Company number: 5966431

Caspian Sunrise plc

Annual report and financial statements

for the year ended

31 December 2017

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Strategic Report

The Directors present their strategic report on the Group for the year ended 31 December 2017.

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

Introduction

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

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

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

Objectives

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

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

Strategy

The Group's long-term strategy is to build an attractive portfolio of oil and gas exploration and production assets in Central Asia, and in particular Kazakhstan where the board has the greatest experience. Additionally, the Group will seek to exploit associated opportunities where the board believes it can add significant value and contribute towards the success of the Group as a whole.

At present the Group's principal asset is its interest in BNG, which the Group will continue to develop. The proposed acquisition of 3A Best Group, as announced on 31 January 2018, for a consideration of $24 million represents our first acquisition since 2008.

Business model

BNG

On 27 October 2017, we announced that the licence at BNG which expires on 30 June 2018, had received approval from the Kazakh authorities for renewal effective 1 July 2018 for an additional six years on an appraisal basis with the opportunity from that date to apply to convert individual structures to full production status at the Company's timing. This is an approach that allows income from oil sales based on world prices for the structures that are clearly commercial, but also provides the ability to develop other structures for an additional six years.

For structures ready to move to full production status, such as the shallow MJF structure, we would expect to be able to double the net income per barrel from sales under a full production licence. For structures not yet ready to move to full production status, such as the deeper structures where we have yet to demonstrate the commerciality of each structure by the operation of several commercial wells, we would be able to continue to explore and test. Otherwise we may have lost these areas had the whole BNG licence moved straightaway to a full production basis.

The first structure to move to full production licence will be the MJF structure. The actual start date for the move to a full production licence will depend on the speed with which the licensing authorities process our application and the speed with which new regulations abolishing "production bonus payments" are enacted by the Kazakh authorities.

The pace at which we plan to drill further production wells on the MJF structure will depend on the Group's finances at that time. However, with each successful well on the MJF structure typically covering its drilling costs within a 90-day period, it is in the Group's interest to infill drill the planned 14 additional wells as soon as practical.

We expect Airshagyl to be the first of the deep structures to move to full production status once we have three deep wells flowing for which we are targeting 2019. The next structure to be moved to a full production licence will be the Yelemes structure, again after at least three deep wells on the structure flow. This is targeted for 2020.

Growth by acquisition

The Group will consider acquiring additional assets where the board believes they would increase shareholder value or provide funding or infrastructure to develop the Group's principal asset BNG. The Directors believe the Group is exceptionally well placed through its local presence to increase shareholder value by opportunistic acquisitions of undervalued oil and gas assets.

3ABest Group

In January 2018, the Company announced the intention to acquire 100 per cent of the shares of 3ABest Group JSC, a company that owns a 1,347 sq km Contract Area located close to the Caspian port city of Aktau in the Mangystau Province of Kazakhstan.

The indicated purchase price is $24 million and would be satisfied by the issue of approximately 148 million new Caspian Sunrise shares at the proposed price of 12p per share. Caspian Sunrise would, by completing the acquisition of 3A Best Group, become responsible for the outstanding work programme commitment represented by the drilling of one well to a depth of 3,000 meters at an estimated cost of up to $2 million. 3A Best Group is owned by members of the existing concert party, including the Company's CEO Kuat Oraziman and the former CFO Kairat Satylganov.

Strategic Report (continued)

The purchase of 3A Best Group is subject to further due diligence, the entering into of a definitive binding agreement, compliance with the AIM Rules for related party transactions, the UK Takeover Code and the approval of the Company's Independent Directors.

Key performance indicators

The Non-Financial Key Performance Indicators are:

- Operational (wells drilled at end of year) 2017: 16 (2016: 13)
- Typical production (oil production at 31 December 2017) 2,208 bopd (2016: 1,300 bopd)
- Reserves (mmbls) at 31 December 2017 P1 17.8 mmbls P2 28.8 mmbls (2016: P1 18.3 mmbls & P2 29.3) mmbls

Following the completion of the Baverstock Merger the Company now owns 99% interests in the BNG and Munaily Contract Areas.

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

The Financial Key Performance Indicators are:

- Revenue: $7.6 million (2016: $1.6 million)
- Cash at bank: $1.5 million (2016: $0.4 million)
- Total assets: $81.7 million (2016: $85.2 million)

Details of these Key Performance Indicators are provided on pages 25 and 29.

Reserves

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

Financial

Cashflow from oil sales from our shallow wells even at domestic prices covers the Group's General & Administrative costs and day to day operational costs at its shallow structures. Under a full production licence based on current world prices we would expect cash generated per barrel to at least double.

Once the three deep wells already drilled start to produce oil, their contributions will assist in funding further shallow and deep wells.

Each shallow well typically costs between $1.5 million and $2.0 million to drill and test and each deep well typically costs approximately $10 million to drill and test. These estimates do not include the costs of additional or remedial work, such as that taking place at the existing three deep wells A5, 801 & A6. Drilling wells at a faster rate than could be funded from oil sales, would require additional funding, as would any acquisitions to be funded by cash.

As the deep wells come into production at BNG there will also be a requirement for investment in additional infrastructure to store, treat and transport the oil. Our current estimate of such costs are approximately $40 million, much of which may be debt financed.

Other than advances provided by local oil traders the Group is essentially debt free.

The principal and other risks and uncertainties facing the business

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

Financing risks

Despite the continued low price of rigs and crew, exploring for oil is still an expensive business.

However, the relatively low value of the Kazakh Tenge compared to the US$ reduces the costs of exploration and production as most staff costs and some equipment costs are denominated in Kazakh Tenge. Even with domestic pricing cash from the sale of oil from our shallow wells comfortably covers the day to day costs of operating the shallow wells and the Group's General & Administrative expenditure. Under world prices, which would apply once the planned production licence application is approved, the Group forecasts indicate sufficient working capital is available to meet expenditures as a whole from production, including completion of its planned drilling program.

In the event that the award of a production licence is delayed, the Group's total cash flow from production is forecast to exceed the cash flows for operating expenditure and drilling over the period as a whole. However, the Group would require additional working capital during the period to meet certain payments under its licences and drilling and well repair expenditures owing to the timing of such payments. The forecasts in this scenario include an anticipated increase in oil trader funding through advances for future production, together with funding from a significant shareholder to meet its working capital requirements. The Group's major shareholder has provided a written undertaking to provide financial support as is required, which the Board are satisfied will be available, given the history of financial support and having considered the shareholder's ability to provide such funding.

Additional funding, if required for new wells, infrastructure and assets to accelerate development, is expected to be available from a number of sources, including debt funding for much of the infrastructure spending, advances from local oil traders from the sale of oil yet to be produced, industry funding in the form of partnerships with larger industry players, further support from existing shareholders and if appropriate equity funding from financial institutions.

Strategic Report (continued)

The Group enters into contracts with oil traders to forward sell its production and receives advances as part of its operating activities. The continued availability of such arrangements are important to working capital and, in the event the Group was unable to continue to access these arrangements additional funding would be required. The risk is considered reduced given the growth in production and oil price environment and is mitigated by maintaining strong relationships with the oil traders.

Refer to note 1.1 for further details on funding and going concern.

Exploration risk

Despite our successes with our shallow wells there is no assurance that the Group's future exploration activities will continue to be successful. In particular the high pressure and high temperature encountered when drilling below the salt layer has proved extremely difficult to control to allow prolonged flow tests to commence.

The Group seeks to reduce this risk by acquiring and evaluating 3D seismic information before committing to drill exploration and appraisal wells. The Company also seeks to engage suitably skilled personnel either as employees or contractors to undertake detailed assessments of the areas under exploration.

Environmental and other regulatory requirements

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

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

The Group employs staff experienced in the requirements of the Kazakh environmental authorities and seeks through their experience to mitigate the risk of non-compliance with accepted best practice. The Group received confirmation from the Kazakh authorities in October 2017 that its licence for BNG would be extended for 6 years effective 1 July 2018, as detailed above. The extension remains subject to agreeing a new work program which has been submitted.

Operational risks

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

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

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

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

Political risk

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

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

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

Pricing risk

With the Group now producing oil its financial performance could be adversely affected by a fall in the price of oil.

World prices have increased in the period under review and subsequently. The bulk of the oil sold is from the BNG Contract Area and under the terms of the current licence must be sold at domestic prices, which in recent months have typically been approaching US$20 per barrel.

Under a full production licence oil sold will be based on world prices, currently in the region of $70 per barrel, and we estimate the net price (after costs of production, treatment, storage & transportation and applicable taxes) would be approximately $40 per barrel.

Strategic Report (continued)

Exchange rate risk

The Group's income is denominated in US$ and its expenditure is denominated in US$ and Kazakh Tenge.

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

However, the Group's presentational currency is the US$ such that the BNG assets recorded in Kazakh Tenge in its subsidiary's accounts are retranslated in to US$ for presentational purposes. Between 1 January 2015, and 31 December 2017 the Kazakh Tenge devalued against the US$ from US$1:KZT181 to US$1:KZT332 resulting in an accounting reduction in the US$ carrying value of our unproven oil and gas assets. The US$69.7million carrying value at 2017 would have been approximately US$128 million in the absence of such a devaluation.

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

Chairman's Statement

Introduction

In the year under review we reported progress in a number of areas. However, to date in 2018 progress has been slower than expected.

On 1 June 2017, we completed the long-heralded merger with Baverstock resulting in the ownership of our flagship BNG asset increasing from 58.41% to 99.0%. We also changed the name of the Company from Roxi Petroleum PLC to Caspian Sunrise PLC.

In October 2017, we announced that we have successfully extended our licence at BNG with effect from the planned renewal on 1 July 2018 to allow both continued appraisal for up to 6 years across the Contract Area and the move on a structure by structure basis from appraisal status to full production licence, which would currently result in a doubling of the price received for oil produced from such structures.

Operationally we drilled 3 shallow wells at the MJF structure (144,145 &146) a further well on a possible new structure (808), re-entered another shallow well and got our first deep well A5 to flow long enough to start a 90-day flow test, in November 2017.

Disappointingly, weather delays and repeated equipment failures have limited progress in bringing our three deep wells into continuous production to date in 2018.

A review of 2017

Baverstock merger

The major non-operational success of the past few years was in June 2017, with the completion of the merger with Swiss registered Baverstock GmbH (the "Baverstock Merger").

Before the merger we owned 58.41% of the BNG and Munaily assets, which were acquired as part of the 2008 acquisition of Eragon Petroleum Limited (the "Eragon Acquisition"). The remaining 41.59% was owned by four parties including Kuat Oraziman, our CEO.

Under the terms of the Eragon Acquisition we were required to fund the first $100 million of the work programme costs for the Eragon Assets (BNG, Galaz and Munaily) acquired under the Eragon Acquisition. We reached this $100 million (based on historic exchange rates prior to devaluation) level in Q1 2015, from which date we had an obligation to fund 58.41% of further work programme costs with Baverstock, the owner of the remaining interest in Eragon, having the obligation to fund the 41.59% balance.

As a company with shares quoted on AIM we had a far greater ability to meet these commitments than did Baverstock, which comprises four separate quota-holders.

The disposal of Galaz & Company LLP for a headline price of $100 million in 2015 provided approximately $34 million of funding for Caspian Sunrise and Baverstock, as we were both proportionally invested in Galaz & Company LLP. However, once the net proceeds of sale had been fully utilised there was the risk that the pace of the development of BNG could be constrained by the ability of Baverstock to fund its share.

A goal of the merger was to break down the dominant Baverstock shareholding into its four constituent parts. Kuat Oraziman and Dosbol Zholdybayev have already extracted their shares from Baverstock, whose interest in Caspian Sunrise is now limited to only the shares owned by Dae Han New Pharma Limited and Cody Star, two South Korean entities.

Licence renewal

In October 2017, we announced the early renewal of the licence for the BNG Contract Area which expires at the end of June 2018.

The existing licence is a two-year appraisal licence during which we must adhere to agreed work programme activities and any oil produced from testing is treated as incidental to our main purpose of appraisal with the oil being sold at domestic prices, which have ranged between $16 and $20 per barrel during the period under review.

Had we moved the whole Contract Area to a full production licence from July 2018, we would have lost the ability for further appraisal activities on a large part of the BNG Contract Area, particularly on some of our unexplored deep prospects. This flows from the requirement to have explored an area before being able to produce from it under a full production licence.

The terms of the licence from July 2018, subject to agreeing a work program with the Kazakh authorities, will be as a six-year continuation of the current appraisal licence across the full area of the BNG Contract Area. Additionally, we will be able to move structure by structure to a 25 year full production licence, where the majority of oil sold is by reference to world prices.

After deductions for tax, storage treatment and transport the net price expected under a full production licence is currently expected to be some $40 per barrel.

Operational activity

During 2017 we drilled three shallow wells on the MJF structure (144, 145 & 146) and re-entered Soviet-era Shallow Well 54 on the original South Yelemes structure.

We also worked extensively on our existing deep wells (A5, 801 & A6) to achieve continuous flow rates to facilitate testing and reserve estimation.

Chairman's Statement (continued)

Shallow fields

The MJF structure was discovered in 2013 with the drilling of well 143 at the centre of the structure and extends to an area in excess of 10 sq km (approximately seven times greater than Hyde Park in London).

The first three wells at the MJF structure were drilled between 2013 and 2016 comprising Wells 141, 142 and 143.

Well 144 was drilled to a depth of 2,500 meters. The well has tested without artificial stimulation at a typical flow rate of approximately 700 bopd using a 7mm choke and with a peak flow rate of 899 bopd.

Well 145 was also drilled to a depth of 2,750 meters. The well has tested without artificial stimulation at a typical flow rate of 327 bopd with a peak rate of 396 bopd.

Wells 142 and 146 have been more difficult to produce from without the introduction of artificial stimulation. This stems from the high levels of water in the well and signify these wells to be at the outer limits of the MJF structure.

It is not yet clear whether well 146 will be capable of production.

Well 142 was drilled to a depth of 2,500 meters and appears to have a base level of production of approximately 150 bopd and the possibility of producing up to 300 bopd. If production at Well 146 is possible we believe it would be at levels between 150 and 300 bopd.

In aggregate the production expected from the six wells drilled on the MJF structure to date is, on a risked basis, in the region of 2,300 bopd.

At Well 54 on the South Yelemes structure we re-entered the well and tested an interval between 1,961 and 1,971 meters with a view to establish whether horizontal drilling at this depth across the south Yelemes structure was worthwhile. Based on the results found we do believe such drilling would likely be commercial and we intend in due course to undertake at least one horizontal drill.

Deep Wells

A5

Deep Well A5 was the first of the deep wells to be drilled and like deep Well A6 has been drilled on the Airshagyl structure.

The well was drilled in 2013 to a depth of 4,432 meters but following issues in drilling was completed on an open-hole basis and suffered from being blocked with excess drilling fluid and debris from the reservoir flowing back into the under the high pressures encountered.

After a number of attempts to get the well to flow we decided to rectify the blockage issue with a side tracked drilled from 4,082 meters at an angle of 15 degrees.

We announced in October 2017 that the well had flowed at the rate of 3,500 bopd and that we would move to the formal 90-day flow test to provide information for reserve quantification purposes.

In the 15 days leading up to the formal flow test the well flowed at some 3,800 bopd using a 10 mm choke. The formal flow test commenced in November 2017 but on 14 December 2017 we announced that the well had become partially blocked and that after we reduced the choke size to 4mm, the flowed rate declined to some 1,000 bopd.

As the purpose of the formal flow 90-day test was to maximise reserves we decided to pause the test and clear out the well.

Weather delays in January and February and repeated coil tubing equipment failures resulted in slow process to date in 2018. We have lost faith in the capacity of coil tubing to resolve the issue at Deep Well A5 and have mobilised a rig to pull out the string of drill pipes. This is a more expensive although more certain method of removing the blockage, but one that would have been difficult to carry out in the extreme weather in January and February.

Pressure in the well remains high at 300 bar at the wellhead, which suggests there is still good communication throughout the length of the well.

801

Deep Well 801 was drilled in 2014 / 15 on the Yelemes structure. The well was drilled to a depth of 5,050 meters and as with Deep Well A5 proved difficult to drill for reasons of high pressure and temperature under the salt layer. A 80-meter section of pipe became stuck at depth of 4,700 meters which despite a number of attempts to extract it, remains in the well.

Following the success of the side-track on Deep Well A5 we decided to use the same technique on Deep Well 801 and drill a 450 meter side-track from a depth of 4,501 meters.

After weather delays in January and February work commenced on the side track. At the date of this report we have completed 132 meters of the planned 450 meter side track but expect to increase significantly the pace of drilling so that total depth should be reached in Q2 2018, following which this well would be placed on a formal 90-day flow test.

Chairman's Statement (continued)

A6

Deep Well A6 was drilled on the Airshagyl structure in 2015. The well was drilled to a depth of 4,516 meters but given the experience gained in drilling the earlier deep wells, the drilling phase proved easier although we encountered issues when drilling through the salt layer.

We have twice attempted without success to perforate up to a 60-meter section of the 100-meter oil bearing interval, using different contractors on each occasion.

After further investigation, it appears that both attempts by separate contractors to perforate the well's casing failed completely and that there has to date been no penetration of the casing to allow oil to flow. The issue being the extreme pressure in the well and the reservoir and the consequent need for very powerful explosives.

We now plan to engage a specialist contractor to re-perforate the interval of interest but need to use drill pipes currently in use at Deep Well 801.

Our Assets

BNG

BNG is by far the most important of our assets. The BNG Contract Area is located in the west of Kazakhstan 40 kilometres southeast of Tengiz on the edge of the Mangistau Oblast, covering an area of 1,487 square kilometers of which 1,376 square kilometres has 3D seismic coverage acquired in 2009 and 2010.

In January 2016, we announced that the area of the Contract Area was extended at a cost of US$2 million with the addition of 140.6 square kilometres to the northeast of the current block. The extended BNG Contract Area now covers 1,702 square kilometres. There have also been areas relinquished to the State totalling 215 square kilometres on which we do not believe there are likely to be any discoveries of oil.

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

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

Munaily

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

An agreement with a Chinese company to re-enter up to 24 wells drilled during Soviet times with the Chinese company bearing the drilling costs and any incremental production being split between us on a 50:50 basis has not proved successful.

We are not currently producing from Munaily and are looking for a buyer for the Munaily Contract Area.

Beibars

In 2007, Caspian acquired a 50 per cent interest in Beibars Munai LLP, which operates the 167 square kilometre Beibars Contract Area on the Caspian shoreline south of the city of Aktau. While acquiring 3D seismic in 2008, the licence was put under Force Majeure when the acreage was allocated as a military exercise area (Polygon), by the Ministry of Defence.

We are in the process of formally relinquishing any interest in this asset.

Our Assets

Asset	As at 31 December 2017	As at 31 December 2016
	%	%
BNG	99.00	58.41
Munaily	99.00	58.41
Beibars	0.00	50.00

Our wells

	As at 31 December 2017	As at 31 December 2016
BNG	15	12
Munaily	1	1
Beibars	N/A	Nil
Total	16	13

Reserves and Resources

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

Chairman's Statement (continued)

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

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

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

	As at 31 December 2017	As at 31 December 2016
BNG	(99.0%)	(58.4%)
Shallow (P1 mmbls)	17.8	18.3
Shallow (P2 mmbls)	28.8	29.3
Deep (P1 mmbls)	0.0	0.0
Deep (P2 mmbls)	0.0	0.0
Munaily (P1 mmbls)	1.2	1.2
Beibars	N/A	Nil

The above is based on 100% of each Contract Area.

Operator status

BNG Ltd LLP, of which Caspian Sunrise now owns 99%, has been the operator at BNG since 2011.

Funding

The Group has seen production increase at BNG which has funded continued drilling in 2017 and operating costs.

Even at domestic prices the cash generated from oil sales from our shallow wells covers the Group’s General & Administrative costs and the drilling costs of two shallow wells at between $1.5 - $2.0 million each. Once the MJF structure moves to a full production licence that income should be doubled for each barrel of oil produced and production cash flows are forecast to meet the Group’s cash flow requirements.

In the event that the planned move to full production licence is delayed, additional funding as required due to the timing of drilling compared to production cash generation and to meet payment obligations under the licences, is expected to be provided through advances from oil traders for future production and through shareholder support.

The Group’s major shareholder has provided a written undertaking to provide financial support as is required.

Additional funding, if required, for new wells, infrastructure and assets to accelerate development over and above the level included in the forecasts, is expected to be available from a number of sources, including debt funding for much of the infrastructure spending, advances from local oil traders from the sale of oil yet to be produced, industry funding in the form of partnerships with larger industry players, further support from existing shareholders and if appropriate, equity funding from financial institutions.

The cost for each deep well is typically between $10 - $12 million for the basic drilling. Once the three deep wells already drilled start to produce oil their contributions will assist in funding further deep wells.

Drilling shallow and deep wells, at a faster rate than could be funded from oil sales from the existing shallow well production or deep wells, would require additional funding, as would any acquisitions funded by cash.

As the deep wells come into production at BNG there will be a requirement for investment in additional infrastructure to store, treat and transport the oil. Our current estimate of such costs are approximately $40 million, much of which could be debt financed.

The capitalisation of the US$10.1 million Vertom loan at the time of the Baverstock Merger, left the Group virtually free of external debt with only short-term financing from local oil traders.

Dividends

No dividend has been declared for 2017. It remains an objective to commence paying dividends as soon as the Company’s finances permit.

Financial statements

The Group incurred capitalised exploration costs of US$9.2 million in the year (2016: US$10.5 million), principally related to the drilling programme at BNG. The margin from test production at BNG is deducted against the capitalised exploration costs and totalled US$7.5 million (2016: US$1 million). Total assets fell by US$3.5million to US$81.7 million with cash balances increasing to US$1.5 million (2016: US$0.4 million).

In June 2017, the Group completed its merger with Baverstock in which the Group issued 651,436,544 Ordinary Shares with a market value of US$81.5 million to acquire and relinquished receivables of US$6.5 million as consideration for the acquisition of the remaining 41% of Eragon Petroleum Limited. As a result of the transaction, the Group increased its controlling interest in BNG from 58.41% to 99%. As a result of the transaction, the Group recorded the difference between the net book value of the previous non-controlling interest of US$6.6 million and the fair value of consideration paid of US$88.4 million as a reduction in retained earnings under IFRS.

Chairman's Statement (continued)

During the year we capitalised a $10.1 million loan from Vertom, a company owned by our CEO Kuat Oraziman.

The Group generated revenue of US$7.6 million (2016: US$1.6 million) reflecting increased production and average realised oil prices. General and Administrative costs fell to US$2.9 million (2016: US$3.1 million). Finance costs reduced from US$0.8 million to US$0.2 million following the conversion of the Vertom loan to equity and settlement of other borrowings in 2016.

The Group generated a loss for the year of US$4.7 million (2016: US$5.4 million). The Group generated net cash flows from operating activities of US$8.0 million and incurred cash outflows from investing activities of US$8.3 million related mainly to activity at the BNG asset. During the period the Group received US$8.2 million in funding from a related party company controlled by Kuat Oraziman and repaid US$7.0 million to Kuat Oraziman in settlement of the loan.

Tenge Depreciation

Since 2014 the Kazakh Tenge has depreciated against the US$, the presentational accounting currency of the Group, from US$1:KZT181 to US$1:KZT332, although in the period under review and subsequently it has been relatively stable. Commercially this is very much to the Group's advantage as all income and the value of our reserves are denominated in US$ and only costs are denominated in Tenge.

However, as for previous years, the international accounting standards require that we translate assets, liabilities and results of our Kazakh subsidiaries, which have a Tenge functional currency, into US$. Accordingly, the valuation of the Group's assets of US$69.7 million is stated after currency related provisions on retranslation.

Impairment assessment

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

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

Going Concern

Refer to note 1 of the financial statements.

Board composition and responsibilities

At the end of February 2018, after five years' service, Kairat Satylganov, the CFO and one of our principal shareholders left the board to focus on his other projects. We thank him for his invaluable contribution during a period when the fortunes of the Company were transformed by drilling activity at BNG, much of which funded by his investment in the Company.

The senior management team now comprises:

- Kuat Oraziman, CEO, who has overall responsibility for managing the Group's affairs in Kazakhstan;
- Clive Carver, Executive Chairman and interim CFO, who is responsible for the Group's finances and its activities in the UK, including the activities arising from Caspian Sunrise being a publicly listed company. They are supported by a team of experienced professionals based in our Almaty office; and
- Edmund Limerick, who is the Group's senior non-executive Director, and chairman of the Audit and Remuneration committees.

Staffing

We have 95 employees based in Kazakhstan, the vast majority of whom are all of Kazakh nationals, who we thank once again for their continued hard work and commitment.

Shareholders

We thank shareholders for their continued support.

We recognise that we have not delivered the operational success at our deep wells at BNG at the pace hoped for. Nevertheless, we continue to believe in the merits of the BNG Contract Area's shallow and deep structures. Additionally, we are taking the first steps to take advantage of the relatively limited competition to acquire further Kazakh assets.

Social Programmes

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

Environmental

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

Chairman's Statement (continued)

Current trading

Cash from the pre-sale of oil to local oil traders from the production of oil from our shallow wells continues to fund the Group's General & Administrative costs and the day-to-day costs of operations at our shallow structures.

We remain focused on bringing the three deep wells drilled into production. This will significantly add to income and in due course to reserves.

Prospects

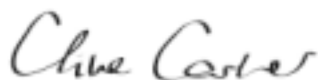
Oil prices grew steadily during the period under review and have held up since. With much of our drilling costs payable in Kazakh Tenge and the market for rigs still depressed, the climate for continued exploration remains positive.

The cashflow from existing production from our shallow structures is set to double once these structures have been moved onto a full production basis.

Additionally, we will look to add significantly to the production from the MJF field by way of an extensive drilling programme over the next 24 months, subject to funding.

With the proposed acquisition of 3ABest Group we are taking the first steps since 2008 in building a diverse portfolio of attractive Kazakh assets.

We look forward to the future with confidence.



Clive Carver

Chairman
11 May 2018

Qualified Person & Glossary

Qualified person

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

Glossary

SPE – The Society of Petroleum Engineers
Bopd - barrels of oil per day.
Mmbs – million barrels.

Proven reserves

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

Probable reserves

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

Possible reserves

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

Contingent resources

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

Prospective resources

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

Directors' report

The Directors present their annual report on the operations of the Company and the Group, together with the audited financial statements for the year ended 31 December 2017. The Strategic report forms part of the business review for this year.

Results and dividends

The consolidated statement of profit or loss is set out on page 25 and shows US$4.7 million loss for the year (2016: US$5.4 million). The Directors do not recommend the payment of a dividend (2016: US$ nil). The position and performance of the Group is discussed below and further details are given in the business review.

Events after the reporting period

Other than as disclosed in this annual report, including notes to the financial statements, there have been no material events between 31 December 2017 and the date of this report, which are required to be brought to the attention of shareholders.

Employees

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

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

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

Health, safety and environment

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

Charitable and Political donations

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

Directors and Directors' interests

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

Clive Carver

Kuat Oraziman

Kairat Satylganov (resigned February 2018)

Edmund Limerick

Directors' interests

	Number of shares	Number of shares
Director	**As at 31 December 2017**	**As at December 2016**
Clive Carver	nil	nil
Kuat Oraziman*	37,285,330	374,408,033
Kairat Satylganov	175,682,697	205,428,656
Edmund Limerick**	2,235,000	2,235,000

** Following the completion of the merger in June 2017 between Company and Baverstock and the associated conversion of $10.1 million debt to equity at a price of 10p per share, Kuat Oraziman was interested in 763,706,614 shares representing 45.74 per cent of the total issued share capital of the Company.*

On 10 November 2017, it was announced that Kuat Oraziman had agreed to gift the majority of his Caspian Sunrise shares to his two adult children, who, following the gifts, are interested in 354,210,642 of the Company (each). Mr Oraziman also agreed to gift 18 million shares to an unrelated individual.

Taken together Mr Oraziman and his adult children hold 745,706,614 shares

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

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

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

Directors' report (continued)

Financial instruments

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

Statement of disclosure of information to auditors

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

Auditors

BDO LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

Directors' responsibilities

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

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

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

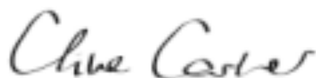
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006.

They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

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



Clive Carver

Chairman
11 May 2018

Remuneration Committee Report

Remuneration Committee

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

Remuneration policy

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

Service contracts

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

Executive	Date of service agreement/ appointment letter	Date of last renewal of appointment
Clive Carver	1 June 2012	1 March 2018
Kuat Oraziman	1 April 2007	1 June 2012
Kairat Satylganov	11 February 2013	Resigned as the Board member on February 28, 2018
Non-Executive		
Edmund Limerick	1 February 2010	1 February 2010

Basic salary and benefits

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

Directors		2017 Salary/fees US$	2017 Share options US$	2017 Total US$	2016 Total US$
Clive Carver	Executive Chairman	240,000	102,330	342,330	376,441
Kuat Oraziman	CEO	122,730	102,330	225,060	258,823
Kairat Satylganov	CFO	122,730	102,330	225,060	258,823
Edmund Limerick	Non-Executive	38,667	25,583	64,250	74,466
Total		**524,127**	**332,573**	**856,700**	**968,553**

Share option amounts refer to the IFRS 2 accounting charge.

There were no company pension contributions in respect of any director

Bonus schemes

All Executive Directors are eligible for consideration of participation in the Company bonus scheme. However, as in previous years no bonuses are payable in respect of the year ended 31 December 2017 (2016: nil).

Remuneration Committee Report (continued)

Share options

The current interests as at approval of accounts of the current Directors and as at 31 December 2017 in share options agreements are as follows:

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

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

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

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

The following Directors options have been expired during 2017

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

The following Directors options have been expired during 2018 before the approval of accounts

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

On behalf of the Directors of Caspian Sunrise plc

Edmund Limerick

Chairman of Remuneration Committee
11 May 2018

Report on Corporate Governance

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

During the period under review the Company had one Non-Executive Director and three Executive Directors as follows:

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

Following the resignation of Kairat Satylganov on 28 February 2018, the Company currently has one Non-Executive Director and two Executive Directors. The Company intends to appoint at least one new Non-Executive Director.

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

Apart from these formal board meetings, which have taken place in the year, additional meetings and calls are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resource and environmental management. Such additional informal discussions form an integral part of retaining full and effective control over the Company and continued through the year.

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

From 28 September 2018, all AIM companies must adopt a recognised code of corporate governance and include it on their website with details of how the Company complies with that code and, where it departs from it, an explanation for the reasons for doing so.

The Company intends to adopt the corporate governance code of the Quoted Companies Alliance ("QCA") once revised and will on or before 28 September 2018, post details of its compliance and non-compliance to its website.

Board meetings

The Board met 4 times and 7 times during 2017 and 2016 respectively, with the following attendance:

	2017	2016
C Carver	4	7
E Limerick	4	7
K Oraziman	4	5
K Satylganov	3	4

The Board has established the following committees:

Audit & Risk Committee

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

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

Remuneration Committee

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

Rule 21

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

Report on Corporate Governance (continued)

Internal controls

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

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

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

Bribery and corruption

The Bribery Act 2010 came into force on 1 July 2011. The Company is committed to acting ethically, fairly and with integrity in all its endeavours and compliance with legislation is monitored. The principal terms of the Bribery Act have been translated into Russian and circulated to our Kazakh based staff. Consideration of the Bribery Act is a standing item at Company board meetings.

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

Opinion

We have audited the financial statements of Caspian Sunrise Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the parent company statement of changes in equity, the consolidated statement of financial position, the parent company statement of financial position, the consolidated and parent company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the parent company and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter that a material uncertainty existed over going concern that required disclosure
The Board is required to make an assessment of the group's and the parent company's ability to continue as a going concern for at least 12 months from the date the financial statements are approved. Where a material uncertainty exists in respect of the going concern assessment, the Board is required to disclose those matters. The Board have reviewed cash flow forecasts prepared by management for the period to June 2019 which indicated that the group would have sufficient funding to meet its liabilities as they fell due as detailed in note 1.1. This assessment included estimates and judgments regarding assumptions over future production, oil prices, costs, licence and drilling expenditure. The Board exercised judgment regarding the Group's ability to obtain a full production licence during the period and commence sales at world oil prices. Further, the Board exercised judgment regarding the availability of funding from oil traders and the extent to which funding requirements would be met by the group's largest shareholder as required in the event of delays in obtaining or failure to obtain a full production licence.

How the matter was addressed in our audit
• We obtained management's cash flow forecasts and critically assessed the key inputs including oil prices, production levels, operating costs and planned drilling, licence and exploration expenditure. We assessed the inputs against recent empirical data, work programs, licence obligations and considered forecast oil market trends. • We considered the appropriateness of the Board's judgment regarding the availability of oil trader funding through the forecast period. In doing so, we considered factors such as the production profile, oil price trends, the terms of the arrangements and the history of transactions with the oil traders. • We confirmed that the Group has the right to apply for a production licence and assessed its impact on production cash flows. • We assessed the level of funding required from the group's largest shareholder under reasonable sensitivity scenarios, including a delay to the planned full production licence. • We obtained a written undertaking to provide financial support by the group's largest shareholder. We considered the appropriateness of the Board's judgment that such financial support would be available as required based on factors such as the past history of such financial support being provided by the shareholder and the potential sources of such funding amongst other factors. • We assessed the disclosures included in the financial statements at note 1.1.
Our observations Refer to 'Our conclusions relating to going concern' above. We found the disclosures in note 1 to be appropriate.

Key audit matter that the carrying value of the unproven oil and gas assets require impairment
As at 31 December 2017, the group's unproven oil and gas assets related to the BNG Contract area cost pool were carried at US$69.7m as shown in note 11. At each reporting period end, management are required to assess the unproven oil and gas assets for indicators of impairment and, where such indicators exist, perform an impairment test. In performing the impairment indicator review, management are required to make a number of estimates and judgements. In particular, the assessment involves consideration of the standing of the exploration licence and remaining term, the future planned exploration activity and results of activity to date. Following their assessment management concluded that no indicators of impairment existed in respect of the BNG cost pool. In forming their conclusion, management particularly considered the potential impact of the outstanding obligations under the licence detailed in note 20 and concluded that they had a reasonable expectation that the existing licence would be extended effective July 2018 in line with the agreement reached with the Kazakh authorities in October 2017. Given the judgment and estimation required by management in assessing potential impairment indicators, we considered this area to be a key focus for our audit.
How the matter was addressed in our audit
• We reviewed the existing licence to confirm that the group holds a valid right to explore the BNG Contract area and reviewed correspondence with the Ministry of Energy of Kazakhstan to confirm that the group had been granted an extension to its exploration licence for a period of 6 years effective 1 July 2018. • We reviewed Board minutes, made specific inquiries of management and reviewed budgets and work programs submitted to the Kazakh authorities to confirm that further drilling and exploration is planned for the asset. • We reviewed the conditions of the licence and obtained reports submitted to the Kazakh authorities in respect of exploration expenditure to assess the compliance with the licence term. We specifically considered management's judgment that the unfulfilled licence conditions set out in note 20 would not reasonably be expected to result in a loss of the licence. In doing so, we confirmed that necessary payments were included in the group's cash flow forecasts and considered factors including the history of expenditure and the recent extension to the licence. • We reviewed the 2015 independent reserves statement prepared by Gaffney, Cline & Associates ("GCA") for the shallow reservoir structures and the current financial model used by the group in its impairment indicator review. We compared key inputs to the financial model to recent oil prices realised by the group and the GCA report. We considered the additional value associated with the deep reservoir structures and 3P reserves and prospective oil and gas resources not included in financial model. • We considered the implied valuation of the BNG Contract area based on the market value of the shares issued by the group to acquire a further 40.59% interest in the asset and considered the group's market capitalisation which demonstrates a significant premium to its net asset value. • We assessed the independence and competence of GCA as a management expert. • We assessed the disclosures included in the financial statements at note 1.8.
Our observations We found management's conclusion that no impairment exists on the BNG unproven oil and gas asset to be appropriate. We found the judgments made by management to be appropriately considered and the disclosures in the notes to be sufficient.

Our application of materiality

Group materiality as at 31 December 2017	Basis for materiality
US$1,230,000	1.5% of total assets

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the group financial statements as a whole was set at $1,230,000, being 1.5% of total assets (2016: $1,255,000). We consider total assets to be the most relevant consideration of the group's financial performance as the group continues to focus on oil and gas exploration. Materiality for the parent company financial statements was set at $1,088,000, being 1.5% of total assets (2016: $1,230,000).

In performing the audit we applied a lower level of performance materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds financial statement materiality. Each significant component of the Group including the parent company was audited using a lower level of performance materiality ranging from $820,000 to $1,032,000 (2016: $810,000 to $1,080,000).

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of $65,000 (2016: $63,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment and assessing the risks of material misstatement in the financial statements at the group level.

The Group's operations principally comprise exploration & development of oil and gas assets located in Kazakhstan. We assessed there to be 2 significant components comprising BNG and the parent company.

These locations, which were subject to full scope audit procedures represent the principal business units.

A non-BDO member firm performed a full scope audit of BNG in Kazakhstan, under our direction and supervision as group auditors under ISA 600. The audit of the parent company and the group consolidation were performed in the United Kingdom by BDO LLP.

As part of our audit strategy, as group auditors:

- Detailed group reporting instructions were sent to the component auditor, which included the significant areas to be covered by the audit (including areas that were considered to be key audit matters as detailed above).
- We performed a review of the component audit files in Kazakhstan and held meetings with the component audit team during the planning and completion phases of their audit.
- The group audit team was actively involved in the direction of the audits performed by the component auditors, along with the consideration of findings and determination of conclusions drawn. We performed our own additional procedures in respect of the significant risk areas that represented Key Audit Matters in addition to the procedures performed by the component auditor.

The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures to confirm there are no significant risks of material misstatements within these components.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ryan Ferguson (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London,
United Kingdom

11 May 2018

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

Consolidated Statement of Profit or Loss

	Notes	Year to 31 December 2017 US$'000	Year to 31 December 2016 US$'000
Revenue		**7,575**	1,571
Cost of sales		**(7,550)**	(1,589)
Gross (loss)/profit		**25**	(18)
Share-based payments		**(476)**	(555)
Other administrative costs		**(2,925)**	(3,085)
Total administrative expenses		**(3,401)**	(3,640)
Operating loss	4	**(3,376)**	(3,658)
Finance cost	7	**(167)**	(826)
Finance income	8	**194**	235
Loss before taxation		**(3,349)**	(4,249)
Tax charge	9	**(1,345)**	(1,124)
Loss after taxation		**(4,694)**	(5,373)
Loss attributable to owners of the parent		**(3,928)**	(3,582)
Loss attributable to non-controlling interest		**(766)**	(1,791)
Loss for the year		**(4,694)**	(5,373)
Basic loss per ordinary share (US cents)	10	**(0.29)**	(0.38)
Diluted loss per ordinary share (US cents)	10	**(0.29)**	(0.38)

The notes on pages 32 to 56 are essential part of these financial statements

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2017	Year ended 31 December 2016
	US$000	US$000
Loss after taxation	**(4,694)**	**(5,373)**
Other comprehensive income:		
Exchange differences on translating foreign operations	72	2,311
Total comprehensive loss for the year	**(4,622)**	**(3,062)**
Total comprehensive loss attributable to:		
Owners of parent	**(3,922)**	**(2,055)**
Non-controlling interest	**(700)**	**(1,007)**

The notes on pages 32 to 56 are essential part of these financial statements

Consolidated Statement of Changes in Equity

	Share capital US$'000	Share premium US$'000	Deferred shares US$'000	Cumulative translation reserve US$'000	Other reserves US$'000	Retained deficit US$'000	Total attributable to the owner of the Parent US$'000	Non-controlling interests US$'000	Total equity US$'000
Total equity as at 1 January 2017	**16,000**	**146,728**	**64,702**	**(55,006)**	**(583)**	**(127,343)**	**44,498**	**2,617**	**47,115**
Loss after taxation	-	-	-	-	-	(3,928)	(3,928)	(766)	(4,694)
Exchange differences on translating foreign operations	-	-	-	6	-	-	6	66	72
Total comprehensive income/(loss) for the year	**-**	**-**	**-**	**6**	**-**	**(3,928)**	**(3,922)**	**(700)**	**(4,622)**
Purchase of non-controlling interest in subsidiary	8,364	73,183	-	-	-	(81,861)	(314)	(6,571)	(6,885)
Arising on employee share options	-	-	-	-		476	476	-	476
Lapsed warrants	-	-	-	-	(1,779)	1,779	-	-	-
Debts converted to equity	1,037	9,063	-	-	-	-	10,100	-	10,100
Total equity as at 31 December 2017	**25,401**	**228,974**	**64,702**	**(55,000)**	**(2,362)**	**(210,877)**	**50,838**	**(4,654)**	**46,184**

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

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

The notes on pages 32 to 56 are essential part of these financial statements

Parent Company Statement of Changes in Equity

	Share capital US$'000	Share premium US$'000	Deferred shares US$'000	Other reserves US$'000	Retained deficit US$'000	Total attributable to the owner of the Parent US$'000
Total equity as at 1 January 2017	**16,000**	**146,728**	**64,702**	**16,715**	**(143,775)**	**100,370**
Total comprehensive loss for the year	-	-	-	-	(2,553)	(2,553)
Purchase of non-controlling interest in subsidiary	8,364	73,183	-	-	-	81,547
Arising on employee share options	-	-	-	-	476	476
Forfeited warrants	-	-	-	(1,779)	1,779	-
Debts converted to equity	1,037	9,063	-	-	-	10,100
Total equity as at 31 December 2017	**25,401**	**228,974**	**64,702**	**14,936**	**(144,073)**	**189,940**

	Share capital US$'000	Share premium US$'000	Deferred shares US$'000	Other reserves US$'000	Retained deficit US$'000	Total attributable to the owner of the Parent US$'000
Total equity as at 1 January 2016	**15,979**	**146,664**	**64,702**	**16,715**	**(134,439)**	**109,621**
Total comprehensive loss for the year	-	-	-	-	(9,891)	(9,891)
Arising on employee share options	-	-	-	-	555	555
Stock options exercised	21	64	-	-	-	85
Total equity as at 31 December 2016	**16,000**	**146,728**	**64,702**	**16,715**	**(143,775)**	**100,370**

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

The notes on pages 32 to 56 are essential part of these financial statements

Consolidated Statement of Financial Position

Company number 5966431	Notes	**Group 2017 US$'000**	Group 2016 US$'000
Assets			
Non-current assets			
Unproven oil and gas assets	11	**69,701**	68,086
Property, plant and equipment	12	**165**	223
Inventories	14	**21**	10
Other receivables	15	**9,255**	7,738
Restricted use cash		**263**	283
Total non-current assets		**79,405**	76,340
Current assets			
Other receivables	15	**832**	8,490
Cash and cash equivalents	16	**1,479**	405
Total current assets		**2,311**	8,895
Total assets		**81,716**	85,235
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital	17	**25,401**	16,000
Share premium		**228,974**	146,728
Deferred shares	17	**64,702**	64,702
Other reserves		**(2,362)**	(583)
Retained deficit		**(210,877)**	(127,343)
Cumulative translation reserve		**(55,000)**	(55,006)
Equity attributable to the owners of the Parent		**50,838**	44,498
Non-controlling interests		**(4,654)**	2,617
Total equity		**46,184**	47,115
Current liabilities			
Trade and other payables	18	**9,538**	5,643
Short - term borrowings	19	**2,132**	809
Current provisions	20	**4,399**	3,692
Total current liabilities		**16,069**	10,144
Non-current liabilities			
Borrowings	21	**-**	9,935
Deferred tax liabilities	22	**7,784**	7,748
Non-current provisions	20	**721**	679
Other payables	18	**10,958**	9,614
Total non-current liabilities		**19,463**	27,976
Total liabilities		**35,532**	38,120
Total equity and liabilities		**81,716**	85,235

Approved by the Board and authorized for issue:

Clive Carver,

Chairman,
11 May 2018

Company number: 5966431

The notes on pages 32 to 56 are essential part of these financial statements

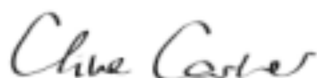
Parent Company Statement of Financial Position

Company number 5966431	Notes	Company 2017 US$'000	Company 2016 US$'000
Assets			
Non-current assets			
Investments in subsidiaries	13	**211,658**	126,342
Other receivables	15	**2,944**	2,728
Total non-current assets		**214,602**	129,070
Current assets			
Other receivables	15	**5**	3,204
Cash and cash equivalents	16	**17**	10
Total current assets		**22**	3,214
Total assets		**214,624**	132,284
Equity and liabilities Capital and reserves attributable to equity holders of the parent			
Share capital	17	**25,401**	16,000
Share premium		**228,974**	146,728
Deferred shares	17	**64,702**	64,702
Other reserves		**14,936**	16,715
Retained deficit		**(144,073)**	(143,775)
Equity attributable to the owners of the Parent		**189,940**	100,370
Total equity		**189,940**	100,370
Current liabilities			
Trade and other payables*	18	**8,626**	7,076
Total current liabilities		**8,626**	7,076
Non-current liabilities			
Borrowings	21	**-**	9,935
Other payables*	18	**16,058**	14,903
Total non-current liabilities		**16,058**	24,838
Total liabilities		**24,684**	31,914
Total equity and liabilities		**214,624**	132,284

The Company incurred a loss for the year ended 31 December 2017 in the amount of US$ 2,553,000 (2016: US$ 9,891,000).

* Refer to note 18 in respect of the reclassification.

Approved by the Board and authorized for issue:



Clive Carver,

Chairman,
11 May 2018

Company number: 5966431

The notes on pages 32 to 56 are essential part of these financial statements

Consolidated and Parent Company Statements of Cash Flows

	Notes	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Cash flows from operating activities					
Cash received from customers		**10,928**	3,823	**-**	-
Payments made to suppliers for goods and services		**(1,319)**	(2,256)	**(872)**	(1,363)
Payments made to employees		**(1,548)**	(1,541)	**(692)**	(744)
Net cash flow from operating activities		**8,061**	26	**(1,564)**	(2,107)
Cash flows from investing activities					
Purchase of property, plant and equipment	12	**(5)**	(64)	**-**	-
Additions to unproven oil and gas assets *	11	**(9,973)**	(9,840)	**-**	-
Transfers from/(to) restricted use cash		**(20)**	(12)	**-**	-
Proceeds from disposal of joint venture (net of cash disposed and taxation) in prior periods	8, 15	**1,696**	-	**1,696**	-
Advances repaid by subsidiaries		**-**	-	**410**	8,302
Advances issued to subsidiaries		**-**	-	**(535)**	-
Net cash flow from investing activities		**(8,302)**	(9,916)	**1,571**	8,302
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		**-**	85	**-**	85
Loans repaid	19	**(7,000)**	(753)	**-**	(753)
Loans received	19	**8,315**	501	**-**	-
Repayment of loans provided by subsidiaries		**-**	-	**-**	(5,542)
Net cash flow from financing activities		**1,315**	(167)	**-**	(6,210)
Net increase/(decrease) in cash and cash equivalents		**1,074**	(10,057)	**7**	(15)
Cash and cash equivalents at the beginning of the year		**405**	10,462	**10**	25
Cash and cash equivalents at the end of the year	16	**1,479**	405	**17**	10

Significant non-cash transactions include the following and details can be found in notes 6, 7, 8, 9,15,25, 27:

- Share-based payments in the amount of US$ 476,000 (2016: US$ 555,000);
- Withholding tax in the amount of US$ 1,345,000 (2016: US$ 1,124,000);
- Discounting of receivables in the amount of US$ 100,000 (2016: US$235,000);
- Exchange differences on translating foreign operations of US$ 72,000 (2016: US$ 2,311,000);
- Depreciation charge of US$ 43,000 (2016: US$ 42,000);
- Conversion of debt to equity of US$ 10,100,000 (2016: US$ 0);
- Interest expense of US$ 167,000 (2016: US$ 826,000);
- Conversion of Loan provided to Baverstock to investments in Eragon in the amount of US$ 3,254,000 (2016: US$ 0);
- Conversion of Receivable from Baverstock due to royalty to investments in Eragon in the amount of US$ 3,202,000 (2016: US$ 0);
- Non-cash effect from the acquisition of non-controlling interest in the amount of US$ 6,885,000 (2016: US$ 0)

* Additions to unproven oil and gas assets contain the amount of US$ 330,000 in relation to payroll expenses capitalized (2016: US$: 211,000).

The notes on pages 32 to 56 form part of these financial statements

Notes to the Financial Statements

General information

Caspian Sunrise plc ("the Company") is a public limited company incorporated and domiciled in England and Wales. The address of its registered office is 5 New Street Square, London, EC4A 3TW. These consolidated financial statements were authorised for issue by the Board of Directors on 11 May 2018.

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

1 Principal accounting policies

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

1.1 Basis of preparation

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

The Directors have prepared cash flow forecasts for the next 12 months which demonstrate that the Group will have sufficient funds to meet its liabilities as they fall due and operate as a going concern, including completion of its planned drilling program. The forecasts include growth in revenue including both the impact of anticipated well drilling and increased pricing associated with BNG production sold at world prices following the planned conversion of existing wells into a production licence. The production cash flows are forecast to be sufficient to meet the Group's cash flow requirements.

In addition, the Group continues to forward sell its production and receive advances from oil traders as part of its operations. The continued availability of such arrangements are important to working capital and, in the event the Group was unable to continue to access these arrangements additional funding would be required. The Directors are confident that the oil trader funding will continue, based on the production profile and relationships with the oil traders.

In the event that the award of a production licence is delayed, the Group's total cash flow from production sold at domestic prices is forecast to exceed the cash flows for operating expenditure and drilling over the period as a whole. However, the Group would require additional working capital during the period to meet certain payments under its licences and drilling and well repair expenditures owing to the timing of such payments. The forecasts in this scenario include an anticipated increase in oil trader funding through advances for future production, together with funding from a significant shareholder to meet its working capital requirements. The Group's major shareholder has provided a written undertaking to provide financial support as is required which the Board are satisfied will be available given the history of financial support and having considered the shareholder's ability to provide such funding.

Additional funding, if required, for new wells, infrastructure and assets to accelerate development over and above the level included in the forecasts, is expected to be available from a number of sources, including debt funding for much of the infrastructure spending, advances from local oil traders from the sale of oil yet to be produced, industry funding in the form of partnerships with larger industry players, further support from existing shareholders and if appropriate, equity funding from financial institutions. However, such accelerated development is at the Group's discretion.

On this basis the Directors have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit or loss in these financial statements. The Group loss for the year included a loss on ordinary activities after tax of US$2,553,000 (2016: US$ 9,891,000) in respect of the Company.

The preparation of financial statements in conformity with IFRSs requires the Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements.

The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 2.

1.2 New and revised standards and interpretations applied

The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2017. The implementation of these standards did not have a material effect on the Group.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.2 New and revised standards and interpretations applied (continued)

Standard	Description	Effective date
IAS 12	Amendment – Recognition of deferred tax assets for unrealized losses	1 Jan 2017
IAS 7	Amendment – Disclosure initiative	1 Jan 2017

Standard	Description	Effective date
IFRS 12	Disclosure of interest in other entities	1 Jan 2017

Annual Improvements to IFRSs 2014–2016
Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of this financial information which have not been adopted early**:**

Standard	Description	Effective date
IFRS 9	Financial Instruments	1 Jan 2018
IFRS 15	Revenue from Contracts with Customers	1 Jan 2018
IFRS 16	Leases	1 Jan 2019
IFRS 2	Amendment – Classification and measurement of share based payment transactions	1 Jan 2018
IFRIC 22	Foreign currency transactions and advance considerations	1 Jan 2018
IAS 28*	Investments in Associates and Joint ventures	1 Jan 2019
IFRS 11*	Joint operations	1 Jan 2019

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

IFRS 15 is intended to introduce a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognize. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group's revenue recognition policy is set out in note 1.19. The Group sells oil in advance to oil traders in Kazakhstan for delivery over a period of time, which may give rise to a financing component on such transactions although it is noted that contracts are for less than 12 months. The Group is currently undertaking an analysis of the effect of IFRS 15 on its revenue recognition which will be completed during H1 2018 but does not currently anticipate a material impact.

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

IFRS 9 addresses the classification and measurement of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The Group is currently undertaking an analysis of the effect of IFRS 9 which will be completed during H1 2018 but does not currently anticipate a material impact.

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

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.3 Basis of consolidation

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

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

1.4 Operating Loss

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

1.5 Foreign currency translation

1.5.1 Functional and presentational currencies

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

1.5.2 Transactions and balances in foreign currencies

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

1.5.3 Consolidation

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

1.6 Current tax

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

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.7 Deferred tax

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

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

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

1.8 Unproven oil and gas assets

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

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

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

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

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

Commercial reserves are defined as proved oil and gas reserves.

Proven oil and gas properties

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

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

Impairment

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

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

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

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

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

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

Workovers/Overhauls and maintenance

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

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

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

1.9 Abandonment

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

1.10 Restricted use cash

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

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

1.11 Property, plant and equipment

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

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

- motor vehicles 4-5 years
- other over 2-4 years

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

1.12 Investments (Company)

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

1.13 Financial instruments

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

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

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

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

1 Principal accounting policies (continued)

The Group's financial liabilities are non-interest bearing trade and other payables, other interest bearing borrowings. Non-interest bearing trade and other payables and other interest bearing borrowings are stated initially at fair value and subsequently at amortised cost.

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

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

1.14 Inventories

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

1.15 Other provisions

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

1.16 Share capital

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

1.17 Share-based payments

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

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

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

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

1.18 Warrants

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

1.19 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil and gas products provided in the normal course of business, net of discounts, VAT and other sales related taxes to third party customers.

Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer, which is considered to occur when title passes to the customer and the amount of the revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group. Under the Group's contractual agreements, risk and reward passes upon transfer of oil to the customer at a designated oil terminal or upon collection from the field, depending on the relevant contract.

Payments in advance by oil traders are recorded initially as deferred revenue, reflecting the nature of the transaction.

Subsequently, the deferred revenue is reduced and revenue is recorded, as sales are made under the Group's revenue recognition policy.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.20 Cost of sales

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

1.21 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions, has been identified as the Board of Directors. The Group has one operating segment being oil exploration and production in Kazakhstan and therefore one reporting segment. The Group has several cost pools divided based on the different contractual territory of its assets. As the activity of all cost pools is the same (oil exploration and production) and all of them operate geographically in Kazakhstan, the Group reports one segment in its financials.

1.22 Interest receivable and payable

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

1.23 Exchange rates

For reference the year end exchange rate from sterling to US$ was 1.35 and the average rate during the year was 1.3. The year-end exchange rate from KZT to US$ was 332.33 and the average rate during the year was 326.

2 Critical accounting estimates and judgements

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

2.1 Recoverability of exploration and evaluation costs

Under the full cost method of accounting for exploration and evaluation costs, such costs are capitalised as intangible assets by reference to appropriate cost pools, and are assessed for impairment on a concession basis based on the IFRS 6 impairment indicators detailed in the accounting policy note 1.8. As at 31 December 2017, the Group assessed the exploration and evaluation assets disclosed in note 11 and determined that no indicators of impairment existed at a cost pool level in respect of the BNG cost pool. In forming this assessment, the Board considered the results of the Competent Person report, the economic models associated with the shallow wells, the results of exploration activity to date, the status of licences and future plans for the licence areas. In forming its assessment, the Board considered the Group's commitments under the licence detailed in note 20. The Board noted the early renewal of its BNG licence in 2017 for a further 6 years for which a work program is required to be agreed with the relevant authorities and is expected to be agreed in due course.

The Beibars cost pool remains impaired based on the continuance of the force majeure. The Group has decided to formally relinquish any interest in Beibars. Currently the Group is in the process of returning all available information and contract territory to the Ministry of Energy.

2.2 Classification of BNG as an unproven oil and gas asset

The costs capitalised in respect of the BNG contract area are recorded within unproven oil and gas assets. Judgment has been applied in assessing whether the asset meets the criteria for reclassification to proven oil and gas assets under the Group's accounting policy in note 1.8 given the increased production volumes and reserves. The Board considers the BNG contract area to remain in an exploration phase given the level of wells and production relative to plans for the field, the exploration status of the licence and the requirement to sell its oil in the domestic market which represents a substantial discount to the international market.

2.3 Recoverability of VAT

The Group holds VAT receivables of $3.5million (2016: $3.6million) as detailed in note 15 which are anticipated to be primarily recovered through offset of future VAT payable in accordance with Kazakh legislation. Management have assessed the recoverability of the asset based on forecast levels of VAT payables which demonstrate that the balance will be recovered within 3.5 years. This required estimates regarding future production, oil prices and expenditure.

2.4 Decommissioning

Provision has been made in the accounts for future decommissioning costs to plug and abandon wells in note 20. The costs of provisions have been added to the value of the unproven oil and gas asset and will be depreciated on a unit of production basis.
The decommissioning liability is stated in the accounts at discounted present value and accreted up to the final expected liability by way of an annual finance charge. The Group has potential decommissioning obligations in respect of its interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. Actual costs incurred in future periods may substantially differ from the amounts of provisions. In addition, future changes in environmental laws and regulations, estimates of deposit useful lives and discount rates may affect the carrying value of this provision

Notes to the Financial Statements (continued)

2 Critical accounting estimates and judgements (continued)

2.5 Share-based compensation

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

3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments and making strategic decisions, has been identified as the Board of Directors. The Group operates in one operating segment (exploration for and production of oil in Kazakhstan). All revenues from test production are generated domestically in Kazakhstan. 67% of the Group's revenue was derived from one major customer.

4 Operating loss

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

	Group 2017 US$'000	Group 2016 US$'000
Depreciation of property, plant and equipment (note 12)	(43)	(42)
Auditors' remuneration (note 5)	(292)	(170)
Staff costs (note 6)	(1,403)	(1,541)
Share based payment remuneration (note 6)	(476)	(555)

5 Group Auditor's remuneration

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

	Group 2017 US$'000	Group 2016 US$'000
Fees for the audit of the annual financial statements	72	77
Audit related services	11	13
Other services – tax related	180	59
	263	**149**

Fees payable by the Group to Grant Thornton and its associates in respect of the year:

	Group 2017 US$'000	Group 2016 US$'000
Auditing of accounts of subsidiaries of the Company	29	21
	29	**21**

6 Employees and Directors

Staff costs during the year	Group 2017 US$'000	Company 2017 US$'000	Group 2016 US$'000	Company 2016 US$'000
Wages and salaries	1,403	794	1,541	744
Social security costs	135	32	128	32
Pension costs	90	-	83	-
Share-based payments	476	476	555	555
	2,104	**1,302**	**2,307**	**1,331**

Payroll expenses were capitalized in the amount of US$ 330,000 (2016: US$ 211,000).

Notes to the Financial Statements (continued)

6 Employees and Directors (continued)

Average monthly number of people employed (including executive Directors)	Group 2017	Company 2017 US$'000	Group 2016	Company 2016 US$'000
Technical	13	2	13	1
Field operations	53	-	46	-
Finance	10	2	9	2
Administrative and support	19	2	22	2
	95	**6**	**90**	**5**

Directors' remuneration	Group 2017 US$'000	Group 2016 US$'000
Director's emoluments	524	525
Share-based payments	333	444
	857	**969**

The Directors are the key management personnel of the Company and the Group. Details of Directors' emoluments and interests in shares are shown in the Remuneration Committee Report. The highest paid director had emoluments totalling US$240,000 (2016: US$240,000).

7 Finance cost

	Group 2017 US$'000	Group 2016 US$'000
Loan interest payable	**165**	765
Unwinding of discount on provisions (note 20)	**2**	61
	167	**826**

8 Finance income

	Group 2017 US$'000	Group 2016 US$'000
Unwinding of discount of loan receivable from Baverstock (note 15)	**100**	235
Finance income related to the late receipt of receivable under SPA (note 15)	**94**	-
	194	**235**

9 Taxation

Analysis of charge for the year	Group 2017 US$'000	Group 2016 US$'000
Current tax charge	**1,345**	1,124
Deferred tax charge	**-**	-
	1,345	**1,124**

	Group 2017 US$'000	Group 2016 US$'000
Loss before tax	**(3,349)**	(4,249)
Tax on the above at the standard rate of corporate income tax in the UK 19.25% (2016: 20%)	**(645)**	(850)
Effects of:		
Non-deductible expenses	**545**	305
Withholding tax on interest expense	**1,345**	1,124
Unrecognised tax losses carried forward	**100**	545
	1,345	**1,124**

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Notes to the Financial Statements (continued)

10 Earnings/(loss) per share

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

There is no difference between the basic and diluted loss per share as the Group made a loss for the current and prior year. Dilutive potential ordinary shares include share options granted to employees and directors where the exercise price (adjusted according to IAS33) is less than the average market price of the Company's ordinary shares during the period.

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

	2017	2016
The basic weighted average number of ordinary shares in issue during the year	1,362,172,379	937,191,981
The loss for the year attributable to owners of the parent (US$'000)	(3,928)	(3,582)

There were 8,400,000 potentially dilutive instruments in the year (2016: 8,400,000).

11 Unproven oil and gas assets

COST	Group US$'000
Cost at 1 January 2016	**72,128**
Additions	10,470
Sales from test production	(997)
Foreign exchange difference	1,622
Cost at 31 December 2016	**83,223**
Additions	9,158
Sales from test production	(7,535)
Foreign exchange difference	(10)
Cost at 31 December 2017	**84,836**

ACCUMULATED IMPAIRMENT	Group US$'000
Accumulated impairment at 1 January 2016	**14,805**
Foreign exchange difference	332
Accumulated impairment at 31 December 2016	**15,137**
Foreign exchange difference	(2)
Accumulated impairment at 31 December 2017	**15,135**
Net book value at 1 January 2016	57,323
Net book value at 31 December 2016	68,086
Net book value at 31 December 2017	**69,701**

Unproven oil and gas assets represent license acquisition costs and subsequent exploration expenditure in respect of two licenses held by Kazakh group entities. The carrying values of those assets at 31 December 2017 were as follows: Beibars Munai LLP US$ nil (2016: US$ nil) and BNG Ltd LLP US$69,701,000 (2016: US$68,086,000).

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

As a result of military training activities, the Group currently cannot access the Beibars license area which resulted in a force-majeure situation and the Group is in the process of relinquishing its interest in the asset and handing it back to the Kazakh authorities. Due to this ongoing position the carrying value remains fully impaired.

Notes to the Financial Statements (continued)

12 Property, plant and equipment

Following the commencement of commercial production in December 2012 the Group reclassified its Munaily assets from unproven oil and gas assets to proven oil and gas assets. The assets were impaired in 2013 and remain fully impaired based on an assessment of the recoverable amount of the assets.

Group	**Proven oil and gas assets**	**Motor Vehicles**	**Other**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Cost at 1 January 2016	47	104	302	453
Additions	-	45	19	64
Foreign exchange difference	-	4	7	11
Cost at 31 December 2016	**47**	**153**	**328**	**528**
Additions	-	-	5	5
Disposals	-	-	(21)	(21)
Foreign exchange difference	-	-	1	1
Cost at 31 December 2017	**47**	**153**	**313**	**513**
Depreciation at 1 January 2016	**47**	**52**	**159**	**258**
Charge for the year	-	13	29	42
Foreign exchange difference	-	2	3	5
Depreciation at 31 December 2016	**47**	**67**	**191**	**305**
Charge for the year	-	13	30	43
Foreign exchange difference	-	-	-	-
Depreciation at 31 December 2017	**47**	**80**	**221**	**348**
Net book value at:				
01 January 2016	-	52	143	195
31 December 2016	-	86	137	223
31 December 2017	**-**	**73**	**92**	**165**

Notes to the Financial Statements (continued)

13 Investments (Company)

Investments (equity and long term advances)	**Company US$'000**
Cost	
At 1 January 2016	171,560
Reclassification from receivables	27,337
Receipt	(8,302)
At 31 December 2016	**190,595**
Acquisition of Eragon non-controlling interest (note 27)	85,179
Receipts	(398)
Payments	535
At 31 December 2017	**275,911**
Impairment	
At 1 January 2016	64,253
Impairment	-
At 31 December 2016	**64,253**
Impairment	-
At 31 December 2017	**64,253**
Net book value at:	
31 December 2016	**126,342**
31 December 2017	**211,658**

The carrying value of the investments has been assessed by the Directors including consideration of the underlying BNG contract area progress and the implied values of BNG based on the Baverstock merger in the year. On 1 June 2017 Caspian Sunrise plc acquired an additional 41% in its subsidiary Eragon Petroleum Ltd in exchange of issuance of 651,436,544 Company's shares (note 17) and forgiveness of the debt due from Baverstock (note 15). After that Company's interest in Eragon increased from 59% to 100%.

Direct investments

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2017	Effective holding and proportion of voting rights held at 31 December 2016	Registered address	Nature of business
Eragon Petroleum Limited	United Kingdom	100%	59%	5 New Street Square London EC4A 3TW	Holding Company
Eragon Petroleum FZE	Dubai	100%	100%	CN-135789, Jebel Ali, Dubai, UAE	Management Company
Beibars BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
Ravninnoe BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
Roxi Petroleum Kazakhstan LLP	Kazakhstan	100%	100%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Management Company

Notes to the Financial Statements (continued)

13 Investments (continued)

Indirect investments held by Eragon Petroleum Limited

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2017	Effective holding and proportion of voting rights held at 31 December 2016	Registered address	Nature of business
Galaz Energy BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
BNG Energy BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
BNG Ltd LLP	Kazakhstan	99%	99%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Exploration Company
Munaily Kazakhstan LLP	Kazakhstan	99%	99%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Oil Production Company

Indirect investments held by Beibars BV

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2017	Effective holding and proportion of voting rights held at 31 December 2016	Registered address	Nature of business
Beibars Munai LLP	Kazakhstan	50%	50%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Exploration Company

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

Notes to the Financial Statements (continued)

14 Inventories

	Group 2017 US$'000	Group 2016 US$'000
Materials and supplies	21	10
	21	**10**

15 Other receivables

	Group 2017 US$ '000	Group 2016 US$ '000	Company 2017 US$ '000	Company 2016 US$'000
Amounts falling due after one year:				
Prepayments made	5,799	4,187	98	32
VAT receivable	3,456	3,551	-	-
Intercompany receivables	-	-	2,846	2,696
	9,255	**7,738**	**2,944**	**2,728**
Amounts falling due within one year:				
Loan provided to Baverstock	**-**	3,154	-	-
Receivable from Baverstock due to royalty settlement	-	3,202	-	3,202
Prepayments made	227	116	5	2
Receivable under SPA	-	1,602	-	-
Other receivables	605	416	-	-
	832	**8,490**	**5**	**3,204**

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

On 1 June 2017 Caspian Sunrise plc acquired an additional 41% in its subsidiary Eragon Petroleum Ltd in exchange of issuance of 651,436,544 Company's shares and forgiveness of the debt due from Baverstock fair valued at the level of US$ 6.5 million (including interest accrued during 2017). As a result, Baverstock related receivables were converted to an investment in Eragon.

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

Long-term advances to the subsidiaries in note 15 are shown net of provisions of US$34.2 million (2016: US$33.3 million). The movement of the bad debt allowance related to the long-term advances was as follows:

Denomination	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
As at 1 January	**-**	-	**33,310**	26,550
Charge	**-**	-	**922**	6,760
As at 31 December	**-**	-	**34,232**	33,310

Notes to the Financial Statements (continued)

16 Cash and cash equivalents

	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Cash at bank and in hand	**1,479**	**405**	**17**	**10**

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

Denomination	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
US Dollar	**1,221**	51	**11**	3
Sterling	**6**	7	**6**	7
Kazakh Tenge	**252**	347	**-**	-
	1,479	**405**	**17**	**10**

17 Called up share capital

Group and Company

	Number of ordinary shares	US$'000	Number of deferred shares	US$'000
Balance at 1 January 2016	935,945,577	15,979	373,317,105	64,702
Share options exercised	1,487,500	21	-	-
Balance at 31 December 2016	937,433,077	16,000	373,317,105	64,702
Acquisition of Eragon non-controlling interest (note 27)	651,436,544	8,364	-	**-**
Debts converted to equity (note 21)	80,804,199	1,037	-	**-**
Balance at 31 December 2017	**1,669,673,820**	**25,401**	**373,317,105**	**64,702**

Caspian Sunrise Plc has authorised share capital of £100,000,000 divided into 6,640,146,055 ordinary shares of 1p each and 373,317,105 deferred shares of 9p each.

18 Trade and other payables – current

	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Trade payables	1,220	674	380	183
Taxation and social security	175	101	38	26
Accruals	225	225	195	195
Other payables	2,120	2,020	318	-
Intercompany payables *	-	-	7,695	6,470
Advances received (deferred revenue)	5,798	2,421	-	-
CIT payable	-	202	-	202
	9,538	**5,643**	**8,626**	**7,076**

As at 31 December 2017 and 31 December 2016, the Group has received a significant amount of prepayments from the oil traders in relation to increasing production on the BNG oil field.

Other payables relate to the purchase of Munaily oil field.

Notes to the Financial Statements (continued)

18 Trade and other payables – non-current

	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Intercompany payables *	-	-	16,058	14,903
Taxation and social security	10,958	9,614	-	-
	10,958	**9,614**	**16,058**	**14,903**

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

* Intercompany payables in 2017 included US$7.7m in respect of amount payable on demand. The amount was previously recorded as a non-current payable in 2016. The comparative for 2016 has been reclassified to current to reflect the terms applicable in the prior period.

19 Short-term borrowings

	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Prosperity (a)	**1,196**	-	**-**	**-**
Other borrowings (b)	**936**	809	**-**	**-**
	2,132	**809**	**-**	**-**

a) During December 2017 Eragon Petroleum FZE (a subsidiary of the Company) received a US $1.2 million loan from KC Caspian Explorer (KCCE), a 100% subsidiary of Prosperity Petroleum Ltd ("PPL") under a loan provided by PPL. PPL is a company controlled by Mr Kuat Oraziman and therefore a related party of the Group. The loan is interest free and matures in December 2018.

In October 2017, Eragon Petroleum FZE received US$7 million from KCCE and advanced such funds to Mr Kuat Oraziman on behalf of PPL under the terms of a loan facility between PPL as lender and Mr Kuat Oraziman as borrower. The Group has no obligation or liability to PPL or rights over the amounts transferred to Mr Kuat Oraziman as a result of the flow of funds.

b) The total amount borrowed by the Group at 31 December 2017 US$936,000 (2016: US$809,000) was payable to Kuat Oraziman and legal entity controlled by Mr Oraziman (note 26.1 (c)). The loans are interest free and are repayable on demand.

Notes to the Financial Statements (continued)

20 Provisions

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

Group only	Employee holiday provision	Liabilities under Social Development Program and historical cost	Abandonment fund	2017 Total
	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2017	68	4,150	153	4,371
Increase in provision	25	700	39	764
Paid in the year	-	(19)	(6)	(25)
Unwinding of discount	-	-	2	2
Foreign exchange difference	-	2	6	8
Balance at 31 December 2017	**93**	**4,833**	**194**	**5,120**
Non-current provisions	-	527	194	721
Current provisions	93	4,306	-	4,399
Balance at 31 December 2017	**93**	**4,833**	**194**	**5,120**

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

a) Beibars Munai LLP

During 2007 Beibars Munai LLP, a subsidiary undertaking, and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed a Contract for oil exploration within the block XXXVII-10 in Mangistauskaya oblast (Contract #2287). The contract term expired in January 2012 and the Group has applied to the Ministry of Oil and Gas for the extension of the Beibars exploration license, given the force majeure situation. However the Group was unsuccessful.

In February 2017 the Group decided to formally relinquish any interest in Beibars. Currently the Group is in the process of returning all available information and contract territory to the Ministry of Energy.

20 Provisions (continued)

b) Munaily Kazakhstan LLP

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

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

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

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

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

c) BNG Ltd LLP

BNG Ltd LLP a subsidiary, signed a contract #2392 dated 7 June 2007 with the Ministry of Energy and Mineral Resources of RK for exploration at Airshagyl deposit, located in Mangistau region. Under addendum No.1 dated 17 April 2008, the Contract Area was increased. The contract was valid for 4 years and expired on 7 June 2011. Addendum No. 6 to the Subsoil Use Contract for extension of exploration period up to June 2013 was obtained on 13 July 2011. On 16 July 2013 BNG Ltd LLP signed Addendum No. 7 extending the exploration period for two consecutive years until June 2015. On 22 June 2015 BNG Ltd LLP signed Addendum No. 9 extending the exploration period for three consecutive years until June 2018. On 24 December 2015 BNG Ltd LLP signed Addendum No.10 according to which the geological territory was extended by 140.6 sq kilometres. On 23 September 2016 addendum No.11 was signed that has reduced the penalties for non-fulfilment of the contractual obligations from 30% to 1%. On 20 December 2017 BNG Ltd LLP signed addendum No.12 where amended its contractual obligations increasing the minimal work program for 2016-2018 from US$16.5 million to US$27.5 million. All other obligations, including social obligations, remained the same.

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

- For the three-year extension period up to 2018 US$700,000 per annum should be invested in the social development of the region;
- To fund minimum work program during the extended exploration period of US$ 27,527,000
- Investing not less than 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract; and
- Transferring, on an annual basis, 1% of exploration expenditures to a liquidation fund through a special deposit account in a bank located within the Republic of Kazakhstan.

In June 2018 BNG Ltd LLP is going to sign the Addendum No.13 with the Ministry of Energy for the 6 years appraisal period on the BNG oilfield.

As at December 31, 2017 BNG Ltd LLP has not paid its social obligations for the years 2015-2017. US$ 2,100,000 will be paid before the signing of Addendum No.13.

Notes to the Financial Statements (continued)

21 Borrowings

	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Loan from Vertom	-	9,935	-	9,935
	-	**9,935**	**-**	**9,935**

On 29 September 2011 the Company entered into the loan facility with Vertom International NV ("Vertom") whereby Vertom agreed to lend up to US$5 million to the Company with an associated interest of 12% per annum. The Company offered Vertom security over its investments in its operating assets in respect to this loan facility. On 30 April 2012 the Group extended the term of the loan facility arrangement with Vertom for further two years to 30 April 2014 and at the same time increased the facility amount to US$7 million. On 28 June 2013 the term of the loan facility was extended until 30 April 2016. On 26 June 2015 the term of the loan facility was extended until 30 April 2018. The loan was converted to the 80,804,199 Company's shares on June 1 2017 after the finalization of the purchase of Baverstock's interest in the share capital of Eragon (note 17 and note 27).

22 Deferred tax

Deferred tax liabilities comprise:

	Group 2017 US$'000	Group 2016 US$'000
Deferred tax on exploration and evaluation assets acquired	7,784	7,748
	7,784	**7,748**

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

The movement on deferred tax liabilities was as follows:

	Group 2017 US$'000	Group 2016 US$'000
At beginning of the year	7,748	7,485
Foreign exchange	36	263
	7,784	**7,748**

As at 31 December 2017 the Group has accumulated deductible tax expenditure related to BNG expenditure of approximately US$104 million available to carry forward and offset against future profits. This represents an unrecognised deferred tax asset of approximately US$20.8 million. As a result of these deductions the tax written down value of the exploration assets is zero, creating an equal and opposite deferred tax liability which is offset by the deferred tax asset. Munaily and Beibars have tax losses carried forward of US$7.8 million and US$6.0m. These assets are however fully impaired and there is insufficient certainty of future profitability to utilise these deductions.

23 Share option scheme

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

The options were issued to Directors and employees as follows:

	Number of options granted	Number of options expired	Options exercised	Total options outstanding	Weighted average exercise price in pence (p) per share
As at 31 December 2016	**88,458,226**	**(33,107,634)**	**(9,900,000)**	**45,450,592**	**20**
Directors	-	(2,018,490)	-	(2,018,490)	-
Employees and others	-	(10,440,091)	-	(10,440,091)	-
As at 31 December 2017	**88,458,226**	**(45,566,215)**	**(9,900,000)**	**32,992,011**	**17**

32,242,011 outstanding options as at 31 December 2017 are exercisable.

The range of exercise prices of share options outstanding at the year end is 4p – 65p (2016: 4p – 65p). The weighted average remaining contractual life of share options outstanding at the end of the year is 4.4 years (2016: 4.9 years).

24 Warrants

Equity - warrants

The Company had 7.5 million warrants valid until 21 May 2017 that were recognised in equity (other reserves) in the amount of US$1,779 thousand. During 2017 the warrants expired therefore the Company reclassified the amount to Retained deficit.

25 Financial instrument risk exposure and management

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

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

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

Principal financial instruments

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

Financial assets	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Intercompany receivables	-	-	2,846	2,696
Loan provided to Baverstock	-	3,154	-	-
Receivable from Baverstock due to royalty settlement	-	3,202	-	3,202
Receivable under SPA	-	1,602	-	-
Other receivables	605	416	-	-
Restricted use cash	263	283	-	-
Cash and cash equivalents	1,479	405	17	10
	2,347	**9,062**	**2,863**	**5,908**

Financial liabilities	Group 2017 US$'000	Group 2016 US$'000	Company 2017 US$'000	Company 2016 US$'000
Trade and other payables	3,565	2,919	893	378
Other payables - current			7,695	6,470
Other payables - non-current	-	-	16,058	14,903
Borrowings – current	2,132	809	-	-
Borrowings - non-current	-	9,935	-	9,935
	5,697	**13,663**	**24,646**	**31,686**

The Baverstock receivable due to royalty settlement was initially measured at fair value based on the Baverstock share of the royalty obligations settled through the issue of the Company's shares in 2015. As at 31 December 2016 the fair value of the asset has been measured with reference to the value attributed to the receivable as part of the Baverstock acquisition as detailed in note 27. During 2017 the loan has been converted to investments after Caspian Sunrise plc acquired an additional 41% in its subsidiary - Eragon Petroleum Ltd (note 26).

Notes to the Financial Statements (continued)

25 Financial instrument risk exposure and management (continued)

Changes in liabilities arising from financial activities

Below is the movement of financial liabilities of the Group for the years ended 31 December 2017 and 2016:

	1 January 2017	**Loans received**	**Interest accrued**	**Conversion to equity**	**Repayment**	**Foreig exchange difference, net**	**31 December 2017**
Financial liabilities							
Borrowings	10,744	**8,315**	**165**	**(10,100)**	**(7,000)**	**8**	**2,132**

	1 January 2016	**Loans received**	**Interest accrued**	**Conversion to equity**	**Repayment**	**Foreig exchange difference, net**	**31 December 2016**
Financial liabilities							
Borrowings	10,211	**501**	**765**	**-**	**(753)**	**20**	**10,744**

Principal financial instruments

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

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

General objectives, policies and processes

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

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

Credit risk

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

When commercial exploitation commences sales will only be made to customers with appropriate credit rating. Sales during test production are made on prepayment base thereby eliminating credit risk.

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

Credit risk with intercompany receivables is reduced by placing funds after detailed analysis of the spending and determination of the high potential of future cash returns.

25 Financial instrument risk exposure and management (continued)

Capital

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

The Group's gearing ratio as at 31 December 2017 was 5% (2016:22%).

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

Liquidity risk

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

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

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

For maturity dates of financial liabilities as at 31 December 2017 and 2016 see table below. The amounts are contractual payments and may not tie to the carrying value:

	On Demand	Less than 3 months	3-12 months	1- 5 years	Over 5 years	Total
Group 2017 US$'000	936	911	3,850	-	-	**5,697**
Group 2016 US$'000	809	2,919	-	10,300	-	**14,028**
Company 2017 US$'000	7,695	359	534	-	23,617	**32,205**
Company 2016 US$'000	6,470	378	-	10,300	23,530	**40,678**

Interest rate risk

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

Currency risk

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

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

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

In the event that Kazakhstani Tenge devalues against the US$ by 30% the Group would incur foreign exchange losses in the amount of US$51 million (2016: US$48 million) that would be reflected in other comprehensive income. The impact of such a devaluation on the translation of monetary assets and liabilities (predominantly intercompany loans) held in Kazakhstan and denominated in non-Tenge currencies would be exchange losses recorded in the statement of changes in equity of US$51 million (2016: US$48 million).

Notes to the Financial Statements (continued)

26 Related party transactions

The Company has no ultimate controlling party.

26.1 Loan agreements

a) Loan to Baverstock

In August 2010 Galaz Energy BV (a subsidiary of the Company) provided Baverstock GmbH (holds 41% interest in Eragon) with a loan facility of up to US$10,000,000, it was initially at LIBOR +7%, from 01 January 2012 the loan is interest free. The amounts borrowed under this loan agreement were to be used exclusively for the repayment of Kuat Oraziman's US$10,000,000 loan received in July 2007. The facility was to be repaid through future dividends receivable by Baverstock from Eragon. In December 2010 the first tranche of US$5,000,000 under the facility agreement was transferred to Kuat Oraziman directly by Galaz Energy BV to be repaid by Baverstock (Kuat Oraziman is the main shareholder in Baverstock). During 2017 the loan has been converted to investments after Caspian Sunrise plc acquired an additional 41% in its subsidiary - Eragon Petroleum Ltd (note 27).

b) Receivable from Baverstock due to royalty

On 24 July 2015 the Company entered into an agreement with Canamens Limited and Sector Spesit IV to cancel future royalty payments due to them from production from Company's BNG asset in return for the issue of 46,661,654 fully paid Company's ordinary shares. That resulted in cancellation of the derivative financial liability in the amount of US$6.8 million and recognition of the receivable from Baverstock in the amount of US$3.2 million related to the Baverstock portion of the Company's royalty obligation (note 15). During 2017 the loan has been converted to investments after Caspian Sunrise plc acquired an additional 41% in its subsidiary - Eragon Petroleum Ltd (note 27).

c) Other loans payable to Kuat Oraziman

The Company has loans outstanding as at 31 December, 2017 and 2016 with Kuat Oraziman and legal entities controlled by him, details of which have been summarised in note 19. The loans provided are interest free.

d) Loan payable to Vertom

During the year ended 31 December 2011 the Company entered into two loan facilities with Vertom International NV, details of which have been summarised in note 21. The loan payable at 31 December 2017 was nill (2016: US$9,935,000). A director of the Company, Kuat Oraziman, is a director of and holds 100% of the issued share capital of both Vertom International N.V. ("Vertom") and Vertom International BV. Interest accrued for the year is US$ 165,000 (2016: US$ 765,000). During 2017 the loan has been converted to the Company's share capital after Caspian Sunrise plc acquired an additional 41% in its subsidiary Eragon Petroleum ltd (note 21).

e) Baverstock acquisition

On 1 June 2017 Caspian Sunrise plc acquired an additional 41% in its subsidiary Eragon Petroleum ltd. After that Company's interest in BNG and Munaily increased from 58.41% to 99% and interest in Eragon increased from 59% to 100% (note 27).

26.2 Key management remuneration

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

26.3 Purchases

During 2017 the Group had not purchased drilling services from the related party STK Geo LLP, the company registered in Kazakhstan, which is owned by a member of Kuat Oraziman's family (2016: US$4.4 million). As at year end the Group has prepayments made in the amount of US$2.6 million (2016: US$2.4 million) and trade receivables in the amount of US$92,200 (2016: US$69,300) in relation to STL Geo LLP.

During 2017 the Group had purchased drilling services from the related party KazSmartEnerKon LLP, a company registered in Kazakhstan, which is owned by Kuat Oraziman, in the amount of US$ 4.6 million (2016: US$2 million). These expenses were capitalized to unproven oil and gas assets. As at year end the Group has prepayments made in the amount of US$2.8 million (2016: US$1.3 million) in relation to these drilling service.

Notes to the Financial Statements (continued)

27 Acquisition of non-controlling interest

On 1 June 2017 Caspian Sunrise plc acquired an additional 41% in its subsidiary Eragon Petroleum ltd in exchange of issuance of 651,436,544 Company's shares and forgiveness of the debt due from Baverstock fair valued at the level of US$6.5 million. Also the Company incurred acquisition related costs in the amount of US$0.4 million. After that Company’s interest in BNG and Munaily increased from 58.41% to 99% and interest in Eragon increased from 59% to 100%. Related NCI share in net assets of Eragon at the date of acquisition was equal to US$6.6 million. The difference between the purchase consideration and net assets was charged directly to the consolidated statement of changes in equity.

	US$’000
Carrying amount of NCI acquired	6,571
Consideration paid to NCI	88,432
A decrease in equity attributable to owners of the Company	**(81,861)**

28 Events after the reporting period

3ABest Group

In January 2018, the Company announced the intention to acquire 100% of the shares of 3ABest Group JSC, a company that owns a 1,347 sq km Contract Area located close to the Caspian port city of Aktau in the Mangystau Province of Kazakhstan.

The indicated purchase price is $24 million would be satisfied by the issue of approximately 148 million new Companies shares at the proposed price of 12p per share. Caspian Sunrise would, by completing the acquisition of 3ABest, become responsible for the outstanding work programme commitment represented by the drilling of one well to a depth of 3,000 meters at an estimated cost of up to $2 million. 3ABest is owned by members of the existing concert party, including the Company’s CEO Kuat Oraziman and the former CFO Kairat Satylganov. The purchase of 3ABest is subject to further due diligence, the entering into of a definitive binding agreement, compliance with the AIM Rules for related party transactions, the UK Takeover Code and the approval of the Company’s Independent directors and shareholders.