EQUUS PETROLEUM PLC

Company Number 7766912

ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

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BUSINESS REVIEW

Equus Petroleum Plc (the "Company" or "Equus") is an independent oil and gas exploration and production company. Our focus is on finding and monetising oil in the Republic of Kazakhstan. Our key activities include core exploration projects, selective development projects and growing high-margin production.

The Group was formed on 1 June 2012 upon the completion of the acquisition by Equus Petroleum B.V., a wholly owned subsidiary of Equus incorporated in the Netherlands on 16 November 2011, of a 99.728% participatory interest in Kumkol Trans Service LLP ("KTS"), a company incorporated and domiciled in Kazakhstan.

KTS is the holder of petroleum oil exploration licence number 1527 ("Exploration Licence") covering an area of approximately 1,660km^2 in the South Turgay basin of Kazakhstan ("Licence Area"), which it acquired through a government tender in 2004 and which expires on 15 October 2015. Management intends to apply for a minimum two year exploration licence renewal for the remainder of the Licence Area. The Group is confident that the application will be successful.

During 2014 we continued our appraisal of the Sarybulak oil field and completed the Sarybulak Reserve Report & Oil Field Technical Development Plan necessary for the application for a production licence. Following the approval of these reports, the detailed terms were negotiated with the Ministry of Energy of the Republic of Kazakhstan ("MOE") and in December 2014 KTS was granted a 23 year production licence for the Sarybulak oil field. The grant of the production licence for the Sarybulak oil field allows the Group to access export markets, thereby increasing profits and operating cash flows from the Sarybulak oil field. KTS is permitted to direct up to 65% of crude oil produced at the Sarybulak oil field to export markets.

We have also continued exploration activities to further evaluate the remaining upside potential of the Licence Area, with the emphasis in 2014 being on Sorkol and Kainar. KTS obtained a pilot production licence for the Sorkol oil field in May 2014 that allows the current producing wells to continue producing whilst additional exploration drilling is undertaken to confirm the size of the Sorkol reserves and the Kainar oil field resources which are adjacent to the Sorkol oil field.

The Board of Directors continues to be confident that the large Licence Area contains further exploration prospects, in addition to these fields that have already been discovered, with considerable potential for development. The Group will further invest in its exploration and evaluation activities, with a view to identifying, evaluating and proving exploration prospects within the Licence Area.

CORPORATE GOVERNANCE REVIEW

The Board is responsible for the leadership of the Group and is dedicated to high standards of corporate governance in its management of the affairs of the Group and in its accountability to shareholders and other stakeholders.

The core objective of the Board is to create and deliver the long-term success of the Company and sustained returns for shareholders. This requires the Board to set the Company's strategic aims, ensure that the necessary financial and human resource structures are in place to achieve the Company's objectives, review management performance in delivering against strategy and set the Company's risk appetite. The Board ensures that the risk management measures and internal controls which are in place are appropriate and effective. The Board is aware of its obligations to the Company's shareholders and other stakeholders and responds to their needs by transparent reporting and active engagement.

During 2014 the Company addressed various governance challenges including revising the composition of the Board, strengthening its compliance function and optimising the executive management of certain of its operations. The Company retired the KTS Supervisory Board and replaced it with the KTS Management Board which has a direct reporting line to the Chief Executive Officer.

At the start of 2014 the Board comprised 12 directors.

M C Bilsland, executive director and Chief Executive Officer, stepped down from the Board on 29 April 2014 and M S Imankulov, executive director, was appointed as Chief Executive Officer on 30 April 2014.

Immediately before the Annual General Meeting on 11 June 2014, the non-executive directors J D Dewar, M D Lynch-Bell, P J Shirvington, K Ibrashev and D Caramani stepped down from the Board on 10 June 2014. None of these directors were replaced in their respective roles following the Company's plans to reduce the size of the board from twelve members to six.

On the same day, S V Kurzin, executive Director, who served on the Board as executive Chairman from the Company's inception in September 2011, stepped down from his executive directorship duties and was appointed to the Board as non-executive Chairman.

At the year end, the Board comprised 3 executive directors and 3 non-executive directors, of whom one was considered by the Board to be independent.

Subsequent to the changes to the Board in June 2014, the Board reviewed its composition, particularly addressing Board balance, how members of the Board interacted and the perceived challenges of a Company operating in emerging markets. Following this review, the Board concluded that its structure and composition were adequate and reflective of the Company's short term goals to optimise financial and operational performance. The Board acknowledges that once performance optimisation is completed in 2015, the Board will set long term objectives and the commercial strategy of the Company at which point, a comprehensive process to evaluate the Board composition will be initiated.

HEALTH, SAFETY & ENVIRONMENTAL REVIEW

The Group continues to prioritise improvements in its health, safety and environmental performance through a continuous education programme provided to all operational staff. KTS has improved living, working, training and health care facilities in the field. Regrettably, KTS reported one fatality during the year; both internal and external investigations were conducted and certain aspects of operator training improved to reduce the risk of similar future incidents.

The Group has been subject to a number of challenges and fines during the year in relation to its gas flaring activities. These have been successfully challenged or settled.

KEY PERFORMANCE INDICATORS ("KPIS")

The Group's KPI results for the year ended 31 December 2014 were as follows:

	2014	2013
Crude oil sales volumes (mbbl)	2,337	2,377
Crude oil sales revenues (US$000)[(1)]	81,806	86,534
Average realised price per bbl (US$ per bbl)	35.0	36.40
Operating costs (US$000)[(2)]	30,668	35,014
Operating cost per bbl (US$ per bbl)	13.1	14.73
Operating profit before exceptional items (US$000)	944	15,032
Operating profit before exceptional items per bbl (US$ per bbl)	0.4	6.3
Exceptional items (US$000)	(18,860)	(632)
Net cash generated from operating activities (US$000)	42,028	46,994
Total proved and probable (2P) reserves (mbbl)	41,625	44,037
Proved reserves (mbbl)	19,749	22,161
Probable reserves (mbbl)	21,876	21,876

(1) For the purposes of the KPI report, revenue for the year includes US$0.4 million of test production revenue in excess of production costs from Kainar oil field (2013: US$6.6 million from Sorkol oil field) which is credited against capitalised cost of exploration assets, consistent with the Group accounting policy (see note 17 to the consolidated financial statements for further details).

(2) Operating costs equals cost of sales less depreciation and depletion (see note 7 to the consolidated financial statements).

FINANCIAL REVIEW

The Group reported a loss for the year of US$22.2 million (2013: profit of US$10.1 million). The Group's operating loss for the year was US$17.9 million (2013: operating profit of US$14.4 million) after writing off exploration and evaluation costs of US$16.2 million (2013: US$4.4 million) and impairment losses of US$18.9 million (2013: nil).

Revenue of US$81.4 million from the sale of crude oil (2013: US$79.9 million) is stated after US$0.4 million reduction for test production revenue credited to exploration and evaluation costs (2013: US$6.6 million), consistent with the Group accounting policy (see note 17 to the consolidated financial statements for further details). The total Group revenue grossed up for revenue from test production was US$81.9 million (2013: US$86.5 million) from 2,336,964 barrels ("bbls") (2013: 2,377,278 bbls) of crude oil sold at an average realised price of US$35.00 per bbl (2013: US$36.40 per bbl).

The reduction in sales volumes is related to a slight fall in production, which averaged 6,607 barrels of oil per day ("bopd") in 2014 as compared to 6,739 bopd in 2013. All sales were in the Kazakhstan domestic market and realised in Kazakhstan Tenge ("Tenge" or "KZT"). Sales prices fell in the first quarter of 2014, partly due to the devaluation of KZT, before recovering and reaching an average of US$40/bbl in September 2014. In the fourth quarter prices decreased significantly, with the average sales price in December 2014 being US$27/bbl, mainly because of the fall in international crude prices as well as the weakness in the Russian rouble that caused more Russian oil to enter Kazakhstan which depressed prices.

Cost of sales was US$43.3 million (2013: US$45.4 million), of which the significant components were transportation costs of US$14.7 million (2013: US$17.2 million), depreciation and depletion of US$12.6 million (2013: US$10.4 million) and field operating costs of US$14.8 million (2013: US$16.1 million).

Cost of sales, excluding depreciation and depletion, per barrel of crude oil produced in 2014, which have an underlying KZT exposure, benefited from the devaluation of the Tenge on 11 February 2014, although offset by some consequent inflationary pressure, and comprised US$13.12/bbl (2013: US$14.73/bbl). The improvement on operating costs in 2014 was offset with realised price of US$35.0/bbl in 2014 (2013: US$36.4/bbl) and resulted in an overall improvement in operating netback of $21.88/bbl, up 1% on the 2013 operating netback of US$21.67/bbl.

Administrative expenses of US$20.9 million (2013: US$16.1 million) expensed in the year, primarily relate to the board and staff costs in the United Kingdom and Kazakhstan, professional fees, office rental in the United Kingdom and Kazakhstan, travel expenses, indirect taxes and provision for impairment of trade and other receivables.

Provision for impairment of trade and other receivables included in the administrative expenses has been raised for individually impaired prepayments with a balance of US$4.5 million (2013: US$ nil) due from a construction contractor, Aziash LLP (see notes 22 and 31 to the consolidated financial statements for further details), which is experiencing operating cash flow difficulties.

Having assessed well testing results in the context of the lower oil price environment existing at year end, management has written off exploration and evaluation costs of US$16.2 million in 2014 relating to unsuccessful drilling and exploration activities at Kainar and Sorkol (see notes 17 to the consolidated financial statements for further details). Exploration and evaluation costs of US$4.4 million relating to Tutkyn and Karaespe exploration prospects were written off in 2013.

As a further consequence of the lower oil price environment existing at year end, management has also performed an impairment assessment of oil and gas properties and as a result an impairment loss of US$6.2 million has been recognised in 2014, relating to poorer performing wells at Sorkol oil field (see notes 16 to the consolidated financial statements for further details). The impairment loss is included in exceptional items.

Management has also completed chemical component analysis of the associated gas, results of which indicated that minimum or no processing is required to the associated gas for its further utilisation. With reference to that analysis, management has reconsidered its plans towards commissioning second phase of the gas plant and performed an impairment assessment of gas processing facilities, as a result of which an impairment loss of US$12.7 million has been recognised in 2014 (see notes 16 to the consolidated financial statements for further details). The impairment loss is included in exceptional items.

Investing cash outflow of US$48.2 million (2013: US$56.3 million) on capital expenditure in the year primarily included drilling expenditure on the Sarybulak, Sorkol oil fields and in the Kainar area, expenditure on production and processing facilities for the expansion of central processing facility, construction of the gas processing facilities, infrastructure and associated projects, seismic acquisition costs and associated geological and geophysical interpretations.

FINANCING ACTIVITIES

On 30 July 2014, a US$30 million secured loan facility was entered into, between Bank CenterCredit ("BCC") and Development Bank of Kazakhstan (together the "BCC Lenders") and KTS ("BCC Facility") pursuant to which an initial committed amount of US$5 million became available to the Group, after satisfaction of various conditions precedent ("Tranche 1"), for the repayment of the outstanding principal and accrued interest under secured reserve based loan facility (the "BNPP Loan Facility") which the Group entered into in 2013 with BNP Paribas (Suisse) S.A. ("BNPP") and Vitol Central Asia S.A. ("Vitol").

The Group could request an increase to the BCC Facility amount up to a maximum additional amount of US$ 25 million ("Tranche 2"), upon the Borrower satisfying certain conditions and subject to BCC credit approval, the principal conditions being approval of the Technical Reports for Sarybulak oil field by Kazakhstan state authorities and securing a Production Licence for the Sarybulak oil field ("Sarybulak Production Licence").

The Group drew down a further US$15 million in November 2014 following approval of the Technical Reports for the Sarybulak oil field by Kazakhstan governmental authorities. The final tranche of US$10 million of the BCC facility was drawn down by the Group subsequent to the balance sheet date and following the securing of the Sarybulak Production Licence in December 2014.

Delays in obtaining the Sarybulak Production Licence and commencement of crude oil exports at higher prices, with attributable potential improvement on netback, combined with the commencement of the loan repayments to BNPP and Vitol pursuant to the terms of BNPP Loan Facility since October 2013 and up to July 2014, resulted in several of the Group's trade creditor balances substantially increasing as a source of short-term trade finance. This has been necessary in order to continue the development of the Sarybulak oil field, to maintain pilot production at the Sorkol oil field and to meet the Group's exploration commitments with regards to other exploration prospects. The Group plans to undertake a strategic review of its future funding needs by June 2015, including a review of potential additional sources of capital. In the event of a forecast liquidity shortfall, the Group will take active steps to reduce its planned capital expenditures. Further details are given in the going concern section of the Directors' Report and note 3.1 of the consolidated financial statements.

OIL AND GAS RESERVES

McDaniel & Associates Consultants Limited ("McDaniel"), the Group's independent engineering consultant and qualified competent person, prepared estimates of the Group's proved, probable and possible reserves as at 31 December 2013. The reserves and resources estimates have been prepared in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System ("PRMS").

The table below summarises the crude oil reserve estimates at the Sarybulak and Sorkol oil fields within the Licence Area as at 31 December 2013 and 31 December 2014 that are used for financial reporting purposes.

Mbbl	**1P**	**2P**	**3P**
As at 31 December 2013	**22,161**	**44,037**	**60,937**
Production	2,412	2,412	2,412
Reserve movements	-	-	-
As at 31 December 2014	**19,749**	**41,625**	**58,525**

Impairment of poorer performing wells at Sorkol oil field had no material impact on the estimates of reserves and resources as at 31 December 2014 and 2013.

PRINCIPAL RISKS AND UNCERTAINTIES

The directors have identified the following principal risks and uncertainties in relation to the Group's financial and operational performance:

Liquidity Risk
The Group is exposed to liquidity risk, including the risks that the BCC Lenders do not increase their lending commitment, new debt facilities or other sources of external finance are not available to meet future capital expenditure requirements, and/or trade creditors cannot be increased further or will require immediate settlement of outstanding balances. There is also a risk that financial assets cannot readily be converted to cash without the loss of value.

Impact
Failure to manage liquidity risks could have a material impact on the Group's cash flows, earnings and financial position as well as reducing the funds available to the Group for working capital, capital expenditure, acquisitions, dividends and other general corporate purposes.

Action
The Group manages liquidity risk by complying with terms of lending arrangements or by promptly remedying defaults or obtaining waivers from the BCC Lenders, by agreeing repayment schedules with major creditors and by deferring capital expenditure commitments wherever possible until funds are available. The Board monitors the net debt level of the Group taking into consideration the expected future outlook of the Group (see note 27 for further details).

Political risk
The Group's oil and gas exploration, development and production operations are in Kazakhstan. Accordingly, the Group is dependent on the social, political, economic, legal and fiscal conditions prevailing in Kazakhstan. The Government of Kazakhstan has actively pursued a programme of economic reform, helping to make it one of the most politically stable and economically developed countries in Central Asia.

Impact
Changes to Kazakhstan's foreign trade (export and import), foreign investments, currency exchange, property, tax, environmental and subsoil use regimes or social responsibility expectations or other changes that affect the supportive business environment in Kazakhstan could negatively affect the Group's business, financial position and performance and decisions on future investments.

Action
The Group continues to monitor the political, social and economic environment within Kazakhstan.

Health and safety
The exploration, development and production of hydrocarbons is a hazardous business with inherent risks.

Impact
Health and safety incidents could lead to a number of adverse consequences. Failure to adopt and embed health and safety management systems could result in harm to the Group's employees as well as exposing the Group to fines and penalties and damaging the Group's reputation.

Action
The Group recognises that the highest standards of health and safety practices are vital to its success and are a key responsibility of all employees. The Group's policies and procedures in these areas, including the work of the Group's HSE Committee, are designed to identify relevant risks and opportunities and provide a clear framework for conducting business.

Environmental risk
The oil and gas industry is subject to environmental hazards, such as oil spills, gas leaks, ruptures and discharges of petroleum products and other hazardous waste substances. These environmental hazards could expose the Group to material liabilities for property damages, personal injuries, or other environmental harm, including costs of investigating and remediating contaminated properties. The Group is subject to and complies with stringent environmental laws in Kazakhstan with regard to its oil and gas operations, including a regulatory requirement to monitor and limit Field gas flaring under flaring permits.

Impact
Failure to comply with such laws and regulations could subject the Group to material administrative, civil, or criminal penalties or other liabilities. Additionally, compliance with these laws may, from time to time, result in increased costs to the Group's operations, impact production, or increase the costs of potential acquisitions.

Action
The Group continuously monitors the condition of its operational environment and was compliant with all material environmental and health and safety laws and permitting regulations during the year. The Group is currently operating gas treatment facilities to eliminate the flaring of untreated wet gas and, if necessary, will seek a further extension of the current gas flaring permit. To improve the quality and reduce the associated environmental risks of hazardous waste management, the Group is constructing its own waste disposal site adjacent to the Sarybulak oil field thereby eliminating the outsourcing of hazardous waste disposal.

Related Party Risk

The Group is reliant upon related parties for the supply of certain services, including all transportation and drilling services to KTS.

Impact

The Group's reliance on related parties has, amongst other things, allowed to Group to defer substantial creditor payments. As a result the Group is reliant upon the continued financial stability of the related parties. Any reduction in the financial stability of the related parties could expose the Group to a disruption in the supply of key operational services. Additionally, changes in the ownership structures of related parties may make it difficult to continue obtaining extended payment terms, thus exposing the Group to unexpected cash outflows.

Action

The Group has entered into formal arrangements with key related parties which has removed the risk of demands for immediate repayment in the short term. In addition the Group is strengthening its procurement procedures with the intention of ensuring that related party services are appropriately benchmarked and provided on a competitive basis and normal commercial terms.

Organisational development

The Group's operations are based in Kazakhstan with a head office based in the United Kingdom. As the group grows it is important that governance structures, controls and clear delegations of authority are appropriate for the size of the business.

Impact

Ineffective delegation of authority, governance structures and frameworks could impact on the delivery of the Group's strategic objectives, including lower long-term growth, corporate reputation and financial return.

Action

A review of the organisational structure has been carried out and an action plan is being developed; in addition further enhancements to the Groups governance and policy framework are being implemented.

Regulatory Approvals

The Group's primary assets and source of operational income are the Sarybulak, Sorkol and Kainar oil fields within the Licence Area. The stability and continuity of the Group's current production operations depend upon maintaining a valid gas flaring permit for the fields. The Group's ability to increase oil field production and export its products at higher profit margins is largely dependent upon obtaining the production licences for Sarybulak, Sorkol and Kainar and obtaining required permits to access the export pipeline. The Group's non-producing exploration assets are currently held under the Exploration Licence which expires on the 15 October 2015.

Whilst the Group is confident of obtaining or renewing the required licences and permits, the application processes are subject to factors which are outside of the Group's control and which may result in delays or the failure to obtain the necessary approvals or renewals.

Impact

A delay in or failure to obtain or renew any of the licences or permits could have a material adverse effect on the Group's business and financial condition and its ability to complete its capital investments and meet its financial obligations as they fall due.

Action

The Group is in compliance with its exploration and test production obligations as required by the Exploration Licence and has not exceeded its permitted gas flaring. The Group was granted Production Licence for the Sarybulak oil field and is in the process of preparing the relevant submissions to the Ministry of Oil and Gas ("MOG") in support of its application for full production licence for Sorkol oil field and pilot production permit for Kainar oil field.

The management intends to apply for a minimum two year exploration licence renewal for the remainder of the Licence Area excluding the Sarybulak oil field. It is likely that KTS will be required to relinquish some territory within the Licence Area; however the Group is confident that it shall retain those areas which, in its opinion, are likely to contain successful discovery prospects.

Exploration and Production Risk

The Group's financial condition is dependent upon the stability and profitability of its current and future production activities, successful implementation of the Sarybulak oil field development programme and the future success of its exploration programme. The reliability of hydrocarbon resource estimates may be affected by estimates and judgements, technical difficulties, the quantity and quality of exploration drilling, unexpected geological formations and other factors beyond the Group's control, which introduce uncertainty attributable to the estimation of hydrocarbon resources being explored, developed and produced. In addition, there are a number of risks and uncertainties which may cause operating costs and production volumes to differ from the Group's expectations, including licencing or permitting delays, delays in the completion of production facilities, shortages of, or delays in, obtaining equipment and qualified personnel, equipment failures or accidents and adverse weather conditions.

Impact

Unsuccessful exploration, unreliable hydrocarbon reserve estimates and production results which differ from the Group's expectations could have an adverse effect on the Group's business and financial condition.

Action

The Group seeks to employ appropriately qualified and experienced technical staff and engages with competent independent third parties to reliably assess the extent of economically viable hydrocarbon resources and reserves within the Exploration Licence. The Group also selects skilled, reputable and financially stable contractors where possible in the local market as part of its exploration and production activities.

Oil and Gas Prices

The profitability of the Group's production operations is significantly affected by changes in the domestic and international prices of crude oil, associated gas and gas by-products. Prices fluctuate on a daily basis and are affected by various factors beyond the Group's control, including world supply of crude oil and gas and the possibility of intervention and regulation of domestic prices by the Kazakhstan government. Whilst the Group was limited to domestic sales from its Sarybulak and Sorkol oil field under the terms of the Exploration Licence throughout 2014 and prior to obtaining production licence, the Group expects to commence exporting from Sarybulak in the third quarter of 2015.

Brent crude oil spent much of the first half of 2014 between $105 and $115 per barrel. However the second half of the year saw a substantial drop, with Brent falling to $53/bbl by year end, the lowest price since 2009. The drop of over 40% since June 2014 was due to sluggish global demand and rising production from the US. Prices took another hit in November when OPEC decided not to reduce its global production levels. With net US imports of oil decreasing, Saudi Arabia contributed to the price decline by dropping the price at which it was willing to export crude oil to the US to compete for market share. At 31 January 2015, oil analysts forecast Brent prices to be an average of $58/bbl in 2015 and $66/bbl in 2016 (*Source*: Bloomberg).

Impact

Volatility in commodity prices impacts the Group's revenue streams, with an adverse effect on liquidity. Domestic and international price declines or price controls imposed by the Kazakhstan government could reduce the Group's revenues and profits from commercial production and may affect the Group's estimates of economically viable hydrocarbon resources in the future.

Action

The Group takes all reasonable steps and uses reliable sources of market data when estimating future oil and gas prices and regularly reviews its sensitivity to fluctuations in oil and gas prices. The Group's current domestic sales are on a fixed price basis, agreed at the time of sale, and are not therefore exposed to future market price variations. Whilst the Group does not currently hedge against its exposure to possible adverse movements in future oil and gas market prices, it may do so if the Board determines that it is in the Group's interest to provide greater certainty over future cash flows.

Taxation and other legislation

The petroleum tax and other legislation in Kazakhstan has only been in force for a relatively short period of time and is subject to frequent changes and varying interpretations, which may result in the Group's interpretation and application of tax legislation being challenged by the relevant tax authorities.

Impact

The Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations.

Action

The Group takes appropriate professional tax advice and works closely with the relevant tax authorities to ensure compliance. The Group has recently been subject to inspections by tax authorities in Kazakhstan with no significant adverse outcomes.

This report was approved by the Board of directors on 3 June 2015 and signed on its behalf by:

M S Imankulov
Executive Director and Chief Executive Officer

3 June 2015

The directors present their report and the audited consolidated and company financial statements for the year ended 31 December 2014. Comparative information included in the directors report has been derived from the audited consolidated and company financial statements for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activities of the Company are hydrocarbon exploration, appraisal, development and production within the Republic of Kazakhstan ("Kazakhstan") and are discussed in the Strategic Report.

RESULTS AND DIVIDENDS

The Group's loss for the year was US$22.2 million (2013: profit of US$10.1 million). The directors have not recommended the payment of a dividend.

FUTURE DEVELOPMENTS

The Group's areas of focus for 2015 are to commence sales of produced crude oil to export markets from the third quarter of 2015, obtain the production licence for the Sorkol oil field and finalise reserve and resources estimates for the Kainar oil field with a view to obtaining a pilot production permit. We will also seek to increase the oil fields' production rates, to further improve operating profitability, and to complete the oil fields production facility investments including the oil and gas gathering units and flow-line connections to the crude oil central processing facility, electricity generation facilities and social infrastructure of the oil fields.

EVENTS AFTER THE BALANCE SHEET DATE

Significant events that have occurred since the balance sheet date are disclosed in note 32 to the consolidated financial statements.

FINANCIAL RISK MANAGEMENT

The Group is exposed through its operations to a number of financial risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policy for managing these risks is set by the key management of the Group and all such risks are managed at a Group level within the organisation (see Financing Activities section of the Strategic Report and note 27 to the consolidated financial statements for further details).

GOING CONCERN

Based on the current plans described in note 3.1 to the consolidated financial statements, and the current cash flow projections for the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore the annual financial statements continue to be prepared on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future. In making this judgment the Directors considered the Group's financial position, current intentions, profitability of operations and access to financial resources. The financial statements therefore do not include the adjustments that would be necessary if the Group was unable to continue as a going concern.

However, as outlined in note 3.1 there is a material uncertainty which may impact the ability of the Group to continue as a going concern.

DIRECTORS

The directors of the Company who were in office during the year and up to the date of signing the consolidated financial statements are:

Dr S V Kurzin	Non-Executive Chairman
M S Imankulov	Executive Director and Chief Executive Officer
B M Abdramanov	Executive Director
S P Takirov	Executive Director
D J Shah, OBE	Non-Executive Director
Y Ashkenov	Non-Executive Director
Dr M C Bilsland (resigned 29 April 2014)	Executive Director and Chief Executive Officer
J D Dewar (resigned 10 June 2014)	Non-Executive Director
M D Lynch-Bell (resigned 10 June 2014)	Non-Executive Director
P J Shirvington (resigned 10 June 2014)	Non-Executive Director
K Ibrashev (resigned 10 June 2014)	Non-Executive Director
D Caramani (resigned 10 June 2014)	Non-Executive Director

M S Imankulov served as Executive Director until 30 April 2014 and as Chief Executive Office thereafter.

Robin Bolam Storey served as Company Secretary from 22 March 2013 until 29 April 2014, and Gani Abaidildinov as Company Secretary thereafter.

DIRECTORS' QUALIFYING THIRD PARTY AND PENSION INDEMNITY PROVISIONS

Indemnities have been in force throughout the year, and at the date these financial statements were approved, under which the Company has agreed to indemnify the Directors and Officers, to the extent permitted by the Companies Act 2006, against claims from third parties in respect of certain liabilities arising out of, or in connection with, the execution of their powers, duties and responsibilities as Directors and Officers of the Company or any of its subsidiaries. The Directors and Officers are also indemnified against the cost of defending a criminal prosecution or a claim by the Company, its subsidiaries or a regulator provided that where the defence is unsuccessful the Director must repay those defence costs. The Company also maintains Directors' and Officers' Liability insurance cover, the level of which is reviewed annually.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

M S Imankulov
Executive Director and Chief Executive Officer

3 June 2015

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group 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 company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

M S Imankulov
Executive Director and Chief Executive Officer

3 June 2015

Report on the financial statements

Our opinion

In our opinion:

- Equus Petroleum Plc's group financial statements and parent company financial statements (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 2014 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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 group and parent company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the group's and parent company's ability to continue as a going concern. The group and parent company will require additional funding in the short term to enable them to continue as a going concern for the foreseeable future. Management are currently seeking alternative sources of finance including bank debt and trade finance. Should the group and parent company be unsuccessful in obtaining financing, they may no longer be viable. These conditions, along with the other matters explained in note 3 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the group's and parent company's ability to continue as a going concern. The group and parent company financial statements do not include the adjustments that would result if the group and parent company were unable to continue as a going concern.

What we have audited

Equus Petroleum Plc's financial statements comprise:

- the Consolidated Group Statement of Comprehensive Income for the year ended 31 December 2014;
- the Consolidated Group and Company Balance Sheets as at 31 December 2014;
- the Consolidated Group and Company Statements of Changes in Equity for the year then ended;
- the Consolidated Group and Company Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and 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.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy McAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 June 2015

EQUUS PETROLEUM PLC

CONSOLIDATED GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

		GROUP	
		Year ended 31 December	
		2014	2013
	Note	US$000	US$000
Revenue	6	81,495	79,901
Cost of sales	7	(43,267)	(45,364)
Gross profit		**38,228**	**34,537**
Administrative expenses		(20,914)	(16,124)
Selling expenses		(524)	(238)
Other income, net	8	383	597
Exploration costs written off	17	(16,229)	(4,372)
Impairment losses	16	(18,860)	-
Operating (loss) / profit		**(17,916)**	**14,400**
Analysed as:			
Operating profit before exceptional items		944	15,032
Exceptional items	9	(18,860)	(632)
Operating (loss) / profit	10	**(17,916)**	**14,400**
Finance costs	13	(6,055)	(2,177)
(Loss) / profit before income tax		**(23,971)**	**12,223**
Income tax credit / (expense)	14	1,771	(2,160)
(Loss) / profit for the year		**(22,200)**	**10,063**
Other comprehensive expenses:			
Exchange differences on translation of foreign operations		(6,576)	(529)
Total comprehensive (expense) / income for the year		**(28,776)**	**9,534**
Profit/(loss) attributable to:			
- Owners of the parent		(21,730)	10,010
- Non-controlling interests		(470)	53
		(22,200)	**10,063**
Total comprehensive (expense) / income attributable to:			
- Owners of the parent		(28,306)	9,481
- Non-controlling interests		(470)	53
		(28,776)	**9,534**

The notes on pages 21 to 60 form an integral part of the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company. The Company made a loss of US$6.3 million in the year (2013: US$6.8 million loss).

EQUUS PETROLEUM PLC

CONSOLIDATED GROUP AND COMPANY BALANCE SHEETS

AS AT 31 DECEMBER 2014

		GROUP		COMPANY	
		31 December		31 December	
		2014	2013	2014	2013
	Note	US$000	US$000	US$000	US$000
Non-current assets					
Goodwill	15	3,775	4,481	-	-
Property, plant and equipment	16	96,319	102,931	72	94
Intangible assets	17	7,674	24,386	1	3
Investments in subsidiaries	18	-	-	29,061	29,061
Other non-current assets	19	11,651	13,761	210	-
		119,419	**145,559**	**29,344**	**29,158**
Current assets					
Inventories	21	1,652	1,327	-	-
Trade and other receivables	22	2,044	2,842	11,742	19,232
Current income tax assets		195	395	-	-
Cash and cash equivalents		446	2,233	100	300
Restricted cash	23	-	1,961	-	-
		4,337	**8,758**	**11,842**	**19,532**
Total assets		**123,756**	**154,317**	**41,186**	**48,690**
Non-current liabilities					
Borrowings	24	(17,417)	(4,086)	-	-
Deferred income tax liabilities	20	(4,671)	(7,894)	-	-
Provisions for liabilities and charges	26	(4,392)	(7,608)	-	-
		(26,480)	**(19,588)**	**-**	**-**
Current liabilities					
Borrowings	24	(6,148)	(17,583)	-	-
Trade and other payables	25	(54,223)	(46,870)	(1,115)	(2,363)
Current income tax liabilities		(38)	(33)	-	-
Provisions for liabilities and charges	26	(2,924)	(7,524)	-	-
		(63,333)	**(72,010)**	**(1,115)**	**(2,363)**
Total liabilities		**(89,813)**	**(91,598)**	**(1,115)**	**(2,363)**
Net assets		**33,943**	**62,719**	**40,071**	**46,327**
Equity					
Share capital	28	2,751	2,751	2,751	2,751
Share premium		56,543	56,543	56,543	56,543
Other reserves		(7,634)	(1,058)	-	-
Retained earnings / (accumulated loss)		(17,376)	4,354	(19,223)	(12,967)
Equity attributable to owners of the Parent		**34,284**	**62,590**	**40,071**	**46,327**
Non-controlling interests		(341)	129	-	-
Total equity		**33,943**	**62,719**	**40,071**	**46,327**

The notes on pages 21 to 60 form an integral part of these consolidated financial statements.

The consolidated financial statements of Equus Petroleum Plc, registered number 7766912, were approved by the Board of Directors on 3 June 2015 and were signed on its behalf by:

Mr Murat S Imankulov
Director and Chief Executive Officer

Mr Benjamin P Fraser
Chief Financial Officer

GROUP	Note	Share capital US$000	Share premium US$000	Currency translation reserve US$000	(Accumulated loss)/ Retained earnings US$000	Total US$000	Non-controlling interests US$000	Total equity US$000
		Attributable to owners of the Parent						
Balance at 31 December 2012		**2,751**	**56,543**	**(529)**	**(5,656)**	**53,109**	**76**	**53,185**
Profit for the year		-	-	-	10,010	10,010	53	10,063
Other comprehensive expense for the year		-	-	(529)	-	(529)	-	(529)
Balance at 31 December 2013		**2,751**	**56,543**	**(1,058)**	**4,354**	**62,590**	**129**	**62,719**
Loss for the year		-	-	-	(21,730)	(21,730)	(470)	(22,200)
Other comprehensive expense for the year		-	-	(6,576)	-	(6,576)	-	(6,576)
Balance at 31 December 2014		**2,751**	**56,543**	**(7,634)**	**(17,376)**	**34,284**	**(341)**	**33,943**

COMPANY	Note	Share capital US$000	Share premium US$000	Accumulated loss US$000	Total US$000
Balance at 31 December 2012		**2,751**	**56,543**	**(6,200)**	**53,094**
Loss for the year		-	-	(6,767)	**(6,767)**
Balance at 31 December 2013		**2,751**	**56,543**	**(12,967)**	**46,327**
Loss for the year		-	-	(6,256)	**(6,256)**
Balance at 31 December 2014		**2,751**	**56,543**	**(19,223)**	**40,071**

The notes on pages 21 to 60 form an integral part of these consolidated financial statements.

	Note	GROUP Year ended 31 December		COMPANY Year ended 31 December	
		2014 US$000	2013 US$000	2014 US$000	2013 US$000
Cash flows from operating activities					
(Loss) / profit before income tax		(23,971)	12,223	(6,256)	(6,767)
Adjustments for:					
Depreciation, depletion and amortisation		12,837	10,618	30	28
Gain on disposal of property plant and equipment		-	1,254	-	-
Gross margin credited to evaluation costs		413	6,633	-	-
Unsuccessful exploration and evaluation expenditures		16,229	4,372	-	-
Impairment charge		18,860	-	-	-
Finance costs/(finance income)		6,055	2,177	(877)	(1,299)
Movements in working capital:					
Trade and other receivables		(1,610)	(4,578)	499	(304)
Inventories		(172)	(395)	-	-
Trade and other payables		14,884	18,042	(1,248)	641
Cash generated from/(used in) operations		**43,525**	**50,346**	**(7,852)**	**(7,701)**
Interest (paid) / received		(1,312)	(3,180)	415	800
Income tax paid		(185)	(172)	-	-
Net cash generated from/(used in) operating activities		**42,028**	**46,994**	**(7,437)**	**(6,901)**
Cash flows from investing activities					
Expenditure on exploration and evaluation assets		(10,960)	(19,087)	-	-
Purchases of property, plant and equipment		(37,285)	(37,202)	(6)	(23)
Net cash used in investing activities		**(48,245)**	**(56,289)**	**(6)**	**(23)**
Cash flows from financing activities					
Proceeds from borrowings		20,111	23,765	-	-
Repayment of borrowings		(15,404)	(12,892)	7,243	6,603
Net cash generated by financing activities		**4,707**	**10,873**	**7,243**	**6,603**
Net increase/(decrease) in cash and cash equivalents		(1,510)	1,578	(200)	(321)
Cash and cash equivalents at beginning of the year		2,233	674	300	621
Exchange losses on cash and cash equivalents		(277)	(19)	-	-
Cash and cash equivalents at end of the year		**446**	**2,233**	**100**	**300**

The notes on pages 21 to 60 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Equus Petroleum PLC ("Equus" or the "Company") is a public limited company incorporated and registered in England and Wales on 8 September 2011. The Company's registered address is 2 Park Street, London, W1K 2HX.

The principal activities of the Group are hydrocarbon deposit exploration, appraisal, development and production within Kazakhstan.

The Group was formed on 1 June 2012 upon the acquisition by Equus Petroleum B.V., a wholly owned subsidiary of Equus incorporated in the Netherlands on 16 November 2011, of a 99.728% participatory interest in Kumkol Trans Service LLP ("KTS"), a company incorporated and domiciled in Kazakhstan, in an all-share transaction.

On 7 June 2013 KTS increased its participatory interest in Bozingen Gaz LLP ("BG") from 6% to 70% for nominal share value consideration (see note 18 for further details).

KTS is the holder of petroleum oil exploration licence number 1527 covering an area of approximately 1,660km^2 in the South Turgay basin of Kazakhstan ("Licence Area"), which it acquired through a government tender in 2004 and which expires on 15 October 2015 following a further two year licence extension obtained on 11 October 2013. Management intends to apply for a minimum two year exploration licence renewal for the remainder of the Licence Area. The Group is confident that the application will be successful.

On 25 December 2014, KTS was granted a production licence for Sarybulak Oil Field ("Sarybulak Production Licence"). The Sarybulak Production Licence was granted for a period of 23 years and covers an area of approximately 7km^2 within the Licence Area.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The disclosed policies have been applied consistently by the Group and Company for both the current and previous financial year with the exception of new standards adopted.

The EU IFRS financial information has been drawn up on the basis of accounting policies consistent with those applied in the financial statements for the year to 31 December 2013, except for the following:

- IAS 28 (revised 2011), 'Investments in Associates and Joint Ventures'
- IAS 27 (2011) 'Separate Financial Statements'
- IFRS 10, 'Consolidated Financial Statements'
- IFRS 11, 'Joint Arrangements'
- IFRS 12, 'Disclosures of Interests in Other Entities'
- Amendments to IAS 32 'Financial instruments: Presentation' – ' Offsetting Financial Assets and Financial Liabilities'
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures
- IFRIC 21, 'Levies'

Adoption of new standards has not had a material impact on the financial position or performance of the Group. Consequently, no adjustment has been made to the comparative financial information as at 31 December 2013.

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ended 31 December 2014:

	Effective for annual periods beginning on or after
• IAS 19 'Employee Benefits' (Amendments)	01-Jul-14
• Annual Improvements to IFRSs 2010-2012 Cycle	01-Jul-14
• Annual Improvements to IFRSs 2011-2013 Cycle	01-Jul-14
• Annual Improvements to IFRSs 2014 Cycle	01-Jan-16
• IFRS 14 'Regulatory Deferral Accounts'	01-Jan-16
• IAS 16 'Property, Plant and Equipment' (Amendments)	01-Jan-16
• IAS 38 'Intangible Assets' (Amendments)	01-Jan-16
• IFRS 11 'Joint arrangements' (Amendments)	01-Jan-16
• IAS 27 'Separate financial statements' (Amendments)	01-Jan-16
• IFRS 10 'Consolidated financial statements' (Amendments)	01-Jan-16
• IAS 28 'Investments in associates and joint ventures' (Amendments)	01-Jan-16

The Group has not early adopted any standards, interpretations or amendments that were issued but are not yet effective.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently, unless otherwise stated.

3.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Companies Act 2006 that applies to companies reporting under IFRS, and IFRIC interpretations.

The consolidated financial statements have been prepared under the historical cost convention.

Going concern

At 31 December 2014, the Group had net current liabilities of US$59.0 million and net debt of US$23.1 million. The Directors have therefore concluded that a material uncertainty exists which casts significant doubt on the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would be necessary if the Group was unable to continue as a going concern.

The Group's primary assets and main source of operating income are the Sarybulak and Sorkol oil fields. On 25 December 2014, the Group was successful in obtaining a 23 year production licence for the Sarybulak field, and as a result is now entitled to export 65% of oil produced. This will result in realisation of international oil prices.

However, the Group faces a current and future cash shortfall reflecting a number of factors. During 2014 international oil prices declined significantly and have only partially recovered. There was also deterioration in economic conditions in Kazakhstan, including lower domestic oil prices, impacting 2014 results and the year-end financial position. Historically the Group has in part managed working capital through advanced sales to customers. In making the transition to export sales from the Sarybulak oil field, the Group will no longer be able to obtain advances from its export customers resulting in a cash flow impact in this intervening period. The Group also has a certain level of minimum capital expenditure requirements in order to maintain production levels at its Kazakh fields. These factors are expected to negatively impact the Group's operating cash flow going forward, notwithstanding the expected benefits of realising export sales from the third quarter of 2015.

Management are taking actions to address the cash shortfall. The Group continues to seek alternative sources of finance including bank debt and trade finance which would ensure the Group has sufficient working capital to meet its objectives and financial obligations.

Management have also implemented a number of cost saving programmes to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2015 and 2016.

In addition, the Group has continued to negotiate extended payment terms on an informal basis with its largest trade creditors, the majority of which were related parties during the year, and is in the process of formalising these repayment arrangements in order to remove the risk of demands for immediate repayment.

Based on the current status of the discussions and negotiations described above and on their current plans, and the current cash flow projections for the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore the annual financial statements continue to be prepared on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future. In making this judgment the Directors considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

3.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. All intragroup balances, transactions, income and expenses and profits or losses, including unrealised profits arising from intragroup transactions, have been eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Companies and their subsidiaries after eliminating intragroup transactions as noted above. Uniform accounting policies are applied across the Group.

3.3. Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The Group's transactions are denominated in a number of different currencies, primarily US Dollars ("US$"), UK Pounds Sterling ("GBP") and Kazakhstan Tenge ("KZT"). The US$ is the Company's functional currency as well as the Group's presentational currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in profit or loss within 'finance costs and income'. All other foreign exchange gains and losses are presented in profit or loss within 'other income/expenses'.

iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(b) income and expenses for each income statement are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) all resulting exchange differences are recognised in other comprehensive income.

Set out below are the exchange rates to US Dollar applied by the Group for translating foreign currency balances and transactions:

	31 December 2014		31 December 2013	
	Spot	Average	Spot	Average
Kazakhstan Tenge	182.35	179.12	153.61	152.14
UK Pound Sterling	1.55	1.65	1.65	1.56
EURO	1.22	1.33	1.37	1.33

Goodwill and fair value adjustments arising on acquisition are treated as assets or liabilities of the foreign entity and translated at the closing rate.

3.4. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the net of the fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3.5. Oil and gas assets

The Group applies the successful efforts method of accounting for exploration and evaluation ("E&E") costs, having regard to the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources". The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised.

(a) Exploration and evaluation costs

Exploration and evaluation costs, including payments to acquire the legal right to explore, costs of technical services and geological studies, seismic acquisition, exploratory drilling and testing, are capitalised within intangible assets, pending determination of proved reserves. Exploration and evaluation costs capitalised that are more than 12 months old are written off unless (a) proved reserves are booked, or (b) (i) they have found commercially producible quantities of reserves, and (ii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is underway or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of reserves and the economic and operating viability of the project. If potentially commercial quantities of hydrocarbons are not found, the exploration well is written off as a dry hole.

Costs incurred prior to obtaining legal rights to explore are expensed immediately to profit or loss.

Support equipment and facilities used in E&E activities (such as the Group's vehicles, and other property, plant and equipment used by the Group's exploration function) are classified as property, plant and equipment. To the extent that such support equipment and facilities are consumed in E&E activities, the amount reflecting that consumption are recorded as part of respective E&E cost.

When exploration and evaluation activities on a field are substantially complete and proved reserves are determined, capitalised E&E costs, are transferred to property, plant and equipment as oil and gas property. E&E expenditure transferred to property, plant and equipment is subsequently depreciated on a unit of production basis.

(b) Oil and gas property

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets, as outlined in accounting policy 3.5(a) above. These assets are classified as oil and gas property within property, plant and equipment.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

(c) Depreciation of oil and gas property

As the production phase commences, the carrying value of the relevant E&E assets, after any impairment loss, will be reclassified as oil and gas properties within property, plant and equipment. The net book values of producing assets will be depleted using the unit-of-production method by reference to the ratio of production in the year and total proved reserves. The unit-of-production rate for the depletion of producing oil and gas assets takes into account expenditure incurred to date, together with the future capital expenditure expected to be incurred in relation to these producing oil and gas assets.

(d) Decommissioning and restoration

Provisions for decommissioning are recognised in full at the time that the environmental disturbance occurs. The amount recognised is the present value of the estimated future expenditure expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas property. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is dealt with prospectively as an adjustment to the provision and the oil and gas property. The unwinding of the discount is included as a finance cost.

3.6. Property, plant and equipment

On initial recognition, land, property, plant and equipment are valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use and transferred to the appropriate category of property, plant and equipment.

Property, plant and equipment also include oil and gas property, as specified in accounting policy 3.5 above.

Land is not depreciated. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, except for oil gas property, which is depreciated on a unit-of-production basis. The estimated useful lives are as follows:

Buildings	5 – 25 years
Equipment and facilities	4 – 20 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against profit or loss when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.7. Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Exploration and evaluation assets are tested for impairment when reclassified to tangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use.

Proven oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). These are largely independent of cash flows of the other Group assets. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8. Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of crude oil and refined petroleum products inventories includes applicable purchase costs of raw materials, direct operating costs, processing costs and related overhead expenses (based on normal operating capacity). It excludes borrowing costs. The cost of crude oil and refined petroleum products is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Materials and supplies inventories are recorded at weighted average cost and are carried at amounts which do not exceed their respective amounts recoverable in the normal course of business.

3.9. Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified as "loans and receivables".

Loans and receivables
Trade receivables, loans, cash and cash equivalents, and other financial receivables that have fixed or determinable payments that are not quoted on an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Offsetting of financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

For financial assets objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are classified as 'other financial liabilities measured at amortised cost' measurement category.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

3.10. Prepayments

Prepayments are carried at cost less provision for any impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the period.

3.11. Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

3.12. Restricted cash

Restricted cash balances comprise funds held in a separate bank account which will be used to finance the liquidation of the consequences of the Group's oil and gas operations. Cash balances that are subject to restrictions that expire after more than one year are classified under non-current assets.

3.13. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.14. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3.15. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16. Share capital

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

3.17. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and are charged to the income statement on a straight-line basis over the term of the lease. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Determining whether an arrangement contains a lease
The Group ensures that the following two requirements are met, in order for an arrangement transacted by the Group to be classified as a lease in terms of IAS 17 "Leases":

- The fulfilment of the arrangement is dependent on the use of a specific asset or assets (whether explicitly or implicitly stated in the contract); and
- The arrangement conveys the right to use the asset(s); i.e. the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. This will be the case if any one of the following conditions are met:
  - The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset;
  - The purchaser has the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset; and
  - There is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output or other utility of the asset and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit at the time of delivery.

The Group's assessment of whether an arrangement contains a lease is made at the inception of the arrangement, with reassessment occurring in the event of limited changes in circumstances as specified by IFRIC 4 "Determining whether an Arrangement contains a Lease".

3.18. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the balance sheet liability method, for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Tax base of decommissioning assets and liabilities is recognised by allocating future tax deductions to liability and the initial recognition exemption does not apply. A deferred tax liability is recognised in respect of the taxable temporary difference on the decommissioning asset and, subject to recognition criteria, a deferred tax asset is recognised in respect of the deductible temporary difference on the decommissioning liability.

3.19. Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for crude oil and hydrocarbon products, net of discounts, value added tax ('VAT') and other sales-related taxes, when the significant risks and rewards of ownership have been transferred.

Sales of crude oil and hydrocarbon products are recognised when the oil is delivered to customers and title has passed. For crude oil sales and refined petroleum products, this is at the physical point of delivery.

3.20. Exceptional items

Exceptional items comprise items of income and expense, including tax items, that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group's underlying financial performance. Examples of events giving rise to the disclosure of material items of income and expense as exceptional items include, but are not limited to, impairment events, significant business transformation activities, disposals of operations or significant individual assets, litigation claims by or against the Group and the restructuring of components of the Group's operations.

3.21. 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.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Key sources of accounting judgements

Many of the amounts included in the consolidated financial statements involve the use of judgment and/or estimation. These judgements and estimates are based on management's best estimate of the relevant facts and circumstances, having regard to previous experience, however actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the consolidated financial statements and the key areas are summarised below.

Going concern
These financial statements have been prepared based on the assumption that the Group will continue as a going concern. As set out in note 3.1, in making this judgement the directors considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

Impairment of goodwill
The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash-generating units, including management's estimates of crude oil reserves, long-term crude oil prices, operating costs and future capital expenditure. The carrying amount of goodwill and the key assumptions used in the calculation of value in use, and its sensitivity, of cash-generating units to which goodwill is attributed are disclosed in note 15.

Impairment of E&E and PP&E
E&E assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

Having assessed well testing results in the context of the lower oil price environment existing at year end, management has written off exploration and evaluation costs of US$16.2 million in 2014 relating to unsuccessful drilling and exploration activities at Kainar and Sorkol (see notes 17 to the consolidated financial statements for further details). Exploration and evaluation costs of US$4.4 million relating to Tutkyn and Karaespe exploration prospects were written off in 2013.

As a further consequence of the lower oil price environment existing at year end, management has also performed an impairment assessment of oil and gas properties and as a result an impairment loss of US$6.2 million has been recognised in 2014, relating to poorer performing wells at Sorkol oil field (see notes 16 to the consolidated financial statements for further details).

Management has also completed chemical component analysis of the associated gas, results of which indicated that minimum or no processing is required to the associated gas for its further utilisation. With reference to that analysis, management has reconsidered its plans towards commissioning second phase of the gas plant and performed an impairment assessment of gas processing facilities, as a result of which an impairment loss of US$12.7 million has been recognised in 2014 (see notes 16 to the consolidated financial statements for further details).

Note 16 and 17 disclose the carrying amounts of the Group's property, plant and equipment and exploration and evaluation assets, respectively.

Finance lease liability
KTS signed an agreement for the construction of a second gas and light oil recovery plant with Ningxia Baota Petrochemical Group Design Institute ("Baota") for a total consideration of US$13.4 million in September 2012. An initial payment of US$4.0 million was made by KTS to Baota in October 2012.

In December 2012 KTS entered into an agreement with Eurasian Leasing LLP ("Eurasian") to finance the remaining outstanding Baota contract amount of US$9.4 million, pursuant to which, a further payment of US$4.0 million was advanced by Eurasian to Baota on 26 December 2012.

Management reviewed the terms of the agreement with Eurasian to determine whether the agreement qualified as a finance lease, as defined by IFRIC 4 "Determining whether an agreement contains a lease". KTS is liable to reimburse Eurasian for all expenses incurred in relation to the lease and financing advanced to Baota under the supplementary agreement, furthermore KTS is able to control the construction of the facility. Therefore management concluded that the contractual arrangements with Eurasian satisfy the criteria for recognition of a liability as there is a legal and constructive obligation to settle the lease payments effective from the date of the first advance payment by Eurasian to Baota. As a result, the Group has accounted for the liability as a finance lease with a commencement date of 26 December 2012 and continued adopting this treatment throughout the year ended 31 December 2014.

At 31 December 2014 the Group has recognised the present value of the lease liability of US$3.5 million (31 December 2013: US$6.2 million) as set out in the agreement with Eurasian in current borrowings (see note 24) and has recognised the total payments of US$12.0 million made in 2014 and 2013 as construction in progress within property, plant and equipment (see note 16).

During the year, as a result of the Group decision to mothball plans to commission the extension of gas processing facilities, the Group carried out a review of the recoverable amount of the second gas and light oil recovery plant. The review led to the recognition of an impairment loss of US$12.7 million related to the plant, which includes cost of equipment and construction costs capitalised in relation to building the plant (note 16). The carrying value of the plant was impaired in full while the Group continues servicing the finance lease, which is recognised as a liability to the lessor and included in the balance sheet as a finance lease obligations. The impairment losses have been included in profit and loss in the exceptional items line item.

Allocation of goodwill to CGUs
Goodwill arising on the acquisition of KTS has been allocated to CGUs. There is no prescribed method for allocating goodwill and as a result management had to use their judgement in choosing a method to allocate goodwill to CGUs. The level at which the Board of Directors and management review goodwill is at the individual oil field level. Goodwill was allocated to the Sarybulak oil field being the sole producing field at the Acquisition date.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that affect the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial period, are discussed below.

Provision for future decommissioning and site restoration
The Group has decommissioning obligations in respect of its producing interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning work, and the discount rate to be applied to such.

Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend upon when the fields start and then cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Estimation of oil reserves
Commercial reserves, classified as proved, probable and possible, are determined by McDaniel, the Group's independent competent person, using estimates of oil in place, recovery factors and future oil prices. Future development costs are estimated using assumptions as to numbers of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital and operating costs. The reserves and resources estimates have been prepared in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System ("PRMS").

Proved reserves are the estimated quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically produced in the future. Proved reserves are estimated from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

Proved and probable reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently uncertain, require the application of judgment and are subject to regular revision, either upward or downward, based on new information from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Depreciation

Oil and gas assets held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proved reserves and incorporating the estimated future capital expenditure to be incurred in relation to producing these assets. Future capital expenditure is estimated using assumptions as to the numbers of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs, together with assumptions on oil and gas realisations.

Tax

The Group is subject to the taxation requirements in the jurisdictions in which the Group operates. Significant judgement is required in determining the position for income taxes across these jurisdictions owing to the complexity of tax laws, frequent changes in tax laws and regulations, and the manner of their implementation. Judgement must also be exercised whilst interpreting the interaction between different taxes and interaction between tax rules of different jurisdictions.

Tax provisions are recognised by the Group in accordance with tax laws enacted or substantively enacted by the taxing jurisdictions and in accordance with requirements of the applicable accounting standards.

5. SEGMENTAL REPORTING

The Company's Board of Directors has been identified as the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

(a) Description of products from which reportable segment derives its revenue

The Group's operations comprise one class of business segment, being oil and gas exploration, development and production and the sale of hydrocarbons and related petroleum products. Accordingly the reportable operating segments are determined by the geographical location of the assets.

(b) Geographical information

There are currently two geographic reporting segments: Kazakhstan, which is involved in production, development and exploration activity, and Europe, related to the general management, financing and operation of the Group in the United Kingdom and the Netherlands.

Year ended 31 December 2014	**Europe US$000**	**Kazakhstan US$000**	**Total US$000**
Revenue	-	81,495	**81,495**
Cost of sales	-	(43,267)	**(43,267)**
Gross profit	**-**	**38,228**	**38,228**
Administrative expenses	(4,866)	(16,048)	(20,914)
Selling expenses	-	(524)	(524)
Other income, net	-	383	383
Exploration costs written off	-	(16,229)	(16,229)
Impairment losses	-	(18,860)	(18,860)
Operating loss	**(4,866)**	**(13,050)**	**(17,916)**
Analysed as:			
Operating profit/(loss) before exceptional items	(4,866)	5,810	944
Exceptional items	-	(18,860)	(18,860)
Operating loss	**(4,866)**	**(13,050)**	**(17,916)**
Finance costs	-	(6,055)	(6,055)
Loss before income tax	**(4,866)**	**(19,105)**	**(23,971)**
Income tax benefit	-	1,771	1,771
Loss for the year	**(4,866)**	**(17,334)**	**(22,200)**
Assets and liabilities			
Property, plant and equipment	72	96,247	96,319
Intangible assets	1	7,673	7,674
Cash and cash equivalents	122	324	446
Other segment assets	483	18,834	19,317
Total assets	**678**	**123,078**	**123,756**
Total liabilities	**1,115**	**88,698**	**89,813**
Other segment items			
Capital expenditure	6	48,239	48,245
Depreciation, depletion and amortisation	30	12,807	12,837

Year ended 31 December 2013	**Europe US$000**	**Kazakhstan US$000**	**Total US$000**
Revenue	-	79,901	79,901
Cost of sales	-	(45,364)	(45,364)
Gross profit	**-**	**34,537**	**34,537**
Administrative expenses	(7,216)	(8,908)	(16,124)
Selling expenses	-	(238)	(238)
Exploration costs written off	-	(4,372)	(4,372)
Other income, net	-	597	597
Operating profit/(loss)	**(7,216)**	**21,616**	**14,400**
Analysed as:			
Operating profit/(loss) before exceptional items	(6,584)	21,616	15,032
Exceptional items	(632)	-	(632)
Operating profit/(loss)	**(7,216)**	**21,616**	**14,400**
Finance costs	(76)	(2,101)	(2,177)
Profit/(loss) before income tax	**(7,292)**	**19,515**	**12,223**
Income tax expense	-	(2,160)	(2,160)
Profit/(loss) for the Period	**(7,292)**	**17,355**	**10,063**
Assets and liabilities			
Property, plant and equipment	94	102,837	102,931
Intangible assets	3	24,383	24,386
Cash and cash equivalents	325	1,908	2,233
Other segment assets	347	24,420	24,767
Total assets	**769**	**153,548**	**154,317**
Total liabilities	**(2,363)**	**(89,235)**	**(91,598)**
Other segment items			
Capital expenditure	23	56,266	56,289
Depreciation, depletion and amortisation	28	10,590	10,618

Transactions between segments are carried out at arm's length.

(c) Major customers

During the year, revenues from transactions with a single customer amounting to 10 per cent or more of the Group's revenues, were attributable to the following three customers:

- KazMunaiTradeExpo LLP with revenues of US$27.5 million (2013: US$17.4 million);
- Kush Kuat LLP with revenues of US$22.4 million (2013: US$24.1 million); and
- KMNPZ LLP with revenues of US$12.9 million (2013: US$14.1 million).

These revenues are attributable to crude oil sales on the domestic market in Kazakhstan.

6. REVENUE

GROUP	2014 US$000	2013 US$000
Revenue from crude oil sales	81,806	86,534
Revenue from liquefied gas sales	102	-
	81,908	**86,534**
Less: revenue credited to evaluation costs (note 17)	(413)	(6,633)
	81,495	**79,901**

7. COST OF SALES

GROUP	2014 US$000	2013 US$000
Field operating costs	14,828	16,135
Transportation costs	14,674	17,241
Mineral extraction and other taxes	1,166	1,638
Depreciation and depletion	12,599	10,350
	43,267	**45,364**

8. OTHER INCOME / (EXPENSES), NET

GROUP	2014 US$000	2013 US$000
Other income		
Resale of oil products	6,217	6,232
Resale of inventory	670	784
	6,887	**7,016**
Other expense		
Cost of oil products for resale	(5,924)	(6,002)
Cost of inventory for resale	(580)	(417)
	(6,504)	**(6,419)**
Other income, net	**383**	**597**

Proceeds from the resale of oil products and inventory is considered incidental to the Group's operations and as such is not included in revenue.

9. EXCEPTIONAL ITEMS

Exceptional items are events or transactions that fall within the activities of the Group and which by virtue of their size or incidence have been disclosed separately in order to improve a reader's understanding of the consolidated financial statements. Exceptional items recognised within operating profit / (loss) were as follows:

GROUP	2014 US$000	2013 US$000
Impairment losses		
Impairment of poor performing wells included in oil & gas assets (note 16)	6,188	-
Impairment of gas processing facilities included in oil & gas assets (note 16)	12,672	-
Total impairment losses	18,860	-
Ongoing fees related to preparation for an Initial Public Offering ("IPO")	-	632
	18,860	**632**

10. OPERATING PROFIT/(LOSS)

Operating profit / (loss) for the year has been arrived at after charging:

GROUP	2014 US$000	2013 US$000
Employee benefit expense (note 12)	14,333	12,077
Depreciation, depletion and amortisation	12,837	10,618
Transportation costs	14,674	17,241
Impairment of oil & gas assets (note 16)	18,860	-
Exploration costs written off (note 17)	16,229	4,372
Provision for impairment of trade and other receivables (note 22)	4,515	-
Cost of inventory used in production	1,172	1,662
Operating lease	525	426
Auditors remuneration (note 11)	291	1,144

11. AUDITORS' REMUNERATION

The analysis of the auditor's remuneration is as follows:

GROUP	2014 US$000	2013 US$000
Fees payable to the company's auditor and their associates for the audit of the company's annual financial statements	117	182
Fees payable to the company's auditor and their associates for other services to the Group		
- the audit of the Company's subsidiaries	145	203
Total audit fees	**262**	**385**
- audit-related assurance services	-	58
- tax compliance services and regulatory tax reporting	29	33
- other tax advisory services	-	123
- all other services[1]	-	545
Total non-audit fees	**29**	**759**

[1] Amounts in "all other services" are included within exceptional items and include fees for work performed by the reporting accountants in connection with the Group's preparation for an IPO during year ended 31 December 2013.

No services were provided pursuant to contingent fee arrangements.

12. EMPLOYEE BENEFIT EXPENSE

GROUP	2014 US$000	2013 US$000
Staff costs		
Wages and salaries	11,185	8,892
Social security costs	908	846
	12,093	**9,738**
Directors' emoluments		
Aggregate emoluments	2,240	2,339
Total staff costs	**14,333**	**12,077**

The highest paid director was paid emoluments of US$466,000 during the year (2013: US$419,000).

The monthly average number of employees during the year (including executive and non-executive directors) was 525 (2013: 390).

13. FINANCE COSTS

GROUP	2014 US$000	2013 US$000
Interest expense on bank borrowings	1,322	1,932
Unwinding of discount on provisions for liabilities and other charges (Note 26)	612	581
Interest expense on finance lease	618	674
Foreign exchange loss	4,099	663
	6,651	**3,850**
Less: Interest expense capitalised on qualifying assets	(596)	(1,673)
Net finance costs	**6,055**	**2,177**

14. INCOME TAX CREDIT / (EXPENSE)

GROUP	2014 US$000	2013 US$000
Current tax on loss for the year	(51)	(26)
Deferred tax credit / expense	1,822	(2,134)
Income tax credit / (expense)	**1,771**	**(2,160)**

The Group's principal business activities are in Kazakhstan, where corporate income tax ("CIT") applies at a rate of 20% of taxable income. Taxes attributable to the production and sale of hydrocarbons are accounted for as cost of sales (see note 7). The Company has generated losses in the year and no deferred tax assets have been recognised with respect to such losses.

Tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the UK statutory rate of 21.5% applicable to the loss of the Group, as follows:

GROUP	2014 US$000	2013 US$000
(Loss) / profit before tax on continuing operations	(23,971)	12,223
Tax calculated at 21.5%[1] (2013: 23.25%)	5,154	(2,842)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(241)	731
Net tax effect of expenses not deductible and income not taxable in determining taxable profit	(465)	993
Tax effect of tax losses for which no deferred income tax was recognised	(2,687)	(1,516)
Utilisation of tax losses brought forward	-	322
Other adjustments	10	152
Income tax credit / (expense)	**1,771**	**(2,160)**

(1) For 2014, the UK statutory rate for January to March 2014 was 23.0% and for April to December 2014 was 21.0%, giving a weighted average full year rate of 21.5%. For 2013, the UK statutory rate for January to March 2013 was 24.0% and for April to December 2013 was 23.0%, giving a weighted average full year rate of 23.25%.

15. GOODWILL

The movement in goodwill during the year was as follows:

GROUP	US$000
At 31 December 2012	4,566
Translation difference	(85)
At 31 December 2013	**4,481**
Translation difference	(706)
At 31 December 2014	**3,775**

Goodwill impairment testing

In accordance with IAS 36 "Impairment of assets" the Group performed an impairment review of goodwill. The review compared the recoverable amount of goodwill for the Sarybulak CGU to the carrying value of the CGU including goodwill.

Key assumptions

The key assumptions used in the value in use ("VIU") calculation are:
- Estimated crude oil reserves;
- Long-term crude oil prices;
- Operating costs;
- Future capital expenditure; and
- Discount rates.

Estimated crude oil reserves represent management's expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified independent persons.

Long-term crude oil prices are determined by reference to external market forecasts.

Operating cost assumptions are based on management's best estimates at the date of impairment testing of the future costs to be incurred. Costs are determined after considering current operating costs, future cost expectations and the nature and location of the operation.

Future capital expenditure is based on management's best estimate of required future capital requirements, relating to the extraction of existing reserves and resources. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

A pre-tax discount rate of 15% was used to calculate the present value of projected cash flows.

Summary of results

No impairment charge resulted from the goodwill impairment review.

Sensitivity to changes in assumptions

The key assumptions to which the calculation of value in use is most sensitive are the long term oil prices, future capital expenditures, operating costs and discount rates. Management believes that, currently, there are no reasonably possible changes in any of the key assumptions that would lead to the recoverable amount being below the carrying amount.

16. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and *buildings* US$000	Oil and Gas *properties* US$000	Equipment and *facilities* US$000	Construction *in progress* US$000	Total US$000
At 31 December 2012					
Cost	3,911	35,698	12,154	37,805	89,568
Accumulated depreciation	(161)	(4,125)	(331)	-	(4,617)
Net book amount	**3,750**	**31,573**	**11,823**	**37,805**	**84,951**
Year ended 31 December 2013					
Opening net book amount	3,750	31,573	11,823	37,805	84,951
Additions	474	2,291	4,335	25,181	32,281
Transfers	3,687	8,429	1,203	(13,319)	-
Disposals	(298)	-	(313)	(657)	(1,268)
Depreciation charge	(332)	(9,385)	(900)	-	(10,617)
Translation difference	(104)	(923)	(575)	(814)	(2,416)
Closing net book amount	**7,177**	**31,985**	**15,573**	**48,196**	**102,931**
At 31 December 2013					
Cost	7,670	45,495	16,804	48,196	118,165
Accumulated depreciation	(493)	(13,510)	(1,231)	-	(15,234)
Net book amount	**7,177**	**31,985**	**15,573**	**48,196**	**102,931**
Year ended 31 December 2014					
Opening net book amount	7,177	31,985	15,573	48,196	102,931
Additions	939	619	3,428	41,892	46,878
Disposals	-	(5,544)	(27)	-	(5,571)
Transfers	125	15,596	13,002	(28,723)	-
Depreciation charge	(380)	(9,037)	(3,418)	-	(12,835)
Impairment losses	-	(2,139)	-	(16,721)	(18,860)
Translation difference	(658)	(5,389)	(2,403)	(7,774)	(16,224)
Closing net book amount	**7,203**	**26,091**	**26,155**	**36,870**	**96,319**
At 31 December 2014					
Cost	8,076	48,638	30,804	36,870	124,388
Accumulated depreciation	(873)	(22,547)	(4,649)	-	(28,069)
Net book amount	**7,203**	**26,091**	**26,155**	**36,870**	**96,319**

During the year, as the result of the drop in Brent crude oil price to $53/bbl by year end, the lowest price since 2009, unexpected poor performance of certain wells included in oil and gas properties and mothballing plans to commission extension of gas processing facilities, the Group carried out a review of the recoverable amount of the oil & gas properties. The review led to the recognition of an impairment loss of US$6.2 million related to poorer performing wells at Sorkol oil field and US$12.7 million related to gas processing facilities. These assets were impaired in full and they belong entirely to Kazakhstan reporting segment of the Group. The impairment losses have been included in profit and loss as part of exceptional items.

"Construction in progress" consists mainly of oil and gas properties and production facilities on the Sarybulak and Sorkol oil fields. Upon completion, the carrying values of the assets will be transferred to the relevant "Oil and Gas properties", "Land and buildings" and "Equipment and facilities" categories and depreciated in compliance with the Company's adopted accounting policies.

Property, plant and equipment is pledged as security to secured loan facility entered into between Bank CenterCredit ("BCC") and Development Bank of Kazakhstan (together the "BCC Lenders") and KTS ("BCC Loan Facility"). Further details related to the BCC Loan Facility are set out in note 24.

COMPANY	**Equipment and facilities US$000**
Year ended 31 December 2013	
Opening net book amount	98
Additions	23
Depreciation charge	(27)
Closing net book amount	**94**
At 31 December 2013	
Cost	124
Accumulated depreciation	(30)
Net book amount	**94**
Year ended 31 December 2014	
Opening net book amount	94
Additions	6
Depreciation charge	(28)
Closing net book amount	**72**
At 31 December 2014	
Cost	130
Accumulated depreciation	(58)
Net book amount	**72**

17. INTANGIBLE ASSETS

GROUP	Exploration & evaluation assets US$000	Sorkol oil field US$000	Other US$000	Total US$000
At 31 December 2012	**14,980**	**-**	**4**	**14,984**
Transfers	(3,300)	3,300	-	-
Additions	9,586	10,970	-	20,556
Write off of unsuccessful exploration costs	(4,372)	-	-	(4,372)
Gross margin credited to evaluation costs	-	(6,633)	-	(6,633)
Change in estimate of decommissioning assets	4	2	-	6
Amortisation	-	-	(1)	(1)
Translation difference	(219)	65	-	(154)
At 31 December 2013	**16,679**	**7,704**	**3**	**24,386**
Transfer to oil and gas properties	-	(7,704)	-	(7,704)
Additions	10,026	-	-	10,026
Write off of unsuccessful exploration costs	(16,229)	-	-	(16,229)
Gross margin credited to evaluation costs	(413)	-	-	(413)
Change in estimate of decommissioning assets	(338)	-	-	(338)
Amortisation	-	-	(2)	(2)
Translation difference	(2,052)	-	-	(2,052)
At 31 December 2014	**7,673**	**-**	**1**	**7,674**

The write off of unsuccessful exploration costs of US$16.2 million during the year related to unsuccessful drilling and exploration activities at the Kainar and Sorkol prospects within the Exploration Licence.

The write off of unsuccessful exploration costs of US$4.4 million in 2013 related to Tutkyn and Karaespe exploration prospects within the Exploration Licence.

The Group produced and sold "test crude oil" extracted from exploration and development wells on the Kainar oil field (test production) in order to evaluate the commercial viability of the oil field and prior to Kainar obtaining a pilot production permit or entering into full commercial production. The gross profit generated from these test production oil sales of US$0.4 million (2013: gross profit of US$6.6 million from test production at Sorkol oil field) is offset against the carrying value of exploration and evaluation assets ("E&E assets") instead of being recognised in the Statement of Comprehensive Income. When gross profit from test production crude oil sales during any reporting period exceeds the carrying value of the E&E assets as at the end of that period, the excess is recognised in the Statement of Comprehensive Income.

COMPANY

Intangible assets on the Company's balance sheet at 31 December 2014 consisted of computer software capitalised in accordance with IAS38 *Intangible Assets*, with a cost price of US$5,000 (31 December 2013: US$5,000) and accumulated amortisation of US$4,000 (31 December 2013: US$2,000).

18. INVESTMENTS IN SUBSIDIARIES

At 31 December 2014 and 2013 investments in shares of the Company's subsidiary undertakings at cost comprised US$29,061,000.

At 31 December 2014 and 2013 the principle subsidiary undertakings of the Company were:

Name	Nature of business	% held	Country of incorporation
Equus Petroleum BV	Holding	100	Netherlands
Kumkol Trans Service LLP	Oil & gas exploration and production	99.7[1]	Kazakhstan

1 – Indirectly held through Equus Petroleum BV

At 31 December 2014 the Group has a 70% equity interest in BG by way of an investment held by KTS (31 December 2013: 70%).

The directors believe that the carrying value of the investments is supported by the value of the underlying net assets.

Equus Petroleum BV shares are pledged as security to BCC Loan Facility (note 24).

19. OTHER NON-CURRENT ASSETS

	GROUP		COMPANY	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Advances to construction contractors	11,075	12,987	-	-
Restricted cash	406	232	210	-
Non-current inventory	170	542	-	-
	11,651	**13,761**	**210**	**-**

Advances to construction contractors
Advances were paid in cash to construction contractors for materials and construction works undertaken at the Sarybulak oil field, primarily for construction of electricity grids, the crude oil central processing facility, intra-field roads and various other assets required to maintain on-going exploration and development of the oil and gas properties.

Restricted cash
Under the terms of its exploration licence, the Group is obliged to maintain a liquidation fund to finance the liquidation of the consequences of its oil and gas operations (note 31). The fund is maintained on a deposit account with Bank Centre Credit and is therefore reported as restricted cash. The carrying value of the fund at 31 December 2014 comprised US$196,000 (31 December 2013: US$232,000).

Under the terms of the Company's office lease, the Company and Group are required to maintain a lease deposit equivalent to a 6 month lease. The carrying value of the lease deposit at 31 December 2014 comprised US$210,000 (31 December 2013: nil).

Non-current inventory
Inventory comprises materials which will be used in the exploration and development of the Group's oil and gas properties.

20. DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

GROUP	2014 US$000	2013 US$000
Deferred income tax liabilities		
- Deferred income tax liabilities to be incurred after more than 12 months	2,276	4,415
- Deferred income tax liabilities to be incurred within 12 months	2,395	3,479
	4,671	**7,894**

The gross movement on the deferred income tax account is as follows:

	US$000
At 31 December 2012	5,901
Income statement charge (note 14)	2,134
Translation difference	(141)
At 31 December 2013	**7,894**
Income statement (benefit) / charge (note 14)	(1,822)
Translation difference	(1,401)
At 31 December 2014	**4,671**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	1 JANUARY 2014 (AUDITED) US$000	Recorded in profit or loss US$000	Translation difference US$000	31 December 2014 US$000
Intangible assets	3,538	(3,463)	(497)	(422)
Decommissioning provision	(3,026)	888	675	(1,463)
Property, plant and equipment	8,970	4,102	(1,888)	11,184
Other	(1,588)	(3,349)	309	(4,628)
Deferred tax liability	**7,894**	**(1,822)**	**(1,401)**	**4,671**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are recognised only to the extent that it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets if they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised, which can result in a charge or credit in the period in which the change occurs.

The Group did not recognise deferred income tax assets of US$2.9 million (2013: US$2.0 million) in respect of losses carried forward amounting to US$14.7 million (2013: US$ US$8.8 million).

21. INVENTORIES

GROUP	2014 US$000	2013 US$000
Materials and consumables	872	1,063
Crude oil inventory	779	263
Refined products	1	1
	1,652	**1,327**

The cost of inventories recognised as an expense and included in "cost of sales" amounted to US$1.2 million (31 December 2013: US$1.7 million).

Inventory is pledged as security to Bank Centre Credit Loan Facility (note 24).

The directors estimate that the carrying value of inventories approximated their net realisable value.

22. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2014 US$000	**2013 US$000**	**2014 US$000**	**2013 US$000**
Trade receivables	70	617	-	-
Prepayments	5,995	1,280	200	146
Other taxes receivable	46	501	32	176
Loans from the Company to its subsidiaries (Note 31)	-	-	11,470	18,885
Other debtors	330	370	3	23
Receivables from employees	118	74	37	2
	6,559	2,842	11,742	19,232
Less: provision for impairment of trade and other receivables	(4,515)	-	-	-
	2,044	**2,842**	**11,742**	**19,232**

Included in the Group's prepayments are advances made in cash to service providers required to maintain current operations of the Group, being primarily payments in advance for future transportation services and oil well maintenance.

Loans to employees are interest free and have no fixed repayment terms.

Included in the provision for impairment of trade and other receivables are individually impaired prepayments with a balance of US$4.5 million due from a construction contractor, Aziash LLP (note 31). The prepayments relate to construction works on the oil fields, mainly well maintenance, construction of oil processing facilities and construction of gas facilities, which the Group has not taken delivery of. Due to Aziash LLP experiencing operating cash flow difficulties, these amounts have been impaired as there is not sufficient certainty that these amounts will be recovered in full.

Carrying amounts of trade and other financial receivables approximate their fair values.

The ageing of the trade receivables is as follows:

	GROUP		COMPANY	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Up to 3 months	52	552	-	-
3 to 6 months	18	65	-	-
	70	**617**	**-**	**-**

The Group and Company had no trade receivables which were past due.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
GBP	272	347	272	347
US$	-	-	11,470	18,885
KZT	1,772	2,495	-	-
	2,044	**2,842**	**11,742**	**19,232**

23. RESTRICTED CASH

Under the terms of BNP Paribas (Suisse) S.A. loan facility (note 24), the Group was obliged to maintain a debt service reserve account ("DSRA") balance in an amount equal to one hundred and ten per cent of a projected one month interest payable on the loan amount outstanding. The DSRA balance was maintained at a bank account held with BNP Paribas (Suisse) S.A. and at 31 December 2013 comprised US$1,961,000. Since the Group repaid BNPP Loan Facility in full in July 2014 (note 24), the balance maintained at the DSRA was released in August 2014.

24. BORROWINGS

GROUP	2014 US$000	2013 US$000
Non-current		
Bank borrowings	17,417	176
Finance lease liabilities	-	3,910
	17,417	**4,086**
Current		
Bank borrowings	2,637	15,299
Finance lease liabilities	3,511	2,284
	6,148	**17,583**
Total borrowings	**23,565**	**21,669**

BCC LOAN FACILITIES

BCC Loan Facility
On 24 July 2014, a US$30 million secured loan facility was entered into, between BCC and Development Bank of Kazakhstan (together the "BCC Lenders") and KTS ("BCC Facility") pursuant to which an initial committed amount of US$5 million was available to the Group for the repayment of the outstanding BNPP Loan Facility.

The Group drew down US$5.0 million on 30 July 2014 and used proceeds to repay entire outstanding of BNPP Loan Facility.

The principal financing terms of Tranche 1 are as follows:
- the Tranche bears interest of 8% per annum;
- the Tranche 1 is secured by movable and immovable assets of KTS;
- in addition, security structure of Tranche 1 requires Equus Petroleum B.V. to pledge its shares in the Borrower to the BCC Lenders, and Equus Petroleum Plc is required to pledge its shares in Equus B.V. to the BCC Lenders;
- the Tranche 1 also contains negative undertakings which are customary for a facility of this nature and cover negative pledge, financial indebtedness, guarantees, acquisitions, distributions, etc.;
- the Tranche 1 of the BCC facility is subject to amortisation in equal monthly instalments over a period of 6 years commencing from 1 April 2015.

The Group could request an increase to the BCC Facility amount up to a maximum additional amount of US$25.0 million ("Tranche 2"), upon the Borrower satisfying certain conditions and subject to BCC credit approval, the principal conditions being approval of technical development scheme for Sarybulak oil field by Kazakhstan state authorities and securing the Sarybulak Production Licence.

The Group drew down further US$15.0 million under Tranche 2 in November 2014 subsequent to approval of the technical development scheme.

The principal financing terms of Tranche 2 are as follows:
- the Tranche 2 bears interest of 11.5% per annum;
- no commitment fee is payable on the available undrawn commitments;
- consistent with Tranche 1, Tranche 2 is secured by movable and immovable assets of KTS and Equus Petroleum B.V. shares pledge to the BCC Lenders;
- the Tranche 2 also contains negative undertakings which are customary for a facility of this nature and cover negative pledge, financial indebtedness, guarantees, acquisitions, distributions, etc.

The Group drew down further US$10.0 million under Tranche 2 in March 2015 subsequent securing Sarybulak Production Licence in December 2014 (note 32).

BCC mortgage loan facility - KTS
In June 2012 the Group entered into a KZT 205 million (US$ 1.4 million) facility with BCC to finance the purchase of two office buildings in Kyzylorda, Kazakhstan. The facility bears interest at 10% per annum and is repayable in 36 monthly instalments of KZT 5.7 million (US$ 40,000) with the final instalment in June 2015. The facility is secured by the purchased buildings. The facility had a carrying value of US$ 0.2 million at 31 December 2014, classified as current.

BNPP LOAN FACILITY

On 17 May 2013, a US$ 50.0 million secured reserve based loan facility (the "BNPP Loan Facility") was entered into between BNP Paribas (Suisse) S.A. ("BNPP") and Vitol Central Asia S.A. ("Vitol") (together the "BNPP Lenders") and Kumkol Trans Service LLP (the "Borrower") pursuant to which an initial committed amount of US$ 20.0 million was made available to the Borrower for the repayment of the outstanding BCC loan and for the development of the Field.

Had the Borrower been able to satisfy certain conditions, such as the issue of a Sarybulak field Production Licence and the granting of a minimum 60% export quota, by 30 September 2013 ("Long Stop Date"), an increase in the facility amount (up to a maximum of amount US$ 50.0 million) would have been available to the Borrower. As the Borrower did not satisfy these conditions by the Long Stop Date, this resulted in the mandatory repayment of the outstanding loan in 12 monthly principal instalments of US$1,667k commencing October 2013. The Borrower was also required to maintain its DSRA balance in an amount equal to one hundred and ten per cent of a projected one month interest payable on the loan amount outstanding (note 23).

The BNPP Loan Facility was fully repaid in July 2014.

FINANCE LEASE LIABILITIES

The Group entered into a finance lease agreement with Eurasian Leasing LLP ("Eurasian") in December 2012 to finance construction of a second gas treatment facility.

The finance lease bears interest at 14% per annum and is repayable in 43 monthly instalments which commenced in January 2013 with the final payment in 2016. Interest-only instalments of US$40,000 were payable from January to June 2013 and 37 interest and capital instalments of between US$155,000 and US$110,000 thereafter. The Group has recognised US$1.3 million in non-current and US$2.1 million in current borrowings as at 31 December 2014.

The facility is secured against the associated gas treatment facility assets.

GROUP	2014 US$000	2013 US$000
Gross finance lease liabilities - minimum lease payments:		
No later than 1 year	3,929	3,014
Later than 1 year and no later than 5 years	-	4,409
	3,929	**7,423**
Future finance charges	**(418)**	**(1,229)**
Present value of lease liabilities	**3,511**	**6,194**

The present value of finance lease liabilities is as follows:

GROUP	2014 US$000	2013 US$000
No later than 1 year	3,511	2,284
Later than 1 year and no later than 5 years	-	3,910
	3,511	**6,194**

The carrying amount of the Group's borrowings is denominated in KZT and approximates their fair value.

25. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2014 US$000	**2013 US$000**	**2014 US$000**	**2013 US$000**
Payables to suppliers and contractors	22,674	21,937	886	1,639
Advances received from customers	15,831	17,700	-	-
Other taxes payable	1,253	1,132	95	112
Accruals	13,560	5,222	134	612
Payables to employees	867	535	-	-
Other payables	38	344	-	-
	54,223	**46,870**	**1,115**	**2,363**

26. PROVISIONS FOR LIABILITIES AND CHARGES

	Decommissioning provision US$000	**Other US$000**	**Total US$000**
GROUP			
Carrying amount at 1 January 2013	2,437	7,862	10,299
Changes in estimates and new provisions	3,116	1,410	4,526
Unused amounts reversed	(77)	-	(77)
Unwinding of discounts	50	531	581
Translation difference	(45)	(152)	(197)
	5,481	**9,651**	**15,132**
Non-current	5,481	2,127	7,608
Current	-	7,524	7,524
Carrying amount at 31 December 2013	**5,481**	**9,651**	**15,132**
Changes in estimates and new provisions	(1,952)	(4,083)	(6,035)
Unwinding of discounts	94	518	612
Translation difference	(863)	(1,530)	(2,393)
	2,760	**4,556**	**7,316**
Non-current	2,760	1,632	4,392
Current	-	2,924	2,924
Carrying amount at 31 December 2014	**2,760**	**4,556**	**7,316**

Decommissioning provision

The decommissioning provision represents the present value of decommissioning costs relating to the Sarybulak and Sorkol oil and gas properties.

The amount provided at 31 December 2014 was revised to include estimated decommissioning costs of new wells drilled in the year and for changes in local requirements. The timing of payments related to decommissioning provisions is uncertain and is dependent on various items which are not always within management's control.

The provision has been estimated using existing technology, at current prices, and discounted using a discount rate of 6.8%.

Other
Other provisions represent the present value of commercial discovery bonus of US$2.7 million and reimbursement of historical costs of US$1.8 million which the Group will have to settle with the Kazakhstan government as per the terms of the Exploration Licence.

The amount provided for the commercial discovery bonus at 31 December 2014 was based on the contractual terms set out in the Exploration Licence, being a bonus equal to 0.1% of the approved reserve volume payable within 90 days of the execution of a production contract by the Kazakhstan authorities. The Sarybulak Production Contract was granted in December 2014 and the provision has been calculated on the basis that the commercial discovery bonus becomes payable in March 2015. The interest rate used to determine the balance sheet obligation at 31 December 2014 was 6.8%.

The provision for reimbursement of historic costs of US$1.8 million was based on the agreement signed on 1 July 2004 with the then Kazakhstan Ministry of Energy and Mineral Resources. These costs represent all historic costs incurred by the Kazakhstan government for exploration of the Exploration licence. The repayment commences from August 2014 when Sarybulak reserves were approved by the State Reserve Committee of the Republic of Kazakhstan. The interest rate used to determine the balance sheet obligation at 31 December 2014 was 6.77%.

27. FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities

The directors have reviewed the consolidated financial statements and have concluded that there are no significant differences between the book values and the fair values of the assets and liabilities of the Group and Company as at 31 December 2013.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain sufficient financial flexibility in order to undertake its investment plans, and to optimise the weighted average cost of capital and tax efficiency.

To maintain or adjust the optimum capital structure, the Group may put in place new debt facilities, issue new capital for cash, repay or restructure existing debt, amend its dividend policy, or undertake other such restructuring activities as appropriate.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors capital on the basis of the gearing ratio, that is, the ratio of net debt to net debt plus equity. Net debt is calculated as gross debt, as shown in the balance sheet, less cash and cash equivalents and excludes finance lease liabilities.

GROUP	**2014** **US$000**	**2013** **US$000**
Borrowings, excluding finance lease liabilities	20,054	15,475
Less: Cash and cash equivalents	(446)	(2,233)
Net debt	**19,608**	**13,242**
Equity	**33,850**	**62,590**
Net debt ratio	**58%**	**21%**

The directors consider a net debt ratio of 58% (2013: 21%) to be within acceptable target range.

Financial risk management

The Group's financial instruments comprise cash and cash equivalents, trade receivables, non-current receivables, trade and other financial payables and borrowings. The Group's accounting policies with regard to financial instruments are detailed in note 3. The Group does not speculate in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in IFRS 7 "Financial Instruments: Disclosure".

The Group is exposed through its operations to a number of financial risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policy for managing these risks is set by the key management of the Group and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

Derivatives, financial instruments and risk management

The Group does not use derivative instruments or financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Group does not enter into hedging positions in respect of its exposure to foreign currency risk.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing liabilities and commodity risks, all of which are exposed to general and specific market movements. Management does not set limits on the value of risk that may be accepted. However, management is on alert for significant market movements and takes these movements into account in their future dealings.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Foreign currency risk management

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is mainly exposed to currency risks on certain bank deposits, debtors and creditors denominated in GBP and KZT.

The Group's exposure to foreign currency risk was as follows, based on US dollar equivalent carrying amounts at the reporting date:

	GROUP		COMPANY	
	GBP'000	**KZT'000**	**GBP'000**	**KZT'000**
Trade and other receivables, net of provision for impairment	72	492	72	-
Cash and cash equivalents	98	324	98	-
Trade and other payables	(810)	(53,108)	(810)	-
Net exposure	**(640)**	**(52,292)**	**(640)**	**-**

The following table presents sensitivities of profit and loss (after tax) and equity to changes in exchange rates applied at the end of the year relative to the functional currency of the Group, with all other variables held constant:

GROUP	2014 US$000	2013 US$000
KZT strengthening by 10%	(1,341)	2,152
KZT weakening by 10%	1,565	(1,765)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to cash flow interest rate risk is nil since the Group does not have variable interest liabilities. The Group is exposed to fair value interest rate risk through its fixed rate borrowings.

The Group does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Group's business.

Market operational risks

The Group operates in Kazakhstan. The nature of the Group's operations requires the commitment of significant funding through its investment in oil & gas operations and exploration and evaluation expenditure in Kyzylorda region, Kazakhstan. It is the nature of oil & gas operations that each project is long-term. It may be many years before the exploration and oil & gas development properties held by the Group are proven to be viable and for progress to reach commercial production. To control these risks the Group arranges for the provision of technical support, directly or through appointed agents, to these oil & gas development operations and also commissions technical research and feasibility studies both prior to entering into these commitments and subsequently in the life of these projects.

Market price risk

As an "unhedged oil producer" through its production, the Group is exposed to only market price risk. Given the restrictions imposed by the Exploration Licence, crude oil volumes in 2014 could only be sold on the Kazakhstan domestic market without any right to export at world market prices. The Group will commence export sales of crude oil in third quarter of 2015.

The Group manages this risk with reference to annual budgets and periodic forecasts including sensitivity analyses of projected production rates and crude oil prices. This risk will continue to be closely monitored by the Group in future periods.

The Group will be exposed to the future effect of fluctuations in the market price of crude oil which is quoted in US dollars on the international markets for export sales and in Tenge for domestic sales. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of prices of crude oil. Given that the Group's revenues were all derived from sales to the domestic market in, fluctuations in the price of crude oil on international markets had not had any significant effect on the Group's financial performance for the year. The Group does not intend in the future to hedge its exposure to the risk of fluctuations in the price of crude oil.

Other price risk

The Group does not have any financial instruments which have a significant risk that their fair value or future cash flows will fluctuate materially because of changes in market prices other than those set out in this note.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk may arise as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets currently. The Group sells to a number of domestic customers in Kazakhstan and the credit risk arising from *these sales is low as the Group is paid in advance at a fixed price for the future delivery of crude oil.* The Group has adopted a policy of only dealing with creditworthy counterparties to mitigate the risk of financial loss from default. It is the Group's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

The credit risk on cash and cash equivalent balances is limited as the counterparties are banks with high credit ratings assigned by international ratings agencies.

The Group and Company's maximum exposure to credit risk by class of assets is as follows:

	GROUP		COMPANY	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Financial assets within trade and other receivables	70	617	-	-
Cash and cash equivalents	446	2,233	100	300
Total maximum exposure to credit risk	**516**	**2,850**	**100**	**300**

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is monitored by the Group to ensure that it has sufficient resources to meet its financial obligations as they fall due.

The liquidity risk of the Group is managed by the Board. New borrowings are taken on where additional funds are required. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Where appropriate the board will seek additional funds from the issue of share capital, private or public placements.

The Group monitors its liquidity requirements through monthly management accounts and periodic cash flow forecasts.

The table below shows the Group and Company's financial liabilities at 31 December 2014 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

GROUP

	On demand and less than 6 months US$000	From 6 to 12 months US$000	From 12 months to 10 years US$000	Total future payments, including future principal and interest payments US$000
Borrowings	1,185	3,589	18,791	23,565
Other provisions	2,793	131	4,591	7,515
Creditors	54,223	-	-	54,223
	58,201	**3,720**	**23,382**	**85,303**

COMPANY

	On demand and less than 6 months US$000	From 6 to 12 months US$000	From 12 months to 5 years US$000	Total future payments, including future principal and interest payments US$000
Creditors	1,115	-	-	1,115

28. SHARE CAPITAL AND SHARE PREMIUM

	2014 US$000	2013 US$000
Authorised:		
281.5 million shares of US$0.01 each	2,751	2,751
Issued and fully paid:		
281.5 million shares of US$0.01 each	2,751	2,751

The Company has one class of issued share capital, comprising ordinary shares of CAD$0.01 (US$0.01) each.

29. OPERATING LEASE COMMITMENTS

The future minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Not later than one year	417	438	174	231
Later than one year and not later than two years	305	231	305	231
Later than two years	1,192	19	1,192	19
	1,914	**688**	**1,671**	**481**

30. COMMITMENTS AND CONTINGENCIES

Operating environment

Emerging markets such as Kazakhstan, where the Group operates its principal assets, are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kazakhstan and the Kazakhstani economy in general.

Laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Kazakhstan is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil legislation or changes in legislations cannot be reasonably estimated.

Because Kazakhstan produces and exports large volumes of mineral resources, including oil and gas, Kazakhstan economy is particularly sensitive to the commodity prices on the world market that fluctuated significantly during 2014.

Legal proceedings

The Group is subject to various environmental laws regarding the handling, storage, and disposal of oil and is subject to regulation by various governmental authorities. The Group is not aware of any current legal proceedings or other claims outstanding, which could have a material adverse effect on the result of operations or financial position of the Group, unless otherwise disclosed in these financial statements.

Contractual obligations

The Group is developing the Sarybulak and Sorkol oil fields in the Kyzylorda region of Kazakhstan under the Exploration Licence.

The subsoil use right is not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant subsoil use agreement or licence. The right might be terminated by the Government of Republic of Kazakhstan if the Group does not satisfy its contractual obligations. Management believes it has substantially complied with all such contractual obligations. Pursuant to the terms of the Exploration Licence and Sarybulak Production Licence the Group has committed itself to the following contractual obligations:

(a) Social and training obligations
In accordance with the subsurface use contract, the Group is obliged to finance certain social infrastructure and training projects annually. The fulfilment of these obligations can be done by cash payments or contributions of similar value. The obligations are defined as 1% of the costs approved by the annual minimum work programme. These projects are aimed at satisfying local community needs and are generally spent for local projects for the population living in the area of exploration activities.

The Group believes that, even though its subsurface use contract specifies a minimal amount that has to be spent for social obligations, the funding of these projects is not substantially different than the funding of other costs of the exploration and production and should therefore be recorded when incurred. The Group believes that social obligations are directly related to the exploration and production activities and these obligations are not substantially different than the obligations for the minimum exploration or the annual work program. This view is supported by the terms of the exploration contract agreements which do not obligate the Group to fund any social obligations beyond the cancellation or termination of the contract. Therefore, no liabilities for social and training obligations in respect to future periods were recognised in these financial statements.

(b) Insurance
In accordance with the Exploration Licence, the Group is obliged to develop a business, property and liability risk insurance programme and submit it for approval to the regulatory authorities in Kazakhstan. Although, the Group insures its business, property and liability risks, no insurance programme has to date been submitted to the regulatory authorities for approval. Management believes that the Group, in all material respects, complies with the current legislation on obligatory insurances.

(c) Liquidation fund
The Group is obliged to establish a liquidation fund to finance the liquidation of the consequences of its oil and gas operations in the amount of 1% of total amount of investments during the period covered by the Exploration Licence. Contributions to the liquidation fund are made to a special deposit account in a commercial bank in the Republic of Kazakhstan.

As at 31 December 2014, the Group held US$196,000 (31 December 2013: US$232,000) in a separate account, which is recorded as restricted cash within other non-current assets (see note 19), for use as per the terms of the Exploration Licence.

The Group is also obliged to obtain Government approval of the programme on liquidation of consequences of its operations under the Exploration Licence, including a budget of liquidation costs, not later than 360 days before the expiration of the Exploration Licence. The Group has recorded a decommissioning provision for certain wells in these financial statements (see also note 26). Upon agreement with the Government, the liquidation fund will be used to finance site restoration commitments.

(d) Environmental monitoring
The Group monitors the condition of its operational environment on a continuous basis and documents its findings in a report that is agreed with the regional department of the Ministry for Environmental Protection of the Republic of Kazakhstan on a quarterly basis. The Group is subject to various environmental laws and regulations of Kazakhstan.

The Group believes that it is in substantial compliance with the commitments set forth in the Exploration Licence. However, such compliance may be questioned by the relevant authorities, whose interpretations may differ significantly from those of the Group.

Capital commitments

As part of planned development of its oil and gas properties as at 31 December 2014, the Group entered into contractual commitments amounting to US$6.0 million (2013: US$21.2 million), mostly for the construction of access roads to and intra-field roads within the KTS oil fields, and construction of field facilities within the Exploration Licence area.

31. RELATED PARTY TRANSACTIONS

The Group and Company has no ultimate controlling party. Equus Petroleum Plc is the Group's ultimate parent undertaking.

Related parties include entities controlled by Directors of Equus Petroleum plc and subsidiaries or associates of the Group.

During 2013 the direct ownership of some of KTS's related party customers and suppliers was changed. Following these changes, despite management's best endeavours, the identity of the ultimate counterparty or beneficiary could not be determined at the time of preparing 2013 annual report. Management completed analysis of changes in ownership of these entities during the course of 2014 and concluded that they remained related to the Group. Comparative figures as at and for the year ended 31 December 2013 were restated accordingly.

Related parties that the Group and Company entered into transactions with during the year include:

RELATED PARTY	NATURE OF OPERATIONS
KMNPZ LLP	*Oil reloading services/purchase of petroleum products*
Syrdaryamunai JSC	Oil field well drilling services
YugNedraService LLP	Oil field well drilling services
Central Asian Transport LLP	Transportation services
Shopan Ata LLP	Catering
Kush Kuat LLP	Purchase of crude oil and petroleum products
Gorizont LLP	Oil & gas support services
Aziash LLP	Oil & gas support services
Bozingen-Zholdary LLP	Field facilities construction and maintenance
Inkarim LLP	Catering
Orsu Metals Corporation	Administrative office costs

Concentration risk: The Group is heavily dependent on its related parties. In particular, Syrdaryamunai JSC, YugNedraService LLP, and Central Asian Transport LLP are the sole providers of the specified services to the Group.

During the year, the Group and Company entered into the following transactions with related parties:

(a) SALE OF GOODS AND SERVICES

	GROUP		COMPANY	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Sale of crude oil	35,226	38,276	-	-
Sale of petroleum products and inventory	6,546	6,540	-	-
	41,772	**44,816**	-	-

(b) PURCHASES OF GOODS AND SERVICES

	GROUP		COMPANY	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Transportation services	17,347	20,898	-	-
Drilling services	29,730	15,161	-	-
Construction of wells infrastructure and supporting facilities	3,658	1,027	-	-
Drilled wells maintenance services	137	1,863	-	-
Purchase of petroleum products and inventory	5,271	6,020	-	-
Road construction and maintenance	3,797	1,057	-	-
Other	1,276	1,568	540	607
	61,216	**47,594**	**540**	**607**

(c) YEAR-END BALANCES ARISING FROM SALES/PURCHASES OF GOODS/SERVICES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
	US$000	**US$000**	**US$000**	**US$000**
Amounts owed by related parties				
Loans to and receivables from related parties	-	-	11,470	18,885
Advances to construction contractors, net of provision for impairment	2,894	9,052	-	-
Other	-	596	-	-
	2,894	**9,648**	**11,470**	**18,885**
Amounts owed to related parties				
Payables for transportation services	3,000	4,842	-	-
Payables for drilling services	22,397	8,265	-	-
Advances received for future crude oil deliveries	2,192	2,548	-	-
Other payables	847	716	266	575
	28,436	**16,371**	**266**	**575**

The amounts outstanding are unsecured and will be settled in cash with the exception of advances received from customers for future crude oil deliveries which will be settled by delivering crude oil. No guarantees have been given or received.

Provision for impairment of trade and other receivables include individually impaired prepayments with a balance of US$4.5 million due from a construction contractor, Aziash LLP (note 22), which is experiencing operating cash flow difficulties.

Company
Loans to related parties include a loan provided to KTS by the Company which is repayable on demand and bears interest at LIBOR plus 7%. KTS has drawn down US$9.5 million at the balance sheet date (31 December 2013: US$16.4 million) and interest of US$0.8 million has accrued in the year (year ended 31 December 2013: US$1.4 million). The remaining balance of US$2.0 million relates to costs incurred by Equus on behalf of its subsidiaries in the normal course of business.

(d) KEY MANAGEMENT COMPENSATION

Key management as defined by IAS 24 "Related Party Disclosures" have been identified as the Board of Directors. Short term employee benefits of US$2.2 million were paid to members of the Board during the year (2013: US$2.3 million).

32. EVENTS AFTER THE BALANCE SHEET DATE

BCC Facility
Subsequent securing Sarybulak Production Licence in December 2014, the Group drew down further US$10 million of the BCC Facility Tranche 2 in March 2015.