awards will vest due to the resignation was set at 0% (2009 – 20%). No other features of options' terms were incorporated into the measurement of fair value.

The following table lists liabilities arising from share-based payment transactions (amounts are in thousand USD):

	2010	2009
Carrying value of liability on share-based awards	2,598	1,426
Intrinsic value of vested awards	1,959	852

The expense recognised for share-based payments in respect of employee services received during the year is 1,172 thousand USD (2009 – 832 thousand USD).

Share options

In 2010, 1,340,000 shares (2009 – 500,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions being met, such shares vesting over a three year period from the date set in the joint operating agreements between employees and the EBT. The actual shares issued to the EBT for the year were 1,840,000 (2009 – 1,960,000 shares).

Notes to the parent company financial statements

for the year ended 31 December 2010

13. Financial instruments

Financial instruments recognised in the balance sheet

	Loans and receivables USD'000	Other financial liabilities at amortised cost USD'000	Total USD'000
Year ended 31 December 2010			
Financial assets			
Non-current investments	52,604	–	52,604
Trade and other receivables	157	–	157
Current borrowings	–	1,767	1,767
Cash and cash equivalents	16,752	–	16,752
	<u>69,513</u>	<u>1,767</u>	<u>71,280</u>
Financial liabilities			
Trade and other payables	–	3,641	3,641
Non-current borrowings	–	99,801	99,801
	<u>–</u>	<u>103,442</u>	<u>103,442</u>
Year ended 31 December 2009			
Financial assets			
Non-current investments	222,659	–	222,659
Trade and other receivables	203	–	203
Current borrowings	–	430	430
Cash and cash equivalents	12,287	–	12,287
	<u>235,149</u>	<u>430</u>	<u>235,579</u>
Financial liabilities			
Trade and other payables	–	804	804
Short-term borrowings	–	40	40
Non-current borrowings	–	8,018	8,018
	<u>–</u>	<u>8,862</u>	<u>8,862</u>

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

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

Interest rate risk

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

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

Notes to the parent company financial statements

for the year ended 31 December 2010

13. Financial instruments (continued)

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

The following tables set out the carrying amount, by maturity of the Company's financial instruments that are exposed to interest rate risk.

	Within 1 year USD'000	1-2 years USD'000	3-5 years USD'000	> 5 years USD'000	Total USD'000
Year ended 31 December 2010					
<i>Floating rate</i>					
Cash and cash equivalents	16,752	–	–	–	16,752
Borrowings	1,767	2,152	(101,953)	–	(98,034)
	=====	=====	=====	=====	=====
Year ended 31 December 2009					
<i>Floating rate</i>					
Cash and cash equivalents	12,287	–	–	–	12,287
Borrowings	430	440	(8,458)	–	(7,588)
	=====	=====	=====	=====	=====

A one per cent increase/decrease in interest rates on floating rate assets and liabilities would have decreased/increased investments in subsidiaries by 449 thousand USD (2009 – 4 thousand USD).

Credit risk

Credit risk is the potential exposure of the Company to loss in the event of non-performance by a counterparty. The amount that best represents the maximum credit exposure of the Company's financial assets is the carrying value of the financial assets at the balance sheet date.

This risk arises principally from cash and cash equivalents. Management's policy is to hold cash and cash equivalents in reputable financial institutions of which 99.4% (2009 – 99.2%) of cash and cash equivalents are held in reputable financial institutions in the UK.

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

Foreign currency risk

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

Cash balances in the Company are usually held in US dollars, but smaller amounts may be held in pounds sterling or local currencies to meet operating and administrative expenses or to comply with local legislation.

The Company does not have formal arrangements to mitigate foreign exchange risks at this time however as circumstances dictate, the Group considers hedging positions to protect the value of any cash balances it holds in non-US dollar currency or to protect against exchange fluctuations on future non-USD denominated commitments or obligations.

Notes to the parent company financial statements

for the year ended 31 December 2010

13. Financial instruments (continued)

The following table demonstrates the Company's exposure to foreign currency risk based on gross amounts:

	US dollar USD'000	Sterling USD'000	Euro USD'000	Russian ruble USD'000	Total USD'000
Year ended 31 December 2010					
Intercompany advances	52,604	–	–	–	52,604
Cash and cash equivalents	16,467	188	–	97	16,752
Trade and other receivables	101	–	–	56	157
Trade payables	(2,540)	(1,041)	(13)	(45)	(3,639)
Borrowings	(98,034)	–	–	–	(98,034)
Year ended 31 December 2009					
Intercompany advances	222,659	–	–	–	222,659
Cash and cash equivalents	12,015	173	–	99	12,287
Trade and other receivables	30	173	–	–	203
Trade payables	(636)	(86)	(9)	(73)	(804)
Borrowings	(7,588)	–	–	–	(7,588)

A ten per cent strengthening of US dollar against the following currencies would have decreased loss before tax and impact the Company's equity by the amounts shown below. For a ten per cent strengthening of the US dollar against the euro there is no significant impact on loss before tax or on the Company's equity. This analysis assumes that all other variables remain constant and the analysis is performed on the same basis for 2009.

	Effect on loss before tax/equity USD '000
Year ended 31 December 2010	
Pounds sterling	85
Russian ruble	(11)
Year ended 31 December 2009	
Pounds sterling	(26)
Russian ruble	(3)

A ten percent weakening of the US dollar against the above currencies would have had an equal but opposite effect on the basis that all other variables remain constant.

Liquidity risk

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

Management is continually monitoring cash requirements for the Company and evaluating potential sources to fund its operating and capital expenditures. All Company entity operations are controlled through annual and monthly budget reviews to mitigate liquidity risk. It is the goal of management to ensure adequate funding is available through an appropriate mix of debt and equity instruments. In 2010 the Group arranged a convertible debt financing facility (Note 9) of 50.0 million USD (2009 – 60.0 million USD) to complete the construction of its gas processing facility and cover other development and exploration costs.

Notes to the parent company financial statements

for the year ended 31 December 2010

13. Financial instruments (continued)

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Year ended 31 December 2010						
Trade payables	–	(3,641)	–	–	–	(3,641)
Non-current borrowings	–	1,925	5,775	126,956	–	134,656
Year ended 31 December 2009						
Trade payables	–	(804)	–	–	–	(804)
Non-current borrowings	–	113	351	8,531	3,496	12,491

Fair values of financial assets and financial liabilities

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

	Book value		Fair value	
	2010	2009	2010	2009
	USD'000	USD'000	USD'000	USD'000
Intercompany advances	52,604	222,659	52,604	222,659
Cash and cash equivalents	16,752	12,287	16,752	12,287
Trade and other receivables	157	203	157	203
Trade payables	(3,641)	(804)	(3,641)	(804)
Current borrowings	–	(40)	–	(40)
Borrowings	(98,034)	(7,588)	(98,034)	(7,588)

Capital management

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

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the capital management objectives, policies or processes during the years ended 31 December 2010 and 2009.

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

	2010	2009
	USD'000	USD'000
Borrowings	98,034	7,588
Capital	264,476	270,815
Gearing ratio	37%	3%

Notes to the parent company financial statements

for the year ended 31 December 2010

14. Related party transactions

Obligations to related parties

As at 31 December 2010 the Company had no non-current obligations to related parties as all obligations were paid out during the year.

Transactions with related parties

	Charges to related parties USD'000	Purchases from related parties USD'000	Amounts owed by related parties USD'000	Amounts owed to related parties USD'000
Entities with key management of the Company:				
2010	223	100	1	–
2009	92	204	172	245

The Company advances funds to its subsidiaries. There was no interest accrued on the advances in 2010 (2009 – \$nil). See Note 6 that details movements and year-end balances in respect of subsidiary undertakings.

Key management compensation

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

	2010 USD'000	2009 USD'000
Salary and other short term employee benefits	1,362	1,469
Share-based payments	1,172	832
	2,534	2,301
	2,534	2,301

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

During 2009 the Company advanced funds to the Chief Operating Officer to cover employment taxes in Russia. At 31 December 2009 the Company had advances receivable of 133 thousand US\$ as a result of the actual Russian employment tax liability being less than originally estimated. All advances were recovered in 2010 and there were no advances receivable at 31 December 2010.

15. Operating lease obligations

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

Lease payments under operating leases recognised in profit or loss for the year were 342 thousand USD (2009 – 561 thousand USD).

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

	2010 USD'000	2009 USD'000
Within one year	358	127
2 – 5 years	208	109
	566	236
	566	236

16. Post balance sheet events

There have been no post balance sheet events requiring disclosure.

ANNEX B
ISSUER'S 2011 ANNUAL REPORT



Vostok Energy Plc
(Registered No. 05806076)

Annual Report and Financial Statements

31 December 2011

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Company information

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Yuri Samsonov (Chief Executive Officer)
Robert Cathery (Executive Director)
Blaine Karst (Finance Director)
Roger Cagle
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Executive Chairman's statement

Vostok Energy Public Limited Company (the "Company") and its subsidiaries (the "Group" or "Vostok") remain focused on adding shareholder value through increasing reserves and production. The Group's work programme has been based on three principal objectives and strategies: continued exploration of the hydrocarbon potential of the Bortovoy licence (the "licence") via additional seismic and exploratory drilling; appraisal of the Group's known reserves through appraisal/development drilling and re-evaluation of existing seismic and other technical data; and commercialising the gas reserves through construction of gas and oil processing facilities while increasing available production capacity through development drilling, re-entries and acid matrix and fracturing programmes on selected wells.

Exploration activities

During 2011, the Group completed the testing of its first Devonian well. The two initial tests on the deeper horizons within the Devonian were successful resulting in a significant increase in reserves for the eastern licence area in 2011. Subsequent testing of shallower horizons in the Devonian and Carboniferous did not result in discoveries of commercial reserves of gas or oil although the logs showed significant potential for additional reserves. One possible conclusion is the horizons were damaged during the drilling process due to the use of heavier mud to control the well as significant gas kicks were encountered during drilling. The Company is currently evaluating the test results and exploring alternative methods to stimulate the damaged horizons to get the results anticipated from the logs.

Further Devonian prospects have been identified by our geological team based on the 3D seismic acquired during the previous years, the most recent seismic acquisition was completed in Q1 2011. Based on the success of the first Devonian well and interpretation of seismic data, the Group commenced drilling a second Devonian prospect in June 2011, 10 kilometers to the west of the first Devonian well. Drilling was ongoing at year-end at a depth of over 4,000 meters and is expected to be completed in 2012 at a total anticipated target depth of 4,900 meters.

Appraisal and development activities

The Group began its re-entry programme in the eastern area of the licence during 2011 to confirm that by entering old wells drilled pre 1990, they could be used as production wells to provide feedstock for a gas processing facility in the eastern licence area. The re-entry was in process at year-end and completed in early 2012 confirming production rates and gas quality suitable for gas processing. Additional re-entries are planned for 2012 to further prove up additional feedstock for the next gas processing facility.

Commercialisation

During 2011, the Group had its first full year of continuous operations of its first gas processing facility. There were the expected start-up problems but for the last four months of 2011, the gas processing facility operated consistently at full or near full capacity providing funding for ongoing operations and a basic capital programme.

Financing

During December 2011 the Company completed a small financing through existing shareholders, executives and directors raising 11.6 million USD to provide additional capital to assist in financing the Group's capital programme. The goal for 2012 is to raise additional funds to initiate the design and construction of the gas processing facility in the eastern area of the licence and to ensure the Group will be able to meet its liabilities as they fall due in the foreseeable future. Equity and debt financing alternatives would require certain shareholder approvals and under certain conditions, bondholder approval. Our current priority is to focus on an initial public offering to be completed in the second half of 2012. Although there is no certainty that any of the alternative financing strategies will be implemented successfully, the directors believe that appropriate financing will be obtained and the Group will have adequate financial resources to continue in operational existence for the foreseeable future. Please refer to the basis of preparation section within Note 2 for further discussion on the Group's ability to continue as a going concern.

Business review

Operations review

Production

With the initial start-up of the gas plant in November 2010, the Group was able to maintain successful commercial operations in 2011. The gas plant reached full production capacity in March and April 2011; however, problems with the sweetening unit caused the plant to produce at reduced volumes from mid-April through August 2011. From September 2011 through the end of the year the plant operations improved significantly. Since September 2011 gas production has averaged approximately 47.0 MMcf per day and gas sales have averaged approximately 44.4 MMcf per day. The overall average production for the year was 66.5% of gas plant capacity.

Along with the gas production and the associated condensate, oil production was resumed in May 2011. During 2011, the Group produced a total of 12,615.3 MMcf of gas (2010 – 0.3 MMcf), 140.3 Mbbl of condensate (2010 – 0.2 Mbbl) and 82.9 Mbbl of oil (2010 – 2.0 Mbbl). The plan for 2012 is to maintain gas production at full or near full capacity while bringing additional wells on line to increase oil production.

Drilling and re-entries

Exploration drilling

West area:

No exploratory drilling was undertaken in the west area of the licence during 2011.

East area:

Lower Permian:

No exploratory drilling was undertaken for the Lower Permian during 2011.

Devonian:

Nepryakhinskaya 1

The Nepryakhinskaya 1 Devonian exploration well which commenced drilling in April 2010 completed drilling at a total depth of 4,625 metres in the Lower Devonian in 2010. The well was logged using both Russian and western geophysical logging services and based upon both preliminary log analysis and high background gas shows, the well was cased to a total depth at year end 2010.

The well was tested at commercial rates from selective intervals in three Devonian zones during Q1 2011. The lowest zone, the Lower Devonian D1 Koyvensky tested at a rate of 819 Mcf per day and the upper two zones, the Middle Devonian D2 Biyisky and lower Klintsovsky, combined tested at a rate of 13.7 MMcf per day. However, pressure build-up analysis on the lowest zone indicated severe reservoir damage near the wellbore and not all of the pay was opened in each zone.

Following completion and testing of the above intervals the drilling rig was demobilized and moved to the next proposed exploratory drilling location and a service rig was moved onto the Nepryakhinskaya drilling location during Q2 2011 following the spring thaw in order to undertake the full completion and evaluation of the well.

The second phase of well completion commenced during Q3 2011 with completion and testing of an interval in the upper portion of the Klintsovsky. Testing of this zone did not however produce significant quantities of hydrocarbons and the test is considered inconclusive due to suspected reservoir damage.

Log analysis of the shallower zones in both the Middle and Upper Devonian and Lower Carboniferous indicated significant quantities of hydrocarbons. However, completion and testing of an interval in the Middle Devonian D2 Mosolovsky and an interval considered to be a thin preserved section of the Middle Devonian D2 Vorobevisky, which are indicated to be oil bearing on logs, failed to produce gas or oil in other than trace amounts.

Three additional intervals indicated to be oil bearing in the Upper Devonian carbonate sequence also failed to produce either oil or gas in other than trace amounts upon completion and testing. Vostok considers that the physical treatment processes and techniques employed during completion and testing of both these three intervals and the underlying Middle Devonian intervals were inadequate to provide a full and conclusive evaluation of the zones. Accordingly, the Group suspended its completion activities on the Nepryakhinskaya 1 well in November 2011 pending an evaluation of alternative completion and testing procedures.

Further completion and testing of the above Middle and Upper Devonian reservoir intervals as well as overlying prospective intervals in the Lower and Middle Carboniferous may be undertaken pending the results of further reservoir evaluation and study as well as the selection of suitable formation treatment and stimulation options.

Business review

Operations review

Muravinskaya 2

A second Devonian exploration well, Muravinskaya 2, commenced drilling during the Q2 2011 and is prognosed to be drilled to a total depth of 4,900 meters in order to fully penetrate the Lower Devonian Koyvensky interval which was proven to be hydrocarbon bearing in the Nepryakhinskaya 1 well.

The Muravinskaya 2 well, which is located some 10 kilometers to the west of the Nepryakhinskaya No. 1 well, will test a second closure on the east-west trending Nepryakhinskaya structural complex.

In addition to testing those stratigraphic intervals that are proved or are indicated to be hydrocarbon-bearing based upon well logs in the first well, it is indicated from seismic that the Muravinskaya 2 well will also penetrate the uppermost portion of the Middle Devonian D2 Eifelian–Zhivetian age sequence. This sequence which contains economically significant hydrocarbon bearing reservoirs regionally is interpreted to have been removed by erosion beneath a middle Frasnian regional unconformity in the Nepryakhinskaya 1 well but is interpreted to be preserved beneath the unconformity surface on the closure to be tested by the Muravinskaya 2 well.

At year end 2011 the Muravinskaya 2 well had been to a total depth of 4,148 meters having encountered intervals of significant lost circulation whilst drilling through the preceding +/- 120 meters. At this drilled depth the Muravinskaya 2 well is interpreted to have penetrated into lowermost Upper Devonian D3 Frasnian carbonate rocks.

Development drilling

As a result of successful development drilling in the Karpenskoye field during 2009, no additional development wells were required to be drilled for gas deliverability in the west area of the licence in 2010 or 2011.

Well re-entries and recompletions

During 2011 the Company successfully re-completed two wells, No 7 and No 19 which had been acquired in the Karpenskoye area during 2010. Plans to recomplete the third well which had been acquired, well No 52 were postponed since the additional production was not required at that time.

During Q4 2011 the Company began re-completion operations upon well No 16 in the Pavlovskoye field in the east area of the licence in order to confirm completion and flow testing results obtained during the original completion during the 1980's and to obtain fluid samples for detailed testing and analysis. At year end re-completion operations on the well were in-process.

Seismic activity

Conventional 2D seismic

During 2011 further seismic interpretation work and selected custom reprocessing was ongoing on the Group's extensive 2D seismic data base which was acquired in 2007 and 2008 and upon older existing 2D seismic data.

3D seismic

The Company's third 3D seismic acquisition campaign which commenced late in 2010 was completed during Q1 2011 with the acquisition of 180 km² of data. This survey completed the outstanding portion of the survey acquired during 2009 - 2010 which had been curtailed due to an early spring thaw and extended the Group's 3D seismic data base in the east area of the licence to include the Kochkurovskoye field.

Interpretation of this data set was ongoing at year end; however, the preliminary interpretation confirms continued prospectivity of the Devonian exploration play into the Kochkurovskoye area.

Geological and geophysical evaluations

West area

No further geophysical or geological work was undertaken in the west area during 2011.

Central area

The central licence area is currently indicated to be less prospective than the remaining areas of the licence and no additional geological or geophysical work was conducted on the area during 2011.

East area

The east area of the licence has been the Company's main area of focus for geophysical and geological work during 2011 in support of proposed future development and exploitation of both gas and liquids.

Business review

Operations review

Devonian and Carboniferous

Due to their potential magnitude and significance the emphasis of geological and geophysical work conducted during 2011 has continued to be on the potential prospective resources of the Devonian interval. This work was undertaken in an effort to further identify the depositional, structural and tectonic controls that have been in play to develop seismically identified prospects, and to understand the influences that these factors have exerted upon defining the prospectivity of overlying sedimentary intervals, particularly the Carboniferous.

Based upon the demonstrated economic success of the Nepryakhinskaya 1 Devonian exploration well, which was tested during Q1 2011, the Group has developed a schedule and strategy for drilling additional Devonian wells in combination with superimposed Carboniferous prospects during 2011 and beyond. The first of these deep exploration wells, Muravlinskaya 2, commenced drilling during Q2 of the year is prognosed to be drilled to a total depth of 4,900 meters. This well will test a second Devonian closure located approximately 10 kilometers to the west of the Nepryakhinskaya discovery and at year had achieved a drilled depth of 4,148 meters.

3D seismic data acquired during the winter of 2010 -2011 was processed and interpreted by the end of Q3 and demonstrates the continuation of the prospective Devonian structural trend as far west as the Kochkurovskoye area of the eastern licence. Interpretive work also confirms the close genetic association of the potentially prospective Middle to Lower Carboniferous structural trend with deeper underlying structures developed on the Devonian.

Lower Permian

Additional specialised seismic re-processing work and seismic character analysis of 3D seismic data over Lower Permian prospects drilled during 2010 as well as prospects proposed for future drilling was initiated during 2011. This work is a further attempt to rationalize the results of drilling and to optimize the location of future Lower Permian exploration wells by defining those areas that have carbonate reef build ups with higher primary (depositional) porosity that can serve as hydrocarbon reservoirs.

Reserves evaluation

Vostok's independent engineers, Miller and Lents, prepared a revised reserves evaluation report as of 1 August 2011 in support of the Company's initiative to secure a UK public listing. Miller and Lents revised their 01 October 2010 estimate of economic recoverable 3P reserves of the Group from 714 Bcf of natural gas and 20.0 MMBbl of oil and condensate to 1,411 Bcf and 18.5 MMBbl of oil and condensate and their estimate of Proven P1 Reserves from 519 to 496 Bcf of gas and from 13.3 to 10.5 MMBbl of oil. The more than doubling of the Company's 3P reserves of natural gas came as a direct result of the successful testing carried out during Q1 in Lower and Middle Devonian reservoir intervals encountered in the Nepryakhinskaya exploration well.

Future developments

There is no drilling proposed for the west area during 2012. The Group will continue to focus its drilling and completion activities together with its geological and geophysical activity upon evaluating and increasing reserves and resources in the eastern area of the licence. This will involve an exploration drilling programme comprising the completion of the Muravlinskaya 2 well and possibly the commencement of another Carboniferous or Devonian exploration well based upon the interpretation results of 3D seismic acquired in 2011. An additional 3D seismic programme is also planned for the eastern licence area to complete coverage over Kochkurovskoye and Pavlovskoye areas.

Business review

Financial review

Review of 2011 results

The Annual Report and Financial Statements are prepared under International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The Group uses US dollars as its presentation currency. The Group revenue for 2011 was 34.185 million USD (2010 – 267 thousand USD) and the loss before taxation was 10.242 million USD (2010 – 22.379 million USD). Detailed Group financial information is set out in the audited financial statements for 2011 on pages 13-42 of this report.

In 2010 the Group was predominantly in an exploration and development phase and standard key performance indicators such as growth in sales, returns on invested capital and employee retention figures are not true indicators of group performance. The key performance indicators at 31 December were:

	2011	2010
Proven gas reserves in billion cubic feet (1)	495.8	519.0
Proven oil reserves in millions of barrels (1)	10.5	13.3
Gas production in million cubic feet per annum (2)	12,615.3	0.3
Oil production in thousands of barrels per annum (2)	82.9	2.0
Condensate production in thousands of barrels per annum (2)	140.3	0.2
Maximum annual available production capacity of gas in million cubic feet	18,978.9	18,978.9
Revenue for the year (in millions of USD) (2)	34.2	0.3
Loss for the year (in millions of USD)	12.2	19.4

- (1) Gas and oil reserves are based on the most recent independent engineer's reports. The decrease in reserves resulted from re-evaluating the field structures on the licence based on drilling, testing and re-entry results and the interpretation of recently acquired 3D seismic.
- (2) The increase in production and revenue resulted from the gas plant maintaining commercial production throughout 2011. From September 2011 to year-end, the gas plant was in operation at full or near full capacity.

Corporate events

On 13 December 2011, the Company issued 5,804,613 ordinary shares at 2 USD each.

Events since the end of the year

On 27 February 2012, the issued share capital was increased by 2.589 million USD by the issue of 1,294,616 ordinary shares at 2 USD each. This share issue was the second tranche of an agreed share subscription with existing shareholders, executives and directors.

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

On 18 March 2012, the convertible option on the 60 million USD convertible loan expired (Note 22). The debt is now a term loan repayable in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015.

On 3 May 2012, 9,280,000 shares were issued to the employee benefit trust as compensation to directors and senior management for past service contributions and to enable the Group to compensate key employees and senior management after the initial public offering is completed. Future awards will be based on recommendations made by the Remuneration Committee based on Group and employee performance.

Business review

Risk management

Financial

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

Operations and commercial

The main activity of the Group is the exploration, development and production of gas which has associated condensate. In addition, the Group has oil production from a limited number of wells. The Group currently sells all gas produced to a subsidiary of OJSC Gazprom, Gazprom Mezhrefiongaz Saratov LLC. The selling price as set out in the agreement is calculated at a 20% discount to the weighted average selling price for commercial and residential gas consumers in the Saratov region as determined by the Russian Tariff Service. From March 2011, this price was 75 USD (2,216 rubles) per thousand cubic meters of gas. Prior to this date, the price was 65 USD (1,928 rubles) per thousand cubic meters of gas. The contract sets out estimated volumes to be delivered; however, the volumes can be amended based on mutual agreement and actual amounts delivered.

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

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

Operating environment

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

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal inflation, lack of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal and economic reforms.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group in Russia may be challenged by the relevant regional and federal authorities. Based on reviews and audits performed to date by the relevant authorities, there have been no significant tax fines or penalties incurred and management believes that as of 31 December 2011, its interpretation of the relevant legislation is appropriate and the Group's tax and currency positions will be sustained.

Strategic and reputational

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

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

Financial risks

A review of financial risks is included in Note 26 to the Financial Statements.

Directors' report

The directors of the Company present their report and financial statements for the year ended 31 December 2011.

Principal activity and review of the business

The principal activities of the Group during the year were exploration, development and production of natural gas and hydrocarbon liquids. The Group's operating activities during 2011 were in Russia where the Group holds a sub-soil licence for geological exploration and production of hydrocarbons.

Business review

A review of the Group's business during the year, events since the end of the year and the Group's future prospects are included in the Executive Chairman's Statement and Business Review on pages 3-8 which should be read in conjunction with this report of which they form part and in which they are incorporated by reference. The review of the financial risk management objectives and policies is included under the risk management section within the Business Review on page 8 and in Note 26 to the financial statements.

Board of Directors

The directors at 31 December 2011 and 2010 were and remain as given below except where noted otherwise:

Charles Jamieson

Yuri Samsonov (*appointed 8 September 2011*)

Robert Cathery

Blaine Karst

Roger Cagle

Ronald Harris

John Orange

Mark Sadykhov

Jacob Ulrich

Douglas Stinemetz (*appointed 29 June 2011*)

Aric Cunningham (*resigned 17 February 2011*)

Kevin Bortz (*resigned 14 March 2011*)

Alexander Capelson (*resigned 20 April 2011*)

Dividends

The directors do not recommend a dividend for the year (2010 – nil).

Going concern

As detailed in this report, the Group has non-current borrowings that are to be repaid in 2013 (Note 22). The Group's first gas plant has been operating at full or near full capacity since September 2011 and generates sufficient cash flow to cover ongoing operational costs and a small capital program. The cash flow generated would not necessarily be sufficient to cover all ongoing obligations if the Group were to experience production decreases, sale price decreases or increased costs. Additionally, the cash flow generated is currently not sufficient to accumulate adequate funds to repay the non-current borrowings as they come due in 2013.

The directors have appointed an independent consultant and Deutsche Bank to act as their financial advisors and are proposing to raise equity capital by way of an initial public offering of shares. If the initial public offering is not successful, the directors believe that a smaller equity investment or additional debt funds can be raised in the near term to ensure the Group has adequate working capital to fund all ongoing obligations. The directors also believe the non-current borrowings can be successfully re-financed based on the positive cash flow currently being generated by the Group.

The financing alternatives would require shareholder approval and under certain conditions, debt holder approval and there is no certainty that any of the alternative strategies will be implemented successfully. The directors have concluded that these circumstances and particularly the requirement for shareholder approval and the debt holder approval represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Failure to complete the initial public offering or successfully implement one or more alternative strategies could result in the Group not being able to continue its operations in the current form and therefore not be able to continue as a going concern.

Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group will have adequate financial resources to continue in operational existence for the foreseeable future and therefore, continue to adopt the going concern basis of accounting.

Audit and Risk, Remuneration and Nomination Committees

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

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

Directors' report

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

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

Charitable donations and social responsibility

The Group operations are in the Saratov region in Russia and it is one of the goals of the Group to provide support to the local community to ensure the region benefits from the Group's presence on an enduring basis. During the year, the Group spent 216 thousand USD (2010 – 121 thousand USD) on sponsorships and charitable donations for local government and non-governmental agencies that support local development and industry and for agencies focusing on maintaining and improving local environmental standards.

Subsidiaries

The Company had the following subsidiaries at 31 December 2011 (all are owned directly by the Company unless otherwise noted):

<i>Active subsidiaries</i>	<i>Country of incorporation</i>	<i>Effective ownership percentage</i>	
		<i>2011</i>	<i>2010</i>
Royal Atlantic Energy (Cyprus) Limited (RAECL)	Cyprus	100	100
Diall Alliance LLC – 100% subsidiary of RAECL	Russia	100	100
Vostok Energy Ltd.	United States	100	100
Vostok Energy Resources Limited	United Kingdom	100	100
Vostok (Cyprus) Limited	Cyprus	100	100
<i>Inactive subsidiaries</i>			
Zhaikininvest LTD LLP – inactive since 2007	Kazakhstan	75	75
Vostok Energy Company, CJSC – inactive since 2009	Russia	100	100

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

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

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

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group and the Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group and the Company financial statements comply with the Companies Act
Annual Report and Financial Statements 2011

Directors' report

2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to the auditor

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

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

Auditor

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

By order of the Board



Tony Hunter
Secretary
25 May 2012

INDEPENDENT AUDITOR'S REPORT to the members of Vostok Energy Plc

We have audited the financial statements of Vostok Energy Plc for the Group and parent company for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flow, the Consolidated Statement of Changes in Equity, the parent company Statement of Financial Position, the parent company Statement of Changes in Equity, the parent company Statement of Cash Flows and the related notes 1 to 31 for the Group financial statements and notes 1 to 17 for the parent company financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. The conditions described in note 2 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Mirco Bardella, (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 May 2012

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Revenue	3	34,185	267
Cost of sales	4	(21,807)	(4,364)
Gross margin		12,378	(4,097)
Administrative expenses	5	(13,394)	(13,252)
Other gains	7	60	—
Other losses	7	(778)	(540)
Operating Loss		(1,734)	(17,889)
Finance income	8	6	19
Finance costs	9	(8,514)	(4,509)
Loss before taxation		(10,242)	(22,379)
Income tax benefit/(expense)	13	(1,958)	2,981
Loss for the year		(12,200)	(19,398)
Other comprehensive income:			
Foreign exchange movements on translation of foreign entities		(14,130)	(2,060)
Total comprehensive income		(26,330)	(21,458)
		2011 USD	2010 USD
Loss per share during the year (Note 14):			
-basic	14	0.07	0.10
-diluted	14	0.07	0.10

Consolidated statement of financial position at 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Non-current assets			
Intangible assets	15	73,500	58,140
Property, plant and equipment	16	223,545	210,433
Trade and other receivables	17	1,122	8,993
Deferred tax	13	4,676	6,828
		302,843	284,394
Current assets			
Inventories	18	87	60
Trade and other receivables	19	7,416	22,755
Cash and cash equivalents	20	9,360	18,147
		16,863	40,962
Total assets		319,706	325,356
Current liabilities			
Trade and other payables	21	11,105	10,754
Borrowings	21	1,189	1,189
		12,294	11,943
Non-current liabilities			
Borrowings	22	105,049	96,845
Provisions	23	7,951	7,922
		113,000	104,767
Total liabilities		125,294	116,710
Net assets		194,412	208,646
Equity			
Share capital	24	1,928	1,870
Share premium	24	61,970	50,569
Own shares held	24	(11,600)	(11,600)
Equity component of convertible debt	24	5,937	5,937
Currency translation reserve	24	(25,889)	(11,759)
Share option reserve	24	3,235	2,598
Accumulated reserves/(deficit)		158,831	171,031
Total equity attributable to owners of the parent		194,412	208,646

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

Signed on behalf of the Board of Directors



Blaine Karst,
Director
25 May 2012

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Share capital USD '000	Share premium USD '000	Own shares held USD '000	Equity component of convertible debt USD '000	Currency translation reserve USD '000	Share option reserve USD '000	Accumulated reserves/ (deficit) USD '000	Total equity USD '000
Balance at 1st January 2010	1,851	295,674	(5,983)	1,964	(9,699)	1,426	(59,571)	225,662
Loss for the year	-	-	-	-	-	-	(19,398)	(19,398)
Other comprehensive income	-	-	-	-	(2,060)	-	-	(2,060)
Total comprehensive income for the year	-	-	-	-	(2,060)	-	(19,398)	(21,458)
Transactions with owners								
Reduction of share premium on the conversion to a plc	19	(244,402)	-	-	-	-	250,000	5,617
Own shares issued to the employee benefit trust	-	-	(5,617)	-	-	-	-	(5,617)
Equity element of convertible debt	-	-	-	3,973	-	-	-	3,973
Share issue costs	-	(703)	-	-	-	-	-	(703)
Share option charge	-	-	-	-	-	1,172	-	1,172
Total of transactions with owners	19	(245,105)	(5,617)	3,973	-	1,172	250,000	4,442
Balance at 31 December 2010	1,870	50,569	(11,600)	5,937	(11,759)	2,598	171,031	208,646
Loss for the year	-	-	-	-	-	-	(12,200)	(12,200)
Other comprehensive income	-	-	-	-	(14,130)	-	-	(14,130)
Total comprehensive income for the year	-	-	-	-	(14,130)	-	(12,200)	(26,330)
Transactions with owners								
Share issues	58	11,551	-	-	-	-	-	11,609
Share issue costs	-	(150)	-	-	-	-	-	(150)
Share option charge	-	-	-	-	-	637	-	637
Total of transactions with owners	58	11,401	-	-	-	637	-	12,096
Balance at 31 December 2011	1,928	61,970	(11,600)	5,937	(25,889)	3,235	158,831	194,412

Consolidated statement of cash flows

for the year ended 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Operating activities			
Loss for the year		(12,200)	(19,398)
<i>Adjustments to reconcile loss for the year to net cash flow used from operating activities:</i>			
Tax for the year	13	1,958	(2,981)
Net finance costs	8,9	4,651	4,490
Adjustment to expected cash flows of the convertible bond	9	3,856	-
Foreign exchange losses/(gains)	7	(492)	178
Depreciation, depletion and amortisation	15,16	5,032	1,073
Share based payments	12	637	1,172
Movement in provisions		219	122
<i>Working capital adjustments:</i>			
Decrease in trade and other receivables		15,247	4,787
Increase in inventories		(28)	(27)
Increase in trade and other payables		5,934	4,816
Net cash flow from/(used in) operating activities		24,814	(5,768)
Investing activities			
Interest received	8	6	19
Payments to acquire intangible assets		(19,078)	(21,957)
Purchase of property, plant and equipment		(20,347)	(59,228)
Decrease in other receivables		3,150	-
Net cash flow used in investing activities		(36,269)	(81,166)
Financing activities			
Net proceeds on issuance of shares		11,459	-
Costs on share capital transactions		(1,074)	(4,355)
Interest paid		(7,617)	(2,278)
Proceeds from new borrowings		-	93,364
Net cash flow from financing activities		2,768	86,731
Decrease in cash and cash equivalents		(8,687)	(203)
Net foreign exchange difference		(100)	(11)
Cash and cash equivalents at beginning of the year	20	18,147	18,361
Cash and cash equivalents at the end of the year	20	9,360	18,147

Notes to the consolidated financial statements for the year ended 31 December 2011

1 Corporate Information

a) Organisation and principal activities

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

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

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

b) Russian business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in Russia. These risks include matters arising out of the policies of the Government, economic conditions, imposition of, or changes to, taxes and regulations and foreign exchange rate fluctuations. Refer to Note 26 for more information on key risks.

c) Financial risk management

The Group's long term success is exposed to the effect of fluctuations of oil and gas prices in the local markets which are influenced by international prices. Refer to Note 26 for a description of other risks.

2 Significant accounting policies

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

The financial statements for the Group for the year ended 31 December 2011 were authorised for issue by the board of directors on 25 May 2012 and the statement of financial position was signed on the board's behalf by Blaine Karst.

The financial statements have been prepared in accordance with IFRS as adopted by the EU as they apply to the financial statements of the Group for the year ended 31 December 2011.

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

b) Basis of preparation

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

The consolidated financial statements have been prepared on a going concern basis which assumes the Group will be able to meet its liabilities as they fall due in the foreseeable future.

As detailed in this report, the Group has non-current borrowings that are to be repaid in 2013 (Note 22). The Group's first gas plant has been operating at full or near full capacity since September 2011 and given current production, generates sufficient cash flow to cover current operating costs, financing costs and a small capital program. The cash flow generated would not necessarily be sufficient to cover all ongoing obligations if the Group were to experience production decreases, sale price decreases or increased costs. In addition, even at full production, the cash flow being generated would not be sufficient to accumulate adequate funds to repay the non-current borrowings as they come due in 2013.

The directors have appointed an independent consultant and Deutsche Bank to act as their financial advisors and are focused on raising funds through an initial public offering of shares to be completed in the second half of 2012. If the initial public offering is not successful, the directors believe that a smaller equity investment or additional debt funds can be raised in the near term to ensure the Group has adequate working capital to fund all ongoing obligations. The directors also believe the non-current borrowings can be successfully re-financed based on the positive cash flow currently being generated by the Group.

The financing alternatives would require shareholder approval and under certain conditions, debt holder approval and there is no certainty that any of the alternative strategies will be implemented successfully. The directors have concluded that these circumstances and particularly the requirement for shareholder approval and the debt holder approval represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Failure to complete the initial public offering or successfully implement one or more alternative financing strategies could result in the Group not being able to continue its operations in the current form and therefore not be able to continue as a going concern.

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

Nevertheless after making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Group will have adequate financial resources to continue in operational existence for the foreseeable future and therefore, continue to adopt the going concern basis of accounting.

These financial statements do not include any adjustments that might arise if the going concern basis for the preparation of the financial statements was not appropriate.

c) Changes in accounting policies

The accounting policies adopted by the Group at 31 December 2011 have been consistently applied in all periods presented. During the period, the following standards have been adopted in these financial statements:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group, however, adopted these as of 1 January 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3.

IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 26.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 3	Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
IFRS 3	Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
IAS 1	Presentation of Financial Statements
IAS 27	Consolidated and Separate Financial Statements
IAS 34	Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

IFRIC 13	Customer Loyalty Programmes (determining the fair value of award credits)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group.

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

Standards issued but not yet effective

Standards not yet effective for the financial statements for the year ended 31 December 2011	Effective for annual periods beginning on or after
Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets	01-Jul-11
Amendments to IAS 1 "Presentation of Financial Statements" – Changes to the Presentation of Other Comprehensive Income	01-Jul-12
Amendments to IAS 12 "Income Taxes" – Deferred Taxes: Recovery of Underlying Asset	01-Jan-12
IFRS 10 "Consolidated Financial Statements"	01-Jan-13
IFRS 11 "Joint Arrangements"	01-Jan-13
IFRS 12 "Disclosure of Interests in Other Entities"	01-Jan-13
IFRS 13 "Fair Value Measurement"	01-Jan-13
Amendments to IAS 19 "Employee Benefits"	01-Jan-13
Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities	01-Jan-13
IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	01-Jan-13
Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities	01-Jan-14
IFRS 9 "Financial Instruments"	01-Jan-15

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

d) Basis of consolidation

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

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

e) Business combinations

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

f) Foreign currency translation

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

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

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

The functional currency of the Company is the US dollar while the functional currency of its Russian subsidiaries is the Russian ruble ("RUB").

g) Revenue recognition

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

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

Sale of goods

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

Finance income

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

h) Borrowing costs

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

i) Taxation

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

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

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

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

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

j) Share-based payments

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

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

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

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

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

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

k) Intangible assets – exploration and evaluation expenditures

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

Drilling, seismic and other costs

All costs incurred in technical services, seismic data, and for exploration and appraisal activities are initially capitalised as intangible assets on a well by well basis until the results of the drilling have been determined. If commercial reserves have been discovered and development has been approved, the carrying values of the related intangible assets are reclassified as development and production assets. If commercial reserves have not been discovered, the costs are charged to profit or loss after appraisal activities are completed.

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

Sub-soil licences

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

For amortization purposes, useful lives are estimated as follows:

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

l) Property, plant and equipment

Oil and gas assets

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

Motor vehicles, office equipment and furniture

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

Depletion

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

Depreciation

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

For depreciation purposes, useful lives are estimated as follows:

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

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

Decommissioning and environmental restoration provision

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

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

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

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. Impairment losses are recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

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

n) Inventories

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

o) Financial assets

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

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

Loans and receivables

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

Trade and other receivables

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

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

Cash and cash equivalents

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

p) Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

q) Interest bearing loans and borrowings

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

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

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

r) Financial liabilities and equity

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

s) Equity Instruments

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

Convertible debt

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

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

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

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

t) Derecognition of financial assets and liabilities

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

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

u) Employee benefit trust

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

v) Judgements and key sources of estimation uncertainty

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

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

Taxation

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

Share-based payments (Note 12)

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

Estimates and assumptions

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

Fair value of acquisition

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

Capitalisation of interest (Note 9)

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

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

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

Sub-soil licences (Note 15)

The Group is subject to periodic reviews of its activities by governmental authorities in Russia with respect to the requirements of its sub-soil licences and seeks amendments to the licences when supported by the results of ongoing exploration and development activities. The requirements under the licences are subject to interpretation and enforcement policies of the relevant authorities. In management's opinion, as of 31 December 2011, there are no serious non-compliance issues that will have an adverse effect on the financial position or the operating results of the Group.

Decommissioning and environmental restoration (Note 23)

The Group operates in the upstream oil industry in the Russian Federation and its activities may have an impact on the environment. The enforcement of environmental regulations in the Russian Federation is evolving and the

Notes to the consolidated financial statements for the year ended 31 December 2011

2 Significant accounting policies (continued)

enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material.

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

3 Segment information

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

Revenue is from the sale of three primary products:

	2011 USD '000	2010 USD '000
Gas	24,645	200
Condensate	6,120	7
Oil	3,420	60
	34,185	267

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

4 Cost of sales

	2011 USD '000	2010 USD '000
Salaries and benefits	2,325	333
Mineral extraction tax	5,530	14
Depreciation, depletion and amortisation	4,578	891
Subsoil usage royalties	49	38
Land rental	192	70
Material and transport services	3,291	1,150
Expensed exploration and development costs	99	145
Repair and maintenance	291	195
Environmental and conservation	369	206
Heating and other operating costs	928	443
Property, transport, environmental and water utilization taxes	2,607	521
Operations and property insurance	721	204
Other costs	827	154
	21,807	4,364

The rise in total cost of sales in 2011 reflects that the Group's gas plant was operational throughout 2011. There was limited production in 2010.

5 Administrative expenses

	2011 USD '000	2010 USD '000
Salaries and benefits	6,909	6,986
Professional fees	4,139	3,348
Office	1,533	1,615
Travel and training	1,100	890
Depreciation	428	182
Reversal of tax provision	(790)	—
Insurance	75	231
	13,394	13,252

Notes to the consolidated financial statements for the year ended 31 December 2011

5 Administrative expenses (continued)

The reversal of tax provision for 2011 was for a provision set up in 2010 for possible employee tax obligations on the payments for services for non-UK employees for time spent working in the UK.

6 Auditor's remuneration

	2011 USD '000	2010 USD '000
Auditor's remuneration for services included in professional fees:		
Statutory audit - Company	497	152
Subsidiary audits	24	40
Other services related to taxation	28	61

The Company statutory audit expense in 2011 includes 219 thousand USD for audit services related to prior periods.

7 Other gains and losses

	2011 USD '000	2010 USD '000
Exceptional operating items:		
Provision against prepayments (Note 19)	437	122
Exchange loss	125	178
Sponsorships and charitable donations	216	121
Other non-operating (gains)/losses	(60)	119
	718	540

The provision against prepayments of 437 thousand USD (2010 – 122 thousand USD) is for advance payments on contracts where the services were not provided and costs are not expected to be recovered (Note 19).

The exchange (gain)/loss is the result of changes in exchange rates from the time a transaction is recorded until it is settled. The majority of the loss of 125 thousand USD (2010 – 178 thousand USD) was incurred by subsidiary operations in Russia.

8 Finance income

	2011 USD '000	2010 USD '000
Interest on short-term deposits	6	19

9 Finance costs

	2011 USD '000	2010 USD '000
Interest on non-current borrowings	3,042	-
Adjustments to expected cash flows of the convertible bond	3,856	-
Unwinding of discount on provisions	700	1,089
Other finance costs	916	3,420
	8,514	4,509

The Company started expensing the interest on non-current liabilities on 1 October 2011 upon the gas plant being substantially completed. In 2011 interest on non-current borrowings was capitalised in the amount of 2.923 million USD (2010 – 3.509 million USD). The adjustments to expected cash flows of the convertible bond are due to revaluation of the convertible bond to reflect the change in the timing of the Company's initial public offering (Note 22). The unwinding of discount on provisions relates to the decommissioning provision (Note 23). Other finance costs relate to the commitment charge on the EBRD loan facility and finance costs incurred in association with the attempts to IPO in 2010 and 2011.

10 Directors' emoluments

Included in staff costs are directors' emoluments of 1.567 million USD (2010 – 2.381 million USD) and fees payable to non-executive directors of 193 thousand USD (2010 – 66 thousand USD).

The highest paid director's emoluments was 550 thousand USD (2010 – 1.246 million USD) which includes an accrual for share based payments of 64 thousand USD (2010 – 796 thousand USD).

Notes to the consolidated financial statements for the year ended 31 December 2011

11 Staff costs

	2011 USD '000	2010 USD '000
Wages and salaries	7,017	5,816
Share-based payment benefits	637	1,172
Social security costs	1,375	795
Rental benefits	368	383
	9,397	8,166

Total salaries and benefits for the Group includes 2.325 million USD (2010 – 333 thousand USD) recorded as cost of sales, 6.909 million USD (2010 – 6.986 million USD) included in administrative expenses and 163 thousand USD (2010 – 847 thousand USD) recorded as drilling, seismic and other costs included in intangible assets and oil and gas assets included in property, plant and equipment.

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

	2011	2010
Operations	164	89
Head office and administration	100	76
	264	165

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

12 Share-based payments

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

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

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

	2011	2010
As at 1 January	3,800,000	2,460,000
Granted during the year	1,000,000	1,340,000
Forfeited during the year	(100,000)	-
As at 31 December	4,700,000	3,800,000
Shares vested at 31 December	3,300,000	2,820,000

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

	2011	2010
Award grant date	1 September	20 July
Number of awards	1,000,000	1,340,000
Award fair value at grant date	\$1.52	\$0.04
Share price at grant date	\$1.53	\$1.53
Amount payable by executive	nil	\$3.05
Risk free rate	4%	6%
Dividend yield	nil	nil
Expected volatility	25.8%	29.7%
Expected life of awards	2 years	1.5 years
Weighted average remaining contractual life of share awards at the end of the year	2.67 years	0.96 years

Expected volatility is based on historic share price movements. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Maximum term for the awards is three years. For key employees the probability that not all the awards will vest due to the resignation was set at 10% (2010 – nil). No other features of options' terms were incorporated into the measurement of fair value.

Notes to the consolidated financial statements for the year ended 31 December 2011

12 Share-based payments (continued)

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

	2011 USD '000	2010 USD '000
Total share-based payment reserve	3,235	2,598

The expense recognized for share-based payments in respect of employee services received during the year is 637 thousand USD (2010 – 1.172 million USD).

Share awards

In 2011, 1,000,000 shares (2010 – 1,340,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions being met, such shares vesting over a three year period from the date set in the joint ownership agreements between employees and the EBT. There were no actual shares issued to the EBT in 2011. The actual shares issued to the EBT in 2010 were 1,840,000 shares.

13 Tax

The tax charge for the year comprises:

	2011 USD '000	2010 USD '000
Current tax – UK tax	-	(1,495)
Deferred tax	1,958	(1,486)
	1,958	(2,981)

The income tax (benefit)/expense in the statement of comprehensive income is lower than the standard rate of corporation tax in the UK of 26.5% (2010 - 28%). The differences are reconciled below:

	2011 USD '000	2010 USD '000
Loss before taxation	(10,242)	(22,379)
Tax at applicable rate of tax of 26.5% (2010 – 28%)	(2,714)	(6,266)
Tax effect of:		
- unrecognised tax losses	5,863	3,461
- effect of different foreign tax rates	(631)	606
- items which are not deductible for tax	713	661
- derecognition of items from prior year	-	52
- EBT transactions	(1,273)	(1,495)
Total tax (benefit)/expense reported in profit or loss	1,958	(2,981)

The main rate of corporation tax reduced to 26% from 1 April 2011. The 2012 budget on 21 March 2012 proposed that the main rate of corporation tax will reduce by 2% to 24% from 1 April 2012. The Government has announced its intention to reduce the main rate of corporation tax by 1% per year until 2014, which would take the rate to 22% from 1 April 2014. However, only the reduction in the corporation tax rate to 25% from 1 April 2012 was substantively enacted at the reporting date and as such the deferred tax balances are provided in the financial statements at 25%. The Russian corporate tax rate was 20% from 1 January 2010 to 31 December 2011.

As at 31 December 2011 the Group has an unrecognised deferred tax asset on tax losses which arose in the UK of 38.218 million USD (2010 – 16.386 million USD), in the US of 2.571 million USD (2010 – 1.623 million USD) and in Russia - nil (2010 - 1.994 million USD).

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

Deferred tax

The deferred tax included in the balance sheet is as follows:

Notes to the consolidated financial statements for the year ended 31 December 2011

13 Tax (continued)

	2011 USD '000	2010 USD '000
Deferred tax assets		
- tax losses carried forward	6,612	8,926
- current assets	211	518
- property, plant and equipment	1,036	334
Deferred tax liabilities		
- intangible assets	(3,183)	(2,950)
	4,676	6,828

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

	2011 USD '000	2010 USD '000
As at 1 January	6,828	5,389
(Charged)/credited to profit or loss	(1,958)	1,486
Net exchange adjustment	(194)	(47)
As at 31 December	4,676	6,828

A net deferred tax asset has been recognised on the basis that there will be sufficient taxable profits, based on the group's profit forecast, against which these temporary differences can be utilised.

The deferred tax included in profit or loss is as follows:

	2011 USD '000	2010 USD '000
Deferred tax assets		
- tax losses carried forward	2,014	(2,804)
- property, plant and equipment	(790)	(562)
Deferred tax liabilities		
- intangible assets	-	1,326
- other allowances	734	-
- current assets	-	554
	1,958	(1,486)

14 Loss per share

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

	2011	2010
Loss for the purposes of basic loss per share (in USD'000)	12,200	19,398
Weighted average number of ordinary shares for the purposes of basic loss per share	187,256,453	186,143,458
Loss per share (in USD):		
Basic	0.07	0.10
Diluted	0.07	0.10

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

Notes to the consolidated financial statements for the year ended 31 December 2011

15 Intangible Assets

	Exploration and evaluation expenditures		
	Drilling, seismic & other costs USD '000	Sub-soil licences USD '000	Total USD '000
Cost:			
Balance at 1 January 2010	23,757	17,602	41,359
Translation difference	(201)	(21)	(222)
Additions	22,397	-	22,397
At 31 December 2010	45,953	17,581	63,534
Translation difference	(3,909)	(7)	(3,916)
Additions	19,074	92	19,166
At 31 December 2011	61,118	17,666	78,784
Amortisation and impairment:			
Accumulated balance at 1 January 2010	(5,109)	(17)	(5,126)
Amortisation for the year	(260)	(8)	(268)
At 31 December 2010	(5,369)	(25)	(5,394)
Amortisation for the year	(275)	(9)	(284)
Translation difference	422	(28)	394
At 31 December 2011	(5,222)	(62)	(5,284)
Net book value:			
At 31 December 2010	40,584	17,556	58,140
At 31 December 2011	55,896	17,604	73,500

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

Included in sub-soil licences is the Bortovoy licence, the licence area that the Group operates located in the Saratov region of Russia. The sale of the licence and the sale of major assets belonging to the Group are restricted pursuant to the convertible loan agreement and the conditional convertible bond agreement (Note 22).

In management's opinion, as at 31 December 2011 there were no serious non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group.

Notes to the consolidated financial statements for the year ended 31 December 2011

16 Property, plant and equipment

	Oil and gas assets USD '000	Motor vehicles USD '000	Other equipment and furniture USD '000	Total USD '000
Cost:				
Balance at 1 January 2010	161,089	412	597	162,098
Translation differences	(985)	(1)	(1)	(987)
Additions	55,478	65	55	55,598
Disposals	(3,747)	-	(2)	(3,749)
At 31 December 2010	211,835	476	649	212,960
Translation differences	(10,830)	(47)	(2)	(10,879)
Additions	31,067	333	48	31,448
Disposals	(3,395)	(89)	(17)	(3,501)
At 31 December 2011	228,677	673	678	230,028
Depreciation:				
Accumulated balance at 1 January 2010	(969)	(184)	(294)	(1,447)
Depreciation and depletion	(870)	(87)	(126)	(1,083)
Disposals	1	-	2	3
At 31 December 2010	(1,838)	(271)	(418)	(2,527)
Depreciation and depletion	(4,546)	(137)	(135)	(4,818)
Translation differences	507	24	18	549
Disposals	269	35	9	313
At 31 December 2011	(5,608)	(349)	(526)	(6,483)
Net book value:				
At 31 December 2010	209,997	205	231	210,433
At 31 December 2011	223,069	324	152	223,545

Depletion is charged to profit or loss through cost of sales (Note 4). Depreciation is charged to the profit or loss through cost of sales (Note 4) and administrative expenses (Note 5). During the year 70 thousand USD (2010 – 278 thousand USD) of depreciation was capitalized and included as additions to property plant and equipment.

The sale of all or a substantial part of the assets belonging to the Group is restricted pursuant to the convertible loan agreement and the conditional convertible bond agreement (Note 22).

17 Trade and other receivables – non current

	2011 USD '000	2010 USD '000
Other receivables	-	3,043
Prepayments	1,122	5,950
	1,122	8,993

Prepayments are advance payments on contracts for capital projects relating to exploration, development and production and therefore classified as non-current assets. In 2010 the other receivables were for value added taxes which are to be used as an offset against future value added tax liabilities but were not expected to be recovered within the next twelve months. In 2011 all non-current other receivables became current.

Notes to the consolidated financial statements for the year ended 31 December 2011

18 Inventories

	2011 USD '000	2010 USD '000
Natural gas and hydrocarbon liquids	87	60

Inventory represents amounts of natural gas and hydrocarbon liquids held in storage pending sales to customers. The major component of inventory costs expensed during the period as a part of cost of sales was 153 thousand USD (2010 — 52 thousand USD).

19 Trade and other receivables - current

	2011 USD '000	2010 USD '000
Tax receivables	2,115	20,017
Prepayments	2,180	2,222
Other	362	401
Trade receivables	2,759	115
	7,416	22,755

Tax receivables relate primarily to value added tax payments that are expected to be recovered within the next twelve months. During 2011 the Group recovered 17.287 million USD of value added tax mainly from Russian operations. Prepayments are advance payments for services to be rendered within the next twelve months.

The amounts shown in prepayments are net of provisions as the Group does not expect to recover advance payments on the related contracts. Movements in the provision were as follows:

	2011 USD '000	2010 USD '000
At 1 January	894	1,004
Charge for the year	437	122
Amounts written off	(150)	(232)
Translation difference	(68)	-
At 31 December	1,113	894

No trade receivables have been pledged as security for any credit facilities.

20 Cash and cash equivalents

Cash is kept on deposit with banks and earns interest at the daily deposit rates or placed in short-term deposits such as money market funds which can be redeemed upon demand. At 31 December 2011 the cash and cash equivalents totalled 9.360 million USD (2010 – 18.147 million USD).

21 Current liabilities

	2011 USD '000	2010 USD '000
Trade payables	8,344	8,351
Accruals and other payables	2,761	2,403
Interest-bearing loans and borrowings	1,189	1,189
	12,294	11,943

Notes to the consolidated financial statements for the year ended 31 December 2011

22 Non-current borrowings

	Nominal Interest Rate	2011 USD '000	2010 USD '000
Amounts due in less than 5 years:			
Convertible loan issued 18 September 2009	LIBOR + 4%	54,153	51,923
Convertible bond issued 13 October 2010	10%	52,085	46,111
		106,238	98,034
<hr/>			
Net convertible debt		106,238	98,034
<hr/>			
Current borrowings		(1,189)	(1,189)
Non-current borrowings		105,049	96,845
<hr/>			
Convertible loan comprises:			
Drawdown of the loan		60,000	60,000
Equity element		(5,937)	(5,937)
		54,063	54,063
Cost of borrowing		(3,376)	(3,376)
Accrued interest		3,466	1,236
Net convertible loan		54,153	51,923
<hr/>			
Convertible bond comprises:			
Drawdown of the bond		50,000	50,000
Cost of borrowing		(5,313)	(5,313)
Accrued interest		7,398	1,424
Net convertible bond		52,085	46,111

Convertible loan

The convertible loan (the "loan") of 60 million USD is convertible into ordinary shares of the Company at any time up to 18 March 2012 at the loan holder's option. Any conversions done prior to 19 March 2011 would have been converted at a price of 3.0531 USD per share. From 19 March 2011 to 18 March 2012, the loan is convertible at 3.0531 USD per share plus a pro-rated amount of margin payments at 4% interest made up to the time of the conversion. For any unconverted amounts, the loan is to be repaid in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015.

The net proceeds received from the issue of the convertible loan are split between a debt component and an embedded equity element. The fair value of the convertible loan component for the drawdowns taken in 2010 have been calculated as the present value of the contracted future cash flows using an effective interest rate of 7%. The equity element is calculated as the difference between the principal amount and the fair value of the convertible loan.

The comparative figures for the convertible loan for 2010 have been restated to reduce the equity element of the convertible loan by 111 thousand USD, the cost of borrowing has been reduced by 2.162 million USD and accrued interest has been increased by 2.273 million USD. The effect is to increase the loss for the 2010 financial year by 111 thousand USD.

Convertible bond

On 13 October 2010 the Company entered into a convertible bond agreement (the "bond") to borrow 50 million USD. The bond is convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bond holder's option. To determine the number of ordinary shares received upon conversion, the amount of the bond to be converted is divided by the share price paid by investors for ordinary shares of the Company at the time of a Qualifying Initial Public Offering (the "QIPO") as defined in the convertible bond agreement. At the Company's option, the conversion of the bond can be forced if the ordinary shares of the Company trade at a value of 50% above the QIPO price for at least 20 dealing days in any period of 30 consecutive dealing days any time prior to 6 April 2013. For any unconverted amounts, the bond is to be repaid in full in one instalment on 13 April 2013.

The convertible bond was draw down in full during 2010 initially bearing interest at 10% per annum. The convertible bond was recognized at a net cost of 46.111 million USD, which comprises the convertible bond at a fair value of 50 million USD less borrowing costs. This initially gave an effective interest rate of 16% per annum.

Under terms of the convertible bond, additional interest of 10% per annum began accruing effective on 13 October 2011 as the Company did not complete its initial public offering of shares.

Notes to the consolidated financial statements for the year ended 31 December 2011

22 Non-current borrowings (continued)

The re-measurement of the carrying amount of the liability for the change in expected cash flows due to the additional interest of 10% resulted in an income statement impact 3.856 million USD.

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

23 Decommissioning provision

	2011 USD '000	2010 USD '000
At 1 January	7,922	9,900
Change in provision	100	588
Unwinding of discount	700	1,089
Reserve adjustment due to estimates change	(305)	(3,599)
Translation of differences	(466)	(56)
At 31 December	7,951	7,922

The provision is for decommissioning and environmental restoration costs related to the gas processing plant and related infrastructure located on the Bortovoy licence. Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group.

The liability becomes payable at the end of the useful life of each well and the gas plant which ranges from 20 to 30 years.

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

24 Equity

Authorised and issued share capital

Authorised	2011 USD'000	2010 USD'000
250,000,000 ordinary shares of USD 0.01 each	2,500	2,500

Allotted, called up and fully paid	Ordinary Shares No.	Share capital USD '000	Share Premium USD '000	Own shares held USD '000
At 1 January 2010	185,130,198	1,851	295,674	(5,983)
Share premium reduction 30 June 2010	-	-	(250,000)	-
Share issue 20 July 2010	1,840,000	19	5,598	(5,617)
Share issue costs	-	-	(703)	-
At 31 December 2010	186,970,198	1,870	50,569	(11,600)
Share issue 13 December 2011	5,804,613	58	11,551	-
Share issue costs	-	-	(150)	-
At 31 December 2011	192,774,811	1,928	61,970	(11,600)

Share capital and share premium

On 13 December 2011, the Company issued 5,804,613 shares to existing shareholders, executives and directors.

On 30 June 2010 the Company reduced the share premium account by 250 million USD as part of the process of converting to a public liability company.

Notes to the consolidated financial statements for the year ended 31 December 2011

24 Equity (continued)

Own shares held

The remaining shares issued during 2010 were to the EBT and for presentation purposes included as part of own shares held. The Company has approval to transfer up to 4,460,000 shares to the EBT for allocation to officers and employees of the Group. In 2011 no shares were issued to the EBT (2010 — 1,840,000 shares).

Redeemable shares

At 31 December 2011 and 2010 there were 50,000 redeemable shares at 1 pound sterling each in issue. The shares were issued in 2010 in connection with the conversion of the Company to a public limited company.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency are not in US Dollars into the Group's presentation currency.

Share option reserve

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

Equity element of convertible debt

The equity element of convertible debt is the difference between the principal amount and the fair value of the loan and bond convertible debts reflecting values of the convertible option of the debt instruments.

25 Operating lease obligations

Operating lease payments are mainly rentals by the Group of land, office space and equipment required for use on a temporary basis. Leases are normally signed on a short term basis of one to two years with options to extend.

Lease payments under operating leases recognized in the statement of comprehensive income for the year were 1.573 million USD (2010 – 1.021 million USD).

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

	2011 USD '000	2010 USD '000
Within one year	387	781
In two to five years	33	243
More than five years	181	191

Notes to the consolidated financial statements for the year ended 31 December 2011

26 Financial instruments

Financial instruments recognised in the balance sheet

	Loans and receivables USD '000	Other financial liabilities at amortised cost USD '000	Total USD '000
Year ended 31 December 2011			
Financial assets			
Trade and other receivables	3,121	-	3,121
Cash and cash equivalents	9,360	-	9,360
	12,481	-	12,481
Financial liabilities			
Trade and other payables	-	8,344	8,344
Borrowings	-	106,238	106,238
	-	114,582	114,582
As at 31 December 2010			
Financial assets			
Trade and other receivables	299	-	299
Cash and cash equivalents	18,147	-	18,147
	18,446	-	18,446
Financial liabilities			
Trade and other payables	-	8,351	8,351
Borrowings	-	98,034	98,034
	-	106,385	106,385

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

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

Interest rate risk

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

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

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

Notes to the consolidated financial statements for the year ended 31 December 2011

26 Financial instruments (continued)

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

	Increase/decrease in basis points	Effect on property, plant and equipment	Effect on profit before tax
2011			
US Dollar	+100	(416)	(135)
US Dollar	-100	416	135
2010			
US Dollar	+100	(382)	-
US Dollar	-100	382	-

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

Credit Risk

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

This risk arises principally from cash and cash equivalents. Management's policy is to hold cash and cash equivalents in reputable financial institutions of which 80.5% (2010 – 91.9%) of cash and cash equivalents are held in reputable financial institutions in the UK. To limit exposure to credit risk on trade receivables, management's policy is to sell only to financially solid customers and use prepayments or payment upon delivery for product sales whenever possible. The average credit period taken on sale of goods is less than seven days. There is no allowance for estimated irrecoverable amounts from sale of goods for the year (2010 – nil).

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

Provisions for doubtful debts are recognised against prepayments based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. The movements in the provisions against prepayments are presented in the Note 19.

Foreign currency risk

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

The Group's primary operations are within Russia where the functional currency of the Group's subsidiaries is the Russian ruble ("RUB"). The currencies giving rise to this foreign currency risk are US dollar based intra-group borrowings and payables. The recent instability of the RUB to US dollar has increased the risks of significant unrealized gains and losses associated with the intra-group borrowings. To mitigate this risk the Group has restructured the majority of intra-group borrowings to ruble based loans using Group companies with ruble functional currencies.

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

Notes to the consolidated financial statements for the year ended 31 December 2011

26 Financial instruments (continued)

A ten per cent strengthening of US dollar against the following currencies would have decreased loss before tax and impact the Group's equity by the amounts shown below. For a ten per cent strengthening of the US dollar against the euro there is no significant impact on loss before tax or on the Group's equity. This analysis assumes that all other variables remain constant and the analysis is performed on the same basis for 2010.

	Effect on loss before tax	
	2011 USD '000	2010 USD '000
Pounds sterling	140	78

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

Liquidity risk

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

Management is continually monitoring cash requirements for the Group and evaluating potential sources to fund its operating and capital expenditures. All Group entity operations are controlled through annual and monthly budget reviews to mitigate liquidity risk. It is the goal of management to ensure adequate funding is available through an appropriate mix of debt and equity instruments. In 2011 the Group issued new equity of 11.609 million USD (2010 – nil). In 2010 the Group arranged a convertible debt financing facility (Note 22) of 50.0 million USD. The financing facility was primarily used to complete the construction of its gas processing facility and cover other development costs.

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

	On demand USD '000	Less than 3 months USD '000	3 to 12 months USD '000	1 to 5 years USD '000	>5 years USD '000	Total USD '000
Year ended 31 December 2011						
Trade and other payables	-	8,344	-	-	-	8,344
Borrowings	-	1,910	5,743	117,127	-	124,780
Year ended 31 December 2010						
Trade and other payables	-	8,351	-	-	-	8,351
Borrowings	-	1,925	5,775	126,956	-	134,656

Fair values of financial assets and financial liabilities

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

	Book Value		Fair Value	
	2011 USD '000	2010 USD '000	2011 USD '000	2010 USD '000
Cash and cash equivalents	9,360	18,147	9,360	18,147
Trade and other receivables	3,121	299	3,121	299
Trade and other payables	(8,344)	(8,351)	(8,344)	(8,351)
Borrowings	(106,238)	(98,034)	(106,238)	(98,034)

Notes to the consolidated financial statements for the year ended 31 December 2011

26 Financial instruments (continued)

Capital management

Capital includes total equity attributable to the owners of the parent.

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 2010.

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

	2011 USD '000	2010 USD '000
Borrowings	106,238	98,034
Capital	194,412	208,646
Gearing ratio	55%	47%

27 Related party transactions

Transactions with related parties

	Charges to related parties USD '000	Purchases from related parties USD '000	Amounts owed by related parties USD '000	Amounts owed to related parties USD '000
Entities with key management personnel of the Group:				
2011	29	13,332	2	2,140
2010	226	11,358	127	665

Transactions primarily relate to the provision of goods and services from companies whose Boards have common directors with the Company's Board. The majority of purchases from related parties during 2010 and 2011 were for drilling management services.

Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within thirty days of invoice. The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2011, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2010 – nil).

Key management compensation

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

	2011 USD '000	2010 USD '000
Salaries and other short-term employee benefits	2,442	2,523
Share-based payments	603	1,172
	3,045	3,695

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

Notes to the consolidated financial statements for the year ended 31 December 2011

28 Capital commitments

Pursuant to its sub-soil licence agreement the Company continues to explore and develop the Bortovoy licence area. As at 31 December 2011 there were no unfulfilled licence commitments (2010 – nil).

Prior to 31 December 2011 the Group entered into contracts relating to work on the new gas plant, drilling, work-over and seismic services as part of the normal business activity. Pursuant to these contracts, there were no outstanding work commitments still to be delivered (2010 – 8.4 million USD).

29 Contingencies

Russian business operating environment

During the year ended 31 December 2011 all of the Group's business was conducted in Russia through its investment in subsidiaries operating in the oil and gas industry. These operations and those of similar companies in Russia are subject to the economic, political and regulatory uncertainties prevailing in Russia.

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

Taxation

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

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

Decommissioning and environmental restoration costs

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

Sub-soil licences

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

Notes to the consolidated financial statements for the year ended 31 December 2011

30 Events after the reporting period

On 27 February 2012, the issued share capital was increased by 2.589 million USD by the issue of 1,294,616 ordinary shares at 2 USD each. This share issue was the second tranche of an agreed share subscription with existing shareholders, executives and directors.

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

On 18 March 2012, the convertible option on the 60 million USD convertible loan expired (Note 22). The debt is now a term loan repayable in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015.

On 3 May 2012, 9,280,000 shares were issued to the employee benefit trust as compensation to directors and senior management for past service contributions and to enable the Group to compensate key employees and senior management after the initial public offering is completed. Future awards will be based on recommendations made by the Remuneration Committee based on Group and employee performance.

31 Foreign exchange rates

The exchange rate at the year-end was 32.1961 RUB to 1 USD (2010 – 30.4769) and the average exchange rate for the year was 29.3874 RUB to 1 USD (2010 – 30.3692). For UK operations, the exchange rate at the period end was 0.6487 £ to 1 USD (2010 – 0.6464) and the average exchange rate for the period was 0.6242 £ per 1 USD (2010 – 0.6329).

Parent company statement of financial position
at 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Non-current assets			
Property, plant and equipment	5	110	233
Investments in subsidiaries	6	349,282	345,158
		349,392	345,391
Current assets			
Trade and other receivables	7	1,744	2,185
Cash and cash equivalents		7,518	16,752
		9,262	18,937
Total assets		358,654	364,328
Current liabilities			
Trade and other payables	8	3,964	4,889
Borrowings	8	1,189	1,189
Non-current borrowings	9	105,049	96,845
Total liabilities		110,202	102,923
Net assets		248,452	261,405
Equity			
Share capital	10	1,928	1,870
Share premium	10	61,970	50,569
Own shares held	10	(11,600)	(11,600)
Currency translation reserve	10	19	45
Share option reserve	10	3,235	2,598
Equity component of convertible debt	9	5,937	5,937
Accumulated reserves/(deficit)		186,963	211,986
Total equity attributable to owners of the parent		248,452	261,405

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

Signed on behalf of the Board of Directors

Blaine Karst
Director
25 May 2012

Parent company statement of changes in equity

for the year ended 31 December 2011

	Share capital USD '000	Share premium USD '000	Own shares held USD '000	Equity component of convertible debt USD '000	Currency translation reserve USD '000	Share option reserve USD '000	Accumulated reserves/ (deficit) USD '000	Total equity USD '000
Balance at 1st January 2010	1,851	295,674	(5,983)	1,964	27	1,426	(24,144)	270,815
Loss for the year	-	-	-	-	-	-	(13,870)	(13,870)
Other comprehensive income	-	-	-	-	18	-	-	18
Total comprehensive income for the year	-	-	-	-	18	-	(13,870)	(13,852)
Transactions with owners								
Share issues	19	(244,402)	-	-	-	-	250,000	5,617
Own shares issued to the employee benefit trust	-	-	(5,617)	-	-	-	-	(5,617)
Equity element of convertible debt	-	-	-	3,973	-	-	-	3,973
Share issue costs	-	(703)	-	-	-	-	-	(703)
Share option charge	-	-	-	-	-	1,172	-	1,172
Total of transactions with owners	19	(245,105)	(5,617)	3,973	-	1,172	250,000	4,442
Balance at 31 December 2010	1,870	50,569	(11,600)	5,937	45	2,598	211,986	261,405
Loss for the year	-	-	-	-	-	-	(25,023)	(25,023)
Other comprehensive income	-	-	-	-	(26)	-	-	(26)
Total comprehensive income for the year	-	-	-	-	(26)	-	(25,023)	(25,049)
Transactions with owners								
Share issues	58	11,551	-	-	-	-	-	11,609
Share issue costs	-	(150)	-	-	-	-	-	(150)
Share option charge	-	-	-	-	-	637	-	637
Total of transactions with owners	58	11,401	-	-	-	637	-	12,097
Balance at 31 December 2011	1,928	61,970	(11,600)	5,937	19	3,235	186,963	248,452

Parent company statement of cash flows

for the year ended 31 December 2011

	Notes	2011 USD '000	2010 USD '000
Operating activities			
Net cash flow used in operating activities	11	(8,747)	(5,519)
Net cash flow used in operating activities		(8,747)	(5,519)
Investing activities			
Investments in subsidiaries		(4,124)	(76,617)
Interest income on cash investments		6	5
Purchase of property, plant and equipment	5	(54)	(58)
Net cash flow used in investing activities		(4,172)	(76,670)
Financing activities			
Proceeds on issue of share capital		11,459	(4,335)
Interest payments on long term liabilities		(7,778)	(2,278)
Proceeds from convertible debt		-	93,364
Net cash flow from financing activities		3,681	86,751
Increase / (decrease) in cash and cash equivalents		(9,238)	4,562
Cash and cash equivalents at beginning of year		16,752	12,287
Effect of exchange rate changes on cash and cash equivalents		4	(97)
Cash and cash equivalents at the end of the year		7,518	16,752

Notes to the parent company financial statements

for the year ended 31 December 2011

1. Corporate information

Organisation and principal activities

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

2. Significant accounting policies

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

Authorization

The financial statements for the parent company for the year ended 31 December 2011 were authorised for issue by the board of directors on 25 May 2012 and the statement of financial position was signed on the board's behalf by Blaine Karst.

Basis of preparation

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

Investments in subsidiaries

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

3. Taxation

As at 31 December 2011 the Company has unrecognised deferred tax assets which arose in the UK of 38.035 million USD (2010 – 16.386 million USD). Deferred tax has not been provided for these losses on the basis that it is not sufficiently certain there will be adequate taxable profits arising in the future to offset against the tax losses. The losses incurred in the UK are available to carry forward indefinitely for offset against future taxable profits.

4. Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company is 25.023 million USD (2010 – 13.870 million USD).

Notes to the parent company financial statements

for the year ended 31 December 2011

5. Property, plant and equipment

	Office equipment and furniture USD'000	Motor vehicles USD'000	Total USD'000
Cost:			
At 1 January 2010	466	64	530
Additions	26	32	58
Disposals	(2)	-	(2)
Translation differences	-	(1)	(1)
At 31 December 2010	490	95	585
Additions	14	40	54
Disposals	(1)	(79)	(80)
Translation differences	(3)	(2)	(5)
At 31 December 2011	500	54	554
Depreciation:			
Accumulated depreciation at 1 January 2010	222	10	232
Charge for the year	104	18	122
Disposals	(2)	-	(2)
At 31 December 2010	324	28	352
Charge for the year	101	20	121
Disposals	-	(26)	(26)
Translation differences	(2)	(1)	(3)
At 31 December 2011	423	21	444
Net book value:			
At 31 December 2010	166	67	233
At 31 December 2011	77	33	110

6. Investments in subsidiaries

	Investment in subsidiary undertakings USD'000	Loans to subsidiary undertakings USD'000	Total USD'000
Balance at 1 January 2010	41,806	222,659	264,465
Additions	250,748	-	250,748
Disposals	-	(170,055)	(170,055)
Balance at 31 December 2010	292,554	52,604	345,158
Additions	3,084	1,040	4,124
Balance at 31 December 2011	295,638	53,644	349,282

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

All loans to subsidiaries are demand loans but are classified as long term as the Company does not expect to demand repayment of the advances in 2012.

No interest was charged on loans to subsidiaries in the year (2010 – nil).

Since the publishing of the 31 December 2010 financial statements the 2010 comparative figures of the investment in subsidiary has been restated; the investment in subsidiary has been reduced by 3.071 million USD. The effect is to increase the loss for the financial year 2010 by 3.071 million USD.

Notes to the parent company financial statements

for the year ended 31 December 2011

7. Trade and other receivables

	2011 USD'000	2010 USD'000
Prepayments and deposits	338	325
Tax receivables	35	614
Other receivables	1,371	1,246
	1,744	2,185

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

Other receivables are non-interest bearing and are generally on 30-90 day terms.

8. Trade and other payables

	2011 USD'000	2010 USD'000
Trade payables	1,734	3,641
Accruals and other payables	2,230	1,248
Interest-bearing loans and borrowings	1,189	1,189
	5,153	6,078

9. Non-current borrowings

	Nominal interest rate	2011 USD'000	2010 USD'000
Net amounts due in less than 5 years:			
Convertible loan issued 18 September 2009	LIBOR + 4%	54,153	51,923
Convertible bond issued 13 October 2010	10%	52,085	46,111
		106,238	98,034
Net convertible debt		106,238	98,034
Current borrowings		(1,189)	(1,189)
Non-current borrowings		105,049	96,845
Convertible debt comprises:			
Drawdown of the loan		60,000	60,000
Equity element		(5,937)	(5,937)
		54,063	54,063
Cost of borrowing		(3,376)	(3,376)
Accrued interest		3,466	1,236
Net convertible loan		54,153	51,923
Convertible bond comprises:			
Drawdown of the bond		50,000	50,000
Cost of borrowing		(5,313)	(5,313)
Accrued interest		7,398	1,424
Net convertible bond		52,085	46,111

Notes to the parent company financial statements

for the year ended 31 December 2011

9. Non-current borrowings (continued)

Convertible loan

The convertible loan (the "loan") of 60 million USD is convertible into ordinary shares of the Company at any time up to 18 March 2012 at the loan holder's option. Any conversions done prior to 19 March 2011 would have been converted at a price of 3.0531 USD per share. From 19 March 2011 to 18 March 2012, the loan is convertible at 3.0531 USD per share plus a pro-rated amount of margin payments at 4% interest made up to the time of the conversion. For any unconverted amounts, the loan is to be repaid in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015.

The net proceeds received from the issue of the convertible loan are split between a debt component and an embedded equity element. The fair value of the convertible loan component for the drawdowns taken in 2010 have been calculated as the present value of the contracted future cash flows using an effective interest rate of 7%. The equity element is calculated as the difference between the principal amount and the fair value of the convertible loan.

The comparative figures for the convertible loan for 2010 have been restated to reduce the equity element of the convertible loan by 111 thousand USD, the cost of borrowing has been reduced by 2.162 million USD and accrued interest has been increased by 2.273 million USD. The effect is to increase the loss for the 2010 financial year by 111 thousand USD.

Convertible bond

On 13 October 2010 the Company entered into a convertible bond agreement (the "bond") to borrow 50 million USD. The bond is convertible into ordinary shares of the Company at any time up to 6 April 2013 at the bond holder's option. To determine the number of ordinary shares received upon conversion, the amount of the bond to be converted is divided by the share price paid by investors for ordinary shares of the Company at the time of a Qualifying Initial Public Offering (the "QIPO") as defined in the convertible bond agreement. At the Company's option, the conversion of the bond can be forced if the ordinary shares of the Company trade at a value of 50% above the QIPO price for at least 20 dealing days in any period of 30 consecutive dealing days any time prior to 6 April 2013. For any unconverted amounts, the bond is to be repaid in full in one instalment on 13 April 2013.

The convertible bond was drawn down in full during 2010 initially bearing interest at 10% per annum. The convertible bond was recognized at a net cost of 46.111 million USD, which comprises the convertible bond at a fair value of 50 million USD less borrowing costs. This initially gave an effective interest rate of 16% per annum.

Under terms of the convertible bond, additional interest of 10% per annum began accruing effective on 13 October 2011 as the Company did not complete its initial public offering of shares.

The re-measurement of the carrying amount of the liability for the change in expected cash flows due to the additional interest of 10% resulted in an income statement impact of 3,856 thousand USD.

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

Notes to the parent company financial statements

for the year ended 31 December 2011

10. Equity

Authorised and issued share capital

Authorised	2011 USD'000	2010 USD'000
250,000,000 ordinary shares of USD 0.01 each	2,500	2,500

Allotted, called up and fully paid	Ordinary Shares No.	Share capital USD '000	Share Premium USD '000	Own shares held USD '000
At 1 January 2010	185,130,198	1,851	295,674	(5,983)
Share premium reduction 30 June 2010	-	-	(250,000)	-
Share issue 20 July 2010	1,840,000	19	5,598	(5,617)
Share issue costs	-	-	(703)	-
At 31 December 2010	186,970,198	1,870	50,569	(11,600)
Share issue 13 December 2011	5,804,613	58	11,551	-
Share issue costs	-	-	(150)	-
At 31 December 2011	192,774,811	1,928	61,970	(11,600)

Share capital and share premium

During the year, the allotted, called up and fully paid share capital was increased by 11.609 million USD by the issue of 5,804,613 ordinary shares of 2 USD each. This share issue was the first tranche of an agreed share subscription with existing shareholders, executives and directors. The second tranche of shares is conditional upon the Company meeting conditions specified in the Subscription Agreement.

On 30 June 2010 the Company reduced share premium by 250 million USD as part of the process of converting to a public limited company.

Redeemable shares

At 31 December 2011 there were 50,000 redeemable shares at 1 pound sterling in issue. The shares were issued during 2010 in connection with the conversion of the Company to a public limited company.

Own shares held

The Company has approval to transfer up to 4,460,000 shares to the EBT for allocation to officers and employees of the Group. In 2010, 1,840,000 shares equal to one per cent of called up share capital were issued pursuant to the EBT. For presentation purposes, the shares held in the EBT are included as own shares held.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency are not in US Dollars into the Group's presentation currency.

Share option reserve

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

Equity element of convertible debt

The equity element of convertible debt is the difference between the principal amount and the fair value of the loan and bond convertible debts reflecting values of the convertible option of the debt instruments.

Notes to the parent company financial statements

for the year ended 31 December 2011

11. Reconciliation of loss from operations to net cash used in operating activities

	2011 USD'000	2010 USD'000
Loss before taxation	(25,023)	(13,870)
Adjustments for:		
Foreign exchange (gains)/losses	(367)	51
Tax for the year	-	(705)
Depreciation, depletion and amortization	95	122
Finance costs	12,420	6,491
Adjustments to expected cash flows of liability	3,981	-
Interest income on cash invested	(6)	(5)
Accrued share based payments	637	1,172
Increase in trade and other receivables	441	615
(Decrease)/increase in trade and other payables	(925)	610
Net cash flow used in operating activities	(8,747)	(5,519)

12. Share-based payments

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

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

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

	2011	2010
As at 1 January	3,800,000	2,460,000
Granted during the year	1,000,000	1,340,000
Forfeited during the year	(100,000)	-
As at 31 December	4,700,000	3,800,000
Shares vested at 31 December	3,300,000	2,820,000

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

	2011	2010
Award grant date	1 September	20 July
Number of awards	1,000,000	1,340,000
Award fair value at grant date	\$1.52	\$0.04
Share price at grant date	\$1.53	\$1.53
Amount payable by executive	nil	\$3.05
Risk free rate	4%	6%
Dividend yield	nil	nil
Expected volatility	25.8%	29.7%
Expected life of awards	2 years	1.5 years
Weighted average remaining contractual life of share awards at the end of the year	2.67 years	0.96 years

Expected volatility is based on historic share price movements. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Maximum term for the awards is three years. For key employees the probability that not all the awards will vest due to the resignation was set at 10% (2010 –0%). No other features of options' terms were incorporated into the measurement of fair value.

Notes to the parent company financial statements

for the year ended 31 December 2011

12. Share-based payments (continued)

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

	2011 USD '000	2010 USD '000
Total share-based payment reserve	3,235	2,598

The expense recognized for share-based payments in respect of employee services received during the year is 0.637 million USD (2010 – 1.172 million USD).

Share awards

In 2011, 1,000,000 shares (2010 – 1,340,000 shares) were approved as compensation to key employees and the senior management of the Group subject to vesting conditions being met, such shares vesting over a three year period from the date set in the joint operating agreements between employees and the EBT. There were no actual shares issued to the EBT in 2011. The actual shares issued to the EBT in 2010 were 1,840,000 shares.

13. Financial instruments

Financial instruments recognised in the balance sheet

	Loans and receivables USD '000	Other financial liabilities at amortised cost USD '000	Total USD '000
Year ended 31 December 2011			
Financial assets			
Non-current investments	53,644	-	53,644
Trade and other receivables	14	-	14
Cash and cash equivalents	7,518	-	7,518
	61,176	-	61,176
Financial liabilities			
Trade and other payables	-	1,734	1,734
Interest-bearing loans and borrowings	-	106,238	106,238
	-	107,972	107,972
As at 31 December 2010			
Financial assets			
Non-current investments	52,604	-	52,604
Trade and other receivables	157	-	157
Cash and cash equivalents	16,752	-	16,752
	69,513	-	69,513
Financial liabilities			
Trade and other payables	-	3,641	3,641
Interest-bearing loans and borrowings	-	98,034	98,034
	-	101,675	101,675

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

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

Notes to the parent company financial statements

for the year ended 31 December 2011

13. Financial instruments (continued)

Interest rate risk

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

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

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

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

	Increase/decrease in basis points	Effect on profit before tax
2011		
US Dollar	+100	(551)
US Dollar	-100	551
2010		
US Dollar	+100	(382)
US Dollar	-100	382

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

Credit risk

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

This risk arises principally from cash and cash equivalents. Management's policy is to hold cash and cash equivalents in reputable financial institutions of which 99.6% (2010 – 99.4%) of cash and cash equivalents are held in reputable financial institutions in the UK.

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

Foreign currency risk

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

Cash balances in the Company are usually held in US dollars, but smaller amounts may be held in pounds sterling or local currencies to meet operating and administrative expenses or to comply with local legislation.

The Company does not have formal arrangements to mitigate foreign exchange risks at this time however as circumstances dictate, the Group considers hedging positions to protect the value of any cash balances it holds in non-US dollar currency or to protect against exchange fluctuations on future non-USD denominated commitments or obligations.

Notes to the parent company financial statements

for the year ended 31 December 2011

13. Financial instruments (continued)

The following table demonstrates the Company's exposure to foreign currency risk:

	Sterling USD '000	Russian ruble USD '000	Total USD '000
Year ended 31 December 2011			
Cash and cash equivalents	114	31	145
Trade and other receivables	-	128	128
Trade and other payables	(3,300)	(32)	(3,332)
Year ended December 2010			
Cash and cash equivalents	188	97	285
Trade and other receivables	-	56	56
Trade and other payables	(1,041)	(45)	(1,086)

Such as the almost all financial assets held in the USD, a ten per cent strengthening of US dollar against the sterling, Euro or Russian ruble would not have any significant impact on loss before tax or on the Company's equity.

Liquidity risk

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

Management is continually monitoring cash requirements for the Company and evaluating potential sources to fund its operating and capital expenditures. All Company entity operations are controlled through annual and monthly budget reviews to mitigate liquidity risk. It is the goal of management to ensure adequate funding is available through an appropriate mix of debt and equity instruments. In 2010 the Group arranged a convertible debt financing facility (Note 9) of 50.0 million USD (2009 – 60.0 million USD) to complete the construction of its gas processing facility and cover other development and exploration costs.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted payments.

	On demand USD '000	Less than 3 months USD '000	3 to 12 months USD '000	1 to 5 years USD '000	>5 years USD '000	Total USD '000
Year ended 31 December 2011						
Trade and other payables	-	1,734	-	-	-	1,734
Borrowings	-	1,910	5,743	117,127	-	124,780
Year ended 31 December 2010						
Trade and other payables	-	3,641	-	-	-	3,641
Borrowings	-	1,925	5,775	126,956	-	134,656

Fair values of financial assets and financial liabilities

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

Notes to the parent company financial statements

for the year ended 31 December 2011

13. Financial instruments (continued)

	Book Value		Fair Value	
	2011 USD '000	2010 USD '000	2011 USD '000	2010 USD '000
Intercompany advances	53,644	52,604	53,644	52,604
Cash and cash equivalents	7,518	16,752	7,518	16,752
Trade and other receivables	14	157	14	157
Trade and other payables	(1,734)	(3,641)	(1,734)	(3,641)
Borrowings	(106,238)	(98,034)	(106,238)	(98,034)

Capital management

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

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the capital management objectives, policies or processes during the years ended 31 December 2011 and 2010.

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

	2011 USD '000	2010 USD '000
Borrowings	106,238	98,034
Capital	248,452	261,405
Gearing ratio	43%	37%

14. Related party transactions

Obligations to related parties

As at 31 December 2011 the Company had no non-current obligations to related parties as all obligations were paid out during the year.

Transactions with related parties

	Charges to related parties USD '000	Purchases from related parties USD '000	Amounts owed by related parties USD '000	Amounts owed to related parties USD '000
Entities with key management of the Company:				
2011	29	31	-	-
2010	223	100	1	-

The Company advances funds to its subsidiaries. There was no interest accrued on the advances in 2011 (2010 – nil). See Note 6 that details movements and year-end balances in respect of subsidiary undertakings.

Notes to the parent company financial statements

for the year ended 31 December 2011

14. Related party transactions (continued)

Key management compensation

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

	2011 USD '000	2010 USD'000
Salaries and other short-term employee benefits	2,442	2,523
Share-based payments	603	1,172
	3,045	3,695

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

15. Auditor's remuneration

	2011 USD'000	2010 USD'000
Auditor's remuneration for services included in professional fees:		
Statutory audit	497	152
Other services related to taxation	11	61

The expenditure for statutory audit in 2011 includes payment of 219 thousand USD for audit services related to prior periods.

16. Operating lease obligations

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

Lease payments under operating leases recognised in profit or loss for the year were 501 thousand USD (2010 – 342 thousand USD).

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

	2011 USD'000	2010 USD'000
Within one year	216	358
2 – 5 years	-	208

17. Events after the reporting period

On 27 February 2012, the issued share capital was increased by 2.589 million USD by the issue of 1,294,616 ordinary shares at 2 USD each. This share issue was the second tranche of an agreed share subscription with existing shareholders, executives and directors.

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

On 18 March 2012, the convertible option on the 60 million USD convertible loan expired (Note 22). The debt now became a term loan repayable in six equal semi-annual instalments beginning 15 June 2013 and ending on 15 December 2015.

On 3 May 2012, 9,280,000 shares were issued to the employee benefit trust as compensation to directors and senior management for past service contributions and to enable the Group to compensate key employees and senior management after the initial public offering is completed. Future awards will be based on recommendations made by the Remuneration Committee based on Group and employee performance.

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