

RELIANCE EXPLORATION & PRODUCTION DMCC

Reliance Exploration & Production DMCC

Independent Auditor's Report

To the Shareholder of
Reliance Exploration & Production DMCC
Dubai, U.A.E.

Report on the financial statements

We have audited the accompanying financial statements of Reliance Exploration & Production DMCC ("the Company") which comprise the statement of financial position as at 31 December 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects, the financial position of the Company as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

We draw attention to the following:

As stated in note 3 to the financial statements, the Company incurred a loss of USD 2,870,160 for the year ended 31 December 2014 (2013: USD 9,846,543) and its current liabilities exceeded its current assets by USD 617,474 as at 31 December 2014. The financial statements have been prepared on a going concern basis and this depends on the continuing financial support of the shareholder. In the absence of such support, this basis would be invalid and adjustments would have to be made to reduce the statement of financial position values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

These are the separate financial statements of Reliance Exploration & Production DMCC. A separate report will be issued on the consolidated financial statements of Reliance Exploration & Production DMCC.

As stated in note 18 to the financial statements, there is uncertainty related to the outcome of the arbitration proceedings to be filed by the Company against the Republic of Yemen, represented by the Yemeni Ministry of Oil and Minerals, consequent to the force majeure event.

Our opinion is not qualified in respect of the above matters.

Other matters

The Company's financial statements as at 31 December 2013 were audited by another auditor whose report dated 4 March 2014 expressed an unqualified opinion.

Basis of preparation

Without modifying our opinion, we draw attention to note 3 to the financial statements, under 'Basis of preparation which states that the these financial statements have been prepared in accordance with management's requirements for the purpose of consolidation with the ultimate parent company, Reliance Industries Limited, and to present the Company's financial position as at 31December 2014 and its financial performance and cash flows for the period from 1 January to 31December 2014. As a result, the financial statements may not be suitable for another purpose.

Report on other legal and regulatory requirements

Also, in our opinion, all necessary books and records were maintained in accordance with the provisions of Implementing Regulations 1/3 issued by the Dubai Multi Commodities Centre.

Dated: 8 April, 2015

Statement of financial position as at 31 December, 2014

	Note	2014 USD	2013 USD
ASSETS			
Non-current assets			
Furniture and equipment	5	141,254	53,717
Intangible assets	6	18,795,720	18,157,404
Investment in subsidiaries	8	79,496,172	79,496,172
Total non-current assets		98,433,146	97,707,293
Current assets			
Inventories		222,000	772,000
Account receivable and pre-payments	9	804,401	13,821,576
Due from related parties	14	3,541,215	84,622
Cash and Bank balances	10	207,273	275,255
		4,774,889	14,953,453
Non-current assets classified as held for sale	7	-	5,596,136
Total current assets		4,774,889	20,549,589
TOTAL ASSETS		103,208,035	118,256,882
EQUITY AND LIABILITIES			
Equity			
Share capital	11	47,985,402	47,985,402
Preference share capital	11	399,160,057	390,060,057
Accumulated losses		(349,432,909)	(346,562,749)
Total equity		97,712,550	91,482,710
Non-current liabilities			
Provision for employees' end of service benefits	12	103,122	84,687
Loan from a related party	14.1	-	13,100,000
Total non-current liabilities		103,122	13,184,687
Current liabilities			
Due to a related party	14.1	691,137	1,006,432
Accounts payable and accruals	13	4,701,226	12,483,137
		5,392,363	13,489,569
Liabilities directly associated with the non-current assets held for sale	7	-	99,916
Total current liabilities		5,392,363	13,589,485
Total liabilities		5,495,485	26,774,172
TOTAL EQUITY AND LIABILITIES		103,208,035	118,256,882

These financial statements were approved and authorised for issue by the Board of Directors on 8 April 2015 and were signed on their behalf by:

Dipankar Dhruba Sen
Director

Sairam Vengatraman
Director

The accompanying notes form an integral part of these financial statements.

Statement of comprehensive Income for the year ended 31 December, 2014

	Note	2014 USD	2013 USD
Other income	15	733,662	1,713,583
Other expenses	14.2	(918,391)	-
General and administrative expenses	16	(1,903,659)	(10,139,329)
Impairment of exploration and evaluation assets	6	(466,290)	(641,900)
Finance income		-	26
Finance costs	17	(315,482)	(778,923)
Loss for the year		(2,870,160)	(9,846,543)
Other comprehensive income		-	-
Total comprehensive loss for the year		(2,870,160)	(9,846,543)

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December, 2014

	Share capital	Preference share capital	Share application money	Accumulated losses	Total equity
	USD	USD	USD	USD	USD
Balance at 1 January 2013	47,985,402	375,460,057	-	(336,716,206)	86,729,253
Total comprehensive loss for the year	-	-	-	(9,846,543)	(9,846,543)
Share application money received (note 14.3)	-	-	14,600,000	-	14,600,000
Preference share issued from share application money (note 11)	-	14,600,000	14,600,000	-	-
Balance at 1 January 2014	47,985,402	390,060,057	-	(346,562,749)	91,482,710
Total comprehensive loss for the year	-	-	-	(2,870,160)	(2,870,160)
Share application money received (note 14.3)	-	-	9,850,000	-	9,850,000
Share application money returned (note 14.3)	-	-	(750,000)	-	(750,000)
Preference share issued from share application money (note 11)	-	9,100,000	(9,100,000)	-	-
Balance at 31 December 2014	47,985,402	399,160,057	-	(349,432,909)	97,712,550

The accompanying notes form an integral part of these financial statements.

Statement of cash flows for the year ended 31 December, 2014

	2014 USD	2013 USD
Cash flows from operating activities		
Loss for the year	(2,870,160)	(9,846,543)
Adjustments for:		
Impairment of exploration and evaluation assets	466,290	641,900
Impairment losses in other receivables and deposits	462,696	433,662
Interest expense	311,194	776,844
Depreciation of furniture and equipment	28,690	58,590
Employees' end of service benefit charge	18,435	28,900
Loss on furniture and equipment written off	2,014	-
Loss on disposal of property and equipment	-	114
Gain on disposal of exploration and evaluation assets, net	(33,079)	-
Reversal of accruals	(438,436)	(1,500,000)
Finance income	-	(26)
Operating cash flows before movements in working capital	(2,052,356)	(9,406,559)
Change in inventories	550,000	590,958
Change in accounts receivables and prepayments	12,649,479	(10,089,226)
Change in due from related parties	(44,099)	7,615
Change in accounts payable and accruals	(7,606,473)	7,645,623
Cash generated by/(used in) operating activities	3,496,551	(11,251,589)
Interest paid	(509,309)	(690,280)
Net cash generated by/(used in) operating activities	2,987,242	(11,941,869)
Cash flows from investing activities		
Change in due from a related party	(3,412,494)	-
Payments for exploration and evaluation assets	(1,569,019)	(4,132,275)
Payments for furniture and equipment	(118,241)	(1,691)
Tax paid on disposal of exploration and evaluation assets	(95,000)	-
Proceeds on disposal of exploration and evaluation assets	6,139,530	-
Finance income received	-	26
Net cash generated by/(used in) investing activities	944,776	(4,133,940)
Cash flows from financing activities		
Repayment of loan from a related party	(13,100,000)	-
Share application money returned to a related party	(750,000)	-
Share application money received from a related party	9,850,000	14,600,000
Proceeds of loan from a related party	-	700,000
Net cash (used in)/generated by financing activities	(4,000,000)	15,300,000
Net decrease in cash and cash equivalents	(67,982)	(775,809)
Cash and cash equivalents at beginning of the year	275,255	1,051,064
Cash and cash equivalents at the end of the year (note 10)	207,273	275,255

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2014

1 Legal status and principal activities

Reliance Exploration & Production DMCC (“the Company”) is a limited liability company registered in Dubai Multi Commodities Centre (“DMCC”) under the DMCC company regulations No. 1/03. The Company was incorporated on 6 December 2006. The Company is engaged in the business of well drilling, oil and natural gas development abroad, onshore and offshore oil and gas field services and repairing oil and natural gas well equipment abroad.

The Company is a wholly owned subsidiary of Reliance Industrial Investments and Holdings Limited (“RIIHL”), an entity incorporated in India. RIIHL is a wholly owned subsidiary of Reliance Industries Limited (“RIL”). Until March 2013, the Company was a wholly owned subsidiary of RIL. In March 2013, RIL sold its entire shares in the Company to RIIHL.

The registered office of the Company was located at Unit No. 3O-01-1325, Floor No. 1, Bldg. No. 3, Plot No. 550-554, J&G, DMCC, Dubai, United Arab Emirates (“UAE”). The Company has changed its registered office address to Unit No. 1801-A, JBC3, Plot No. JLT-PH2-Y1A, Jumeirah Lakes Towers, Dubai, UAE from 25 December 2014.

Business activities

The Company’s assets primarily include working interests in oil and gas blocks situated in the Republic of Yemen and Peru.

Country	Block Name	Working interest		Remarks	Area-Sq KM
		2014	2013		
Republic of Yemen	Block 34	70%	70%	Operator	7,016
	Block 37	70%	70%	Operator	6,894
Peru	Block 39	10%	10%	Non-Operator	7,451
	Block 108	-	30%	Non-Operator	12,416

* During the year, the Company sold its interest in Peru Block 108 (note 6).

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs have been applied in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs

Amendments to IAS 32 *Financial Instruments: Presentation* relating to offsetting financial assets and liabilities

Summary of requirements

The amendments clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: (a) the meaning of ‘currently has a legally enforceable right of set-off’ (b) the application of simultaneous realisation and settlement (c) the offsetting of collateral amounts and (d) the unit of account for applying the offsetting requirements.

Amendments to IAS 36 *Impairment of Assets* relating to recoverable amount disclosures for non-financial assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* relating to novation of derivatives and continuation of hedge accounting

The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.

Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27

Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 *Separate*

Notes to the financial statements for the year ended 31 December 2014 (contd.)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Separate Financial Statements relating to investment entities and exemption of consolidation of particular subsidiaries

Financial Statements to: (a) provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement* (b) require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries and (c) require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

IFRIC 21 – *Levies*

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies: (a) the liability is recognised progressively if the obligating event occurs over a period of time and (b) if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24	1 July 2014
Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	1 July 2014
Amendments to IAS 19 <i>Employee Benefits</i> clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	1 July 2014
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business	1 January 2016
Amendments to IFRS 11 <i>Joint arrangements</i> to clarify accounting for acquisitions of Interests in Joint Operations	1 January 2016
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture</i> require	

Notes to the financial statements for the year ended 31 December 2014 (contd.)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (Contd...)

New and revised IFRSs	Effective for annual periods beginning on or after
biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16	1 January 2016
Amendments to IAS 27 <i>Separate Financial Statements</i> allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements	1 January 2016
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> to clarify the acceptable methods of depreciation and amortization	1 January 2016
IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2017
In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 <i>Revenue</i> , IAS 11 <i>Construction Contracts</i> and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:	
<ul style="list-style-type: none"> ▪ Step 1: Identify the contract(s) with a customer. ▪ Step 2: Identify the performance obligations in the contract. ▪ Step 3: Determine the transaction price. ▪ Step 4: Allocate the transaction price to the performance obligations in the contract. ▪ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. 	
Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
IFRS 9 <i>Financial Instruments</i> (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 <i>Financial Instruments</i> (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 <i>Financial Instruments: Recognition and Measurement</i> .	1 January 2018
IFRS 9 <i>Financial Instruments</i> (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9.	

Notes to the financial statements for the year ended 31 December 2014 (contd.)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (Contd...)

New and revised IFRSs	Effective for annual periods beginning on or after
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Finalised version of IFRS 9 (IFRS 9 <i>Financial Instruments</i> (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.	1 January 2018
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IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets; (2) the classification and measurement requirements for both financial assets and financial liabilities; (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015.

Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied
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IFRS 7 <i>Financial Instruments</i> : Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied
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Management anticipates that these new standards, interpretations and amendments will be applied in the Company's financial statements for the period beginning 1 January 2015 or as and when they are applicable and application of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15, may have no material impact on the financial statements of the Company in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be applied in the Company's financial statements for the annual period beginning 1 January 2017 and 1 January 2018, respectively. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of revenue from contracts with customers and the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

3 Summary of significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International financial Reporting Standards (IFRS). These financial statements represent the separate financial statements of the Company where the investment in subsidiaries is stated at cost.

3.2 Basis of preparation

The Company incurred a loss of USD 2,870,160 for the year ended 31 December 2014 (2013: USD 9,846,543) and its current liabilities exceeded its current assets by USD 617,474 as at 31 December 2014. The financial statements have been prepared on a going concern basis as the shareholder has undertaken to support the Company. In the event that this support is withdrawn, the going concern basis would be invalid and adjustments would have to be made to reduce the statement of financial position values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

Furthermore, these financial statements have been prepared in accordance with management's requirements for the purpose of consolidation with the ultimate parent company, RIL, and to present the Company's financial position as at 31 December 2014 and its financial performance and cash flows for the period from 1 January to 31 December 2014.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below:

Notes to the financial statements for the year ended 31 December 2014 (contd.)

3 Summary of significant accounting policies (continued)

3.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

3.3.1 Interest income

Interest income from financial asset is recognised when it is probable that economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.3.2 Other income

Other income generated outside the Company's normal business operation is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Other income includes overhead and asset usage income which the Company is entitled to receive as per Production Sharing Agreements.

3.4 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.4.1 The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.5 Furniture and equipment

Furniture and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to profit or loss in the period in which they are incurred.

Depreciation is calculated so as to write off the cost of furniture and equipment on a write down value over the estimated useful lives of the assets concerned. The principal annual rates used for this purpose are:

	Rates
Computers	40.00%
Furniture and fixtures	18.10%
Office equipment	13.91%
Vehicles	25.89%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. An asset's carrying amount is written down immediately to its

Notes to the financial statements for the year ended 31 December 2014 (contd.)

3 Summary of significant accounting policies (continued)

3.5 Furniture and equipment (continued)

recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.6 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

3.7 Oil and gas exploration and evaluation assets

3.7.1 Recognition and measurement

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. The Company follows the full cost method of accounting with the respective blocks as a cost centre.

Exploration and evaluation costs are initially capitalised within intangible assets. Such exploration and evaluation cost may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable employee remuneration, materials and fuel used, rig costs and prepayments made to contactors. Pre-license costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the profit or loss as they are incurred. Exploration and evaluation assets related to each exploration license/prospect are not amortised and are carried forward until the existence (or otherwise) of commercial reserves has been determined.

If no potentially commercial hydrocarbons are discovered and management decides to relinquish the block, the exploration asset is written off in profit or loss. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g. drilling of additional wells), are likely to be capable of being commercially developed, the costs continue to be carried as the intangible asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with the appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as intangible asset.

All such capitalised costs are subject to technical, commercial and management review as well as review of indicators of impairment at least at the end of each annual reporting period. This is to confirm the continued intent to develop or otherwise extract values from the discovery. When this is no longer the case, the costs are written off to profit or loss.

No amortisation is charged during the exploration and evaluation phase.

When proved reserves oil and natural gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties. The carrying value, after any impairment loss, is transferred on the commencement of commercial production from the respective cost centres as "Producing Intangible Assets". Expenses on administration and other overhead costs since inception up to the start of commercial production are accumulated as exploration and evaluation assets to be charged off from the year of commercial production based on unit of production.

For exchanges or parts of exchanges that involve any exploration and evaluation assets, the exchange is accounted for at the carrying value of the asset given up and no gain or loss is recognised.

3.7.2 Impairment

Exploration and evaluation assets are tested for impairment when facts and circumstances indicate that these assets are impaired. An impairment loss is recognised for the amount by which the carrying amount of exploration and evaluation assets exceeds their recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

3 Summary of significant accounting policies (continued)

3.7.3 Farm-out arrangements in the exploration and evaluation stage

The Company as a farmor

A farm-out transfer is part of mineral interest in consideration for an agreement by the transferee (“farmee”) to meet certain expenditure which would otherwise have to be undertaken as a farmor. Farm-out transactions generally occur in the exploration or development phase and are characterised by the farmor giving up the future economic benefits, in the form of reserves, in exchange for a reduction in future binding obligations.

The Company does not record any expenditure made by the farmee on its account. The farmor does not recognise a gain or loss on the farm-out arrangement, but rather re-designates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as gain on disposal.

3.8 Investment in subsidiaries

A subsidiary is an entity, including an unincorporated entity such as a partnership that is controlled by the Company.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Investment in subsidiaries is carried in the Company’s separate financial statements initially at cost and subsequently measured at the end of each reporting period at cost less any accumulated impairment loss.

The investment in subsidiaries is derecognised upon disposal or when no future economic benefits are expected to arise from the investment. Gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the investment in subsidiaries and is recognised in profit or loss.

3.9 Interests in joint arrangements

IFRS defines a joint arrangement as an arrangement over which two or more parties have a joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

3.9.1 Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. In relation to its interests in joint operations, the Company recognises its:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from sale of its share of output arising from the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

3.9.2 Reimbursements of costs of the operator of the joint arrangement

When the Company, acting as an operator or manager of a joint arrangement, receives reimbursements of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on profit or loss.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

3 Summary of significant accounting policies (continued)

3.10 Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and comprises direct purchase costs. Full provision is made for obsolete supplies. Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

3.12 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.13 Employee benefits

Provision is made for estimated liability for employees' entitlement to annual leave as a result of services rendered by eligible employees up to the end of the reporting period.

Provision is also made for the full amount of end of service benefits due to non-UAE national employees in accordance with the Company's policy, which is at least equal to the benefits payable in accordance with UAE Laws, for their period of service up to the end of the reporting period. The provision relating to annual leave and leave passage is disclosed as a current liability, while that relating to end of service benefits is disclosed as a non-current liability.

3.14 Foreign currencies

For the purpose of these financial statements, US Dollars (USD) is the functional and presentation currency of the Company.

Transactions in currencies other than USD (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates

Notes to the financial statements for the year ended 31 December 2014 (contd.)

3 Summary of significant accounting policies (continued)

3.14 Foreign currencies (continued)

prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in which they arise.

3.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3.16 Financial assets

The Company's financial assets are composed of other receivables and other current assets (excluding advances, advance tax, deferred input VAT and prepayments), due from related parties, and cash and bank balances. These financial assets are classified as 'loans and receivables' and 'cash and cash equivalents'. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

3.16.1 Cash and cash equivalents

Cash and cash equivalents are comprised of cash and balances with banks in current accounts or deposits which mature within three months of the date of placement.

3.16.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables, including other receivables and other current assets (excluding advances, advance tax, deferred input VAT and prepayments) and due from related parties, are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.16.3 Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

3 Summary of significant accounting policies (continued)

3.16.4 Derecognition of financial assets

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

3.17 Financial liabilities and equity instruments

3.17.1 Classification as debt or equity

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

3.17.2 Equity instruments

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

3.17.3 Financial liabilities

Accounts payable and accruals (excluding provision for income tax and tax deducted and payable to government), due to related parties and loan from a related party are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short term payables when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.17.4 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

4 Critical accounting judgments and key sources of uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying accounting policies

Below is the critical judgment, apart from those including estimations, that the management has made in the process of applying the Company's accounting policies and has the most significant effect on the amounts recognised in the financial statements.

4.1.1 Functional currency

Management considers USD to be the currency that most faithfully represents the economic effect of underlying transactions, events and conditions. USD is the currency in which the Company measures the performance and reports its results, as well as the currency in which it receives from its Parent Company.

4.1.2 Classification of joint arrangements as a joint operation

The Company's joint arrangements are not structured through a separate vehicle. Furthermore, there is a contractual arrangement entered into by way of joint operating arrangements between the Company and its partners which indicates that the parties to the joint

Notes to the financial statements for the year ended 31 December 2014 (contd.)

4 Critical accounting judgments and key sources of uncertainty (continued)

4.2 Key sources of estimation uncertainty (continued)

arrangement have the rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, the Company's working interests in oil and gas blocks are classified as a joint operation under IFRS 11 *Joint Arrangements*.

4.1.3 Classification of preference shares

In the process of classifying preference shares, management has made various judgments. Judgment is needed to determine whether a financial instrument, or its component parts, on initial recognition is classified as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. In making its judgment, management considered the detail criteria and related guidance for the classification of financial instruments as set out in IAS 32 Financial Instruments: Presentation, in particular, whether the instrument includes a contractual obligation to a fixed number of ordinary shares for each preference share at the point conversion. Management and the directors of the Company have concluded that the classification of the preference shares as an equity instrument in the financial statements is appropriate and in accordance to IAS 32 Financial Instruments: Presentation.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 Provision for impairment losses on receivables

An estimate of the collectible amount of other receivables and other current assets is made when collection of the full amount is no longer probable. The provision for impairment losses for all counterparties is based on variety of factors, including the overall quality and ageing of the receivables and continuing credit evaluation of the counterparties' financial conditions. Provision for impairment losses on other receivables and other current assets as at 31 December 2014 is USD 878,662 (2013: USD 433,662).

4.2.2 Impairment of investment in subsidiaries

The Company assesses, at each reporting date, whether there is any indication that investment in subsidiaries is impaired. If any such indication exists, the Company estimates the recoverable amount of investment. An investment's recoverable amount is the higher of an investment's fair value less cost to sell and its value in use and is determined for an individual investment if the investment generates cash inflows that are largely independent. Whether the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the investment. In determining the fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples like available fair value indicators.

The value in use calculation requires the Company to estimate the future cash flows expected to arise from the investment and a suitable discount rate in order to calculate the present value. Significant judgments, estimates and associated assumptions are involved in determining the expected cash flows and discount rates.

Management is satisfied that no additional impairment is required for the years ended 31 December 2014 and 2013 as there are no indicators of objective evidence of impairment for its investment in subsidiaries as at 31 December 2014 and 2013.

4.2.3 Impairment of inventories

When inventories become old or obsolete, an estimate is made of their net realisable value. Management has estimated the recoverability of inventories and has considered the allowance required for obsolescence. Management has estimated the allowance for inventory obsolescence on the basis of prior experience and the current economic environment. Management is satisfied that no provision for impairment on inventories is required as at 31 December 2014 and 2013.

4.2.4 Impairment of property and equipment

Furniture and equipment are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication of impairment. Cash flows are determined based on contractual agreements and estimations over the useful life of the assets and discounted using a range of discounting rates representing the rate of return on such cash-generating units. The net

Notes to the financial statements for the year ended 31 December 2014 (contd.)

present values are compared to the carrying amounts to assess any probable impairment. Management is satisfied that no impairment provision is necessary on property and equipment.

4.2.5 Useful lives of property and equipment

Management reviews the estimated useful lives of property and equipment at the end of each annual reporting period in accordance with IAS 16 *Property, Plant and Equipment*. Management determined that current year expectations do not differ from previous estimates based on its review.

4.2.6 Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of the reserves. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the exploration and evaluation expenditure. Management makes certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

During 2014, the management has further recorded an impairment of USD 230,353 and USD 235,937 (31 December 2013: USD 633,362 and USD 8,538) relating to Yemen 34 Block and Yemen 37 Block, respectively. Due to lack of commercial and economic viability, these costs were considered to be impaired and fully provided for.

4.2.7 Decommissioning and other environmental liabilities

Management periodically assesses the numerous uncertainties inherent in estimating the decommissioning and other environmental liabilities, including judgments relating to cost estimation and the timing of these costs. Management has assessed that no provisioning for decommissioning and other environmental liabilities is required.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

5 Furniture and equipment

	Computers	Furniture and fixtures	Office equipment	Vehicles	Total
	USD	USD	USD	USD	USD
Cost					
At 1 January 2013	925,295	34,055	49,729	25,825	1,034,904
Additions	1,061	630	-	-	1,691
Disposals	(2,300)	-	-	-	(2,300)
At 1 January 2014	924,056	34,685	49,729	25,825	1,034,295
Additions	3,509	49,391	-	65,341	118,241
Write-offs	(56,798)	-	(3,069)	-	(59,867)
At 31 December 2014	870,767	84,076	46,660	91,166	1,092,669
Accumulated depreciation					
At 1 January 2013	854,648	20,936	27,716	20,874	924,174
Charge for the year	51,556	2,680	3,069	1,285	58,590
Disposals	(2,186)	-	-	-	(2,186)
At 1 January 2014	904,018	23,616	30,785	22,159	980,578
Charge for the year	9,812	2,209	2,646	14,023	28,690
Write-offs	(56,228)	-	(1,625)	-	(57,853)
At 31 December 2014	857,602	25,825	31,806	36,182	951,415
Carrying amount					
At 31 December 2014	13,165	58,251	14,854	54,984	141,254
At 31 December 2013	20,038	11,069	18,944	3,666	53,717

6 Intangible assets

	Exploration and evaluation assets USD
Cost	
At 1 January 2013	93,383,445
Additions during the year	2,719,539
Classified as assets held for sale (note 7)	(5,596,136)
At 1 January 2014	90,506,848
Additions during the year	1,104,606
At 31 December 2014	91,611,454
Impairment	
At 1 January 2013	71,707,544
Impairment charge for the year	641,900
At 1 January 2014	72,349,444
Impairment charge for the year	466,290
At 31 December 2014	72,815,734

Notes to the financial statements for the year ended 31 December 2014 (contd.)

6 Intangible assets (Contd...)

Carrying amount

At 31 December 2014	18,795,720
At 31 December 2013	18,157,404

- i) Once technical feasibility and commercial viability of extracting mineral resource are demonstrable, exploration and evaluation assets are tested for impairment and transferred to producing assets.
- ii) Exploration and evaluation assets include interest capitalised amounting to USD 1,278,278 as at 31 December 2014 (2013: USD 1,278,278).
- iii) Exploration and evaluation assets include depreciation, staff cost, legal and professional fees, bank charges, and rent etc. amounting to USD 976,954 as at 31 December 2014 (2013: USD 976,954).

Disposal of exploration and evaluation assets

In April 2013, the Company entered into a sale and purchase agreement to transfer its entire interest in Peru Block 108. This asset was classified as non-current assets held for sale in 2013.

During the year, the Company sold its interest in Peru Block 108 with disposal proceeds of USD 6,139,530 and recognised a gain on disposal of USD 33,079, net of provision for income tax amounting to USD 510,315.

7 Non-current assets classified as held for sale

	2014 USD	2013 USD
Intangible assets classified as held for sale (note 6)	-	5,596,136
Liabilities associated with assets classified as held for sale	-	99,916

8 Investment in subsidiaries

	2014 % Holding	2013 % Holding	2014 USD	2013 USD
Central Park Enterprises DMCC (i)	100	100	100,000	100,000
Gulf Africa Petroleum Corporation (ii)	76	76	79,496,172	79,496,172
			79,596,172	79,596,172
Less: Provision for impairment of investment in a subsidiary			(100,000)	(100,000)
			79,496,172	79,496,172

(i) Central Park Enterprises DMCC ("CPE")

CPE is registered as Limited Liability Company with Dubai Multi Commodities Centre, Dubai, United Arab Emirates, as per the DMCC Company Regulation No. 1/03. CPE was incorporated on 17 December 2009. CPE is engaged in the business of exploration and production of natural resources, primarily oil and gas from mineral properties.

The Company owns 367 ordinary shares of AED 1,000 each (100% ownership). The Company has recorded a provision for impairment of USD 100,000 relating to this subsidiary.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

8 Investment in subsidiaries (Continued)

(ii) Gulf Africa Petroleum Corporation (“GAPCO”)

GAPCO was incorporated in the Republic of Mauritius as a private limited liability in accordance with Companies Act 2001. GAPCO’s registered office is at IFS Court, TwentyEight, Cybercity, Ebene, Mauritius. The principal activity of the GAPCO Group consists of storage, handling and distribution of petroleum products to its retail network and industrial network in Tanzania, Zanzibar, Uganda and Kenya. The principal activity of GAPCO is that of an investment holding company.

The Company owns 16,720 ordinary shares of USD 1,000 each (76% ownership). During 2012, the Company purchased GAPCO from Reliance Industries (Middle East) DMCC. Management has assessed as at reporting date whether there is objective evidence that its investment is impaired and has concluded that there are no indicators of objective evidence of impairment for its investment in GAPCO.

9 Accounts receivable and prepayments

	2014	2013
	USD	USD
Advances	42,635	1,792,272
Advance tax	95,829	-
Other receivables	960,796	10,821,986
Deferred input VAT	522,364	1,517,031
Deposits	27,522	36,068
Prepayments	33,917	87,881
	<u>1,683,063</u>	<u>14,255,238</u>
Less: Allowance for doubtful debts	<u>(878,662)</u>	<u>(433,662)</u>
	<u>804,401</u>	<u>13,821,576</u>

The Company’s exposure to credit and currency risks and impairment losses related to accounts receivables are disclosed in note 20.

Movements in the allowance for doubtful debts are shown below:

	2014	2013
	USD	USD
Balance at 1 January	433,662	-
Impairment losses on other receivables and other current assets (note 16)	462,696	433,662
Amounts written off during the year as non-recoverable	(17,696)	-
At 31 December	<u>878,662</u>	<u>433,662</u>

10 Cash and bank balances

	2014	2013
	USD	USD
Cash on hand	9,595	2,180
Bank balances	197,678	273,075
	<u>207,273</u>	<u>275,255</u>

Notes to the financial statements for the year ended 31 December 2014 (contd.)

11 Share capital/Preference share capital

	2014 USD	2013 USD
<i>Authorised</i>		
176,200 ordinary shares of AED 1,000 each	<u>47,985,402</u>	<u>47,985,402</u>
2,756,250 (2013: 2,756,250 shares), 5% Non-cumulative compulsorily convertible preference shares of AED 1,000 each	<u>750,000,000</u>	<u>750,000,000</u>
<i>Issued and fully paid up equity share capital</i>		
176,200 ordinary shares of AED 1,000 each fully paid: of which 26,200 ordinary shares were issued for cash	7,135,173	7,135,173
of which 150,000 ordinary shares issued for consideration other than cash	<u>40,850,229</u>	<u>40,850,229</u>
	<u>47,985,402</u>	<u>47,985,402</u>
Issued and fully paid 5% Non-cumulative compulsorily convertible preference shares	<u>399,160,057</u>	<u>390,060,057</u>

Issued and fully paid 5% Non-cumulative compulsorily convertible preference shares represent 1,466,913 (2013: 1,433,471) 5% Non-cumulative compulsorily convertible preference shares of AED 1,000 each issued by way of conversion of loan and share application money.

During the year ended 31 December 2014, the Company has issued 33,442 (2013:53,655) 5% Non-cumulative compulsorily convertible preference shares of AED 1,000 each aggregating to AED 33,442,000 (31 December 2013: AED 53,655,000) equivalent to USD 9,100,000 (31 December 2013: USD 14,600,000) against the share application money.

The 5% Non-cumulative compulsorily convertible preference shares will have to be converted into equity shares at any time during the first 5 years in the ratio of 1:1 and at any time after 5 years till 10 years in the same ratio of 1:1.

Based on the terms of issue of preference shares, the Company will issue fixed number of ordinary shares for each preference share. Accordingly, these preference shares have been classified as part of equity in the financial statements.

12 Provision for employees' end of service benefit

Movements in the provision are as follows:

	2014 USD	2013 USD
At 1 January	84,687	55,787
Charge during the year	<u>18,435</u>	<u>28,900</u>
At 31 December	<u><u>103,122</u></u>	<u><u>84,687</u></u>

13 Accounts payable and accruals

	2014 USD	2013 USD
Accounts payable and accruals	4,190,911	12,482,893
Provision for income tax	510,315	-
Tax deducted and payable to government	-	244
	<u><u>4,701,226</u></u>	<u><u>12,483,137</u></u>

Notes to the financial statements for the year ended 31 December 2014 (contd.)

14 Transactions and balances with related parties

Related parties comprise the shareholder, directors, key management personnel of the Company and entities in which they have the ability to control or exercise significant influence. Balances with related parties generally arise from commercial transactions in the normal course of business at agreed terms.

14.1 Related party balances

Balances arising from transactions with related parties in the statement of financial position are as follows:

	2014 USD	2013 USD
Due from related parties:		
Reliance Industries (Middle East) DMCC	3,412,494	-
Central Park Enterprises DMCC	128,721	84,622
	<u>3,541,215</u>	<u>84,622</u>
Due to a related party:		
Reliance Industries Limited	691,137	1,006,432
	<u>691,137</u>	<u>1,006,432</u>
Loan from a related party:		
Reliance Industries Limited	-	13,100,000

Loan from a related party carries an interest of 6% per annum. During the year, the Company repaid the loan.

14.2 Related party transaction

Significant transaction with a related party included in the statement of comprehensive income:

	2014 USD	2013 USD
Interest on loan from a related party (note 17)	311,194	776,844
Expenses incurred on behalf of related parties	918,391	-

14.3 Other transactions with related parties are as follows

	2014 USD	2013 USD
Provision of services and other costs included in intangible assets	267,014	708,171
Share application money received from RIIHL	9,850,000	14,600,000
Share application money returned to RIIHL	750,000	-

The Company did not incur key management compensation expenses during the years ended 31 December 2014 and 2013.

14.4 Terms and conditions of transactions with related parties

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the end of the reporting period are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2014, the Company has not recorded any impairment owed by related parties USD Nil (2013: USD Nil). This assessment is undertaken at the end of each annual reporting period through examining the financial position of the related party and the market in which the related party operates.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

15 Other income	2014 USD	2013 USD
Reversal of accruals	438,436	1,500,000
Gain on disposal of exploration and evaluation assets, net (note 6)	33,079	-
Others	262,147	213,583
	<u>733,662</u>	<u>1,713,583</u>
16 General and administrative expenses	2014 USD	2013 USD
Staff costs	505,137	488,134
Impairment losses on other receivables and deposits (note 9)	462,696	433,662
Expenditure related to surrender blocks	276,836	570,573
Professional fees	270,412	1,251,207
Depreciation of property and equipment (note 5)	28,690	58,590
Pre-acquisition cost-bid round data package	-	6,950,008
Others	359,888	387,155
	<u>1,903,659</u>	<u>10,139,329</u>
17 Finance costs	2014 USD	2013 USD
Interest on loan from a related party (note 14.2)	311,194	776,844
Bank charges	4,288	2,079
	<u>315,482</u>	<u>778,923</u>
18 Commitments and contingencies		
18.1 Commitments	2014 USD	2013 USD
<i>(i) Operating lease commitments</i>		
Operating lease commitments:		
Within one year	31,784	12,473
After one year but not more than five years	57,220	-
	<u>89,004</u>	<u>12,473</u>
<i>(ii) Capital commitment</i>		
Contracted but not provided for	62,225	86,931
	<u>62,225</u>	<u>86,931</u>
18.2 Contingencies	2014 USD	2013 USD
<i>(i) Contingent liability</i>		
Guarantees issued on behalf of the Company	50,000	50,000
	<u>50,000</u>	<u>50,000</u>

The above bank guarantees were issued in the normal course of business.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

18 Commitments and contingencies (continued)

(ii) Others

The Company along with its partner (Hood Energy Limited) are parties to a working interest in oil and gas blocks situated in the Republic of Yemen, as disclosed in note 1. A commitment has arisen as a result of a possible obligation relating to the Work Programs governed under the PSAs with the Republic of Yemen for Blocks 34 and 37 amounting to USD 25 million (the Company's interest is USD 17.5 million). Thus, the commitment is secured by letters of credit amounting to USD 25 million (the Company's interest is USD 17.5 million) issued by the Operators to the Republic of Yemen, represented by the Yemeni Ministry of Oil and Minerals.

Considering the deteriorating security situation in Yemen, the consortium, (the company and its partner), has declared force majeure thereby suspending its obligations under the PSAs for the Yemen Blocks 34 and 37. RIL and the Company have obtained injunction from Honourable Bombay High Court for restraining bankers from honouring any demand of the Yemeni Government under the letters of credit during force majeure period.

The Company along with its partner (collectively known as the 'Claimant') are initiating arbitration proceedings against the Yemeni Government under the terms of the PSAs due to the previous and current force majeure events against the Republic of Yemen and the Yemeni Ministry of Oil and Minerals (collectively known as the 'Respondent').

19 Non cash transactions

	2014 USD	2013 USD
Preference share issued from share application money	<u>9,100,000</u>	<u>14,600,000</u>
Exploration and evaluation assets accrual and payable	<u>205,672</u>	<u>670,085</u>
Provision for income tax on disposal of exploration and evaluation assets (net of advance tax)	<u>415,315</u>	<u>-</u>

20 Financial instruments

20.1 Capital management

The Company's policy is to maintain a strong capital base with the financial assistance of RIIHL in order to support the operations and to sustain future development of the business. The Company is not subject to any externally imposed capital requirements.

The Company manages its capital to ensure to be able to continue as a going concern while maximising the return on equity. The Company does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objectives. The Company's overall strategy remains unchanged from 2013.

The Company's capital structure comprises cash and bank balances and equity, comprising issued capital, preference share capital and accumulated losses as disclosed in the statement of changes in equity.

20.2 Financial risk management objectives

The Company is exposed to the following risks related to financial instruments - credit risk, liquidity risk, interest risk and foreign currency risk. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative or risk management purposes.

20.2.1 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company, and arises principally from the Company's other receivables and other current assets (excluding advances, advance tax, deferred input VAT and prepayments), bank balances, and due from related parties.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Company annually. The Company uses its own trading records to rate its major customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of each reporting period was:

Notes to the financial statements for the year ended 31 December 2014 (contd.)**20 Financial Instruments (Contd..)**

	2014	2013
	USD	USD
		(restated)
Due from related parties	3,541,215	84,622
Accounts receivable and pre payments (excluding advances, advance tax, deferred input VAT and prepayments)	109,656	10,424,392
Bank balances	197,678	273,075
	<u>3,848,549</u>	<u>10,782,089</u>

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

20.2.2 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Management which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and support from shareholder, by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses.

The contractual maturities of the financial instruments, determined on the basis of the remaining period at the end of the reporting period to the contractual maturity date, are as follows:

	Current	Non-current
	Less than	Greater than
	1 year	1 year
	USD	USD
31 December 2014		
Due to a related party	691,137	-
Accounts payable and accruals (excluding provision for income tax and tax deducted and payable to government)	4,190,911	-
Liabilities directly associated with the non-current assets classified as held for sale	-	-
	<u>4,882,048</u>	<u>-</u>
31 December 2013		
Loan from a related party*	-	13,886,000
Due to a related party	1,006,432	-
Accounts payable and accruals (excluding provision for income tax and tax deducted and payable to government)	12,482,893	-
Liabilities directly associated with the non-current assets classified as held for sale	99,916	-
	<u>13,589,241</u>	<u>13,886,000</u>

* The amount disclosed in the above note is different than the amount disclosed in the statements of financial position for loan from a related party as this amount represents the contractual undiscounted cash flows.

20.2.3 Currency risk

A majority of the Company's transactions are in USD or currencies that are pegged to the USD (AED) and therefore the Company is not exposed to significant foreign currency risks.

Notes to the financial statements for the year ended 31 December 2014 (contd.)

20 Financial Instruments (Contd..)

20.2.4 Interest rate risk

Interest rate risk is the risk that arises from timing difference in the maturity of Company's interest bearing assets and liabilities. The Company does not have any significant exposure to interest rate risk.

20.3 Fair value measurements

Management considers that the fair values of financial assets and financial liabilities approximate their carrying amounts as stated in the financial statements.

21 Events after the reporting period

As disclosed in note 18 to the financial statements, the Company along with its partner (Hood Energy Limited) (collectively known as the 'Claimant') are initiating arbitration proceedings against the Yemeni Government under the terms of the PSAs due to the previous and current force majeure events against the Republic of Yemen and the Yemeni Ministry of Oil and Minerals (collectively known as the 'Respondent').

22 Comparative figures

The presentation of certain notes to the financial statements has been enhanced over the prior year's presentation. These reclassifications to the comparative figures have had no impact on the current and previously reported loss or statement of financial position. Accordingly, a statement of financial position as at the beginning of the earliest comparative period is not presented.