

Caspian Drilling Company LLC

Consolidated Financial Statements

*For the year ended 31 December 2014
with Independent Auditors' Report*

Independent Auditors' Report to management of Caspian Drilling Company LLC:

We have audited the accompanying consolidated financial statements of Caspian Drilling Company LLC (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Basis for Qualified Opinion

The Company's 5% participating interest in Shemen License, joint operation acquired in 2013, is carried at the amount of the Group's share of joint operation's intangible assets of USD 8,102 thousand as at 31 December 2014 and 31 December 2013. In addition, there were accounts payable and accrued liabilities of USD 3,444 thousand on the balance sheet as at 31 December 2013 due under the existing arrangements under the Shemen License. In accordance with the agreement between the Company and Shemen Oil and Gas Resources Ltd these liabilities were released and respective gain was recognized in other income in 2014. We were unable to obtain sufficient appropriate audit evidence about the intangible assets of the joint operation as at 31

December 2014 and 31 December 2013, accounts payable and accrued liabilities of the joint operation as at 31 December 2013 and other income for the year ended 31 December 2014 because the Group management was not able to provide important supporting information about the financial position and performance of the joint operation. Consequently, we were unable to determine whether any adjustments to the consolidated statements of financial position as at 31 December 2014 and 31 December 2013 and the consolidated statements of profit or loss and other comprehensive income for the years then ended were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

4 June 2015

Caspian Drilling Company LLC

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2014

(All amounts are in thousands of US Dollars)

	Notes	2014	2013
Revenue	5	\$ 412,584	\$ 236,592
Revenue		412,584	236,592
Cost of sales	6	(304,808)	(144,386)
Gross profit		107,776	92,206
General and administrative expenses	7	(19,236)	(13,134)
Other income	8	9,833	20,388
Other expenses	9	(1,486)	(12,939)
Operating profit		96,887	86,521
Finance costs		—	(20)
Loss on disposal of PP&E		—	(24)
Foreign exchange loss		(491)	(14)
Profit before tax		96,396	86,463
Income tax expense	10	(20,876)	(17,743)
Profit for the year		75,520	68,720
Other comprehensive income for the year, net of tax – currency translation differences		8	9
Total comprehensive income for the year, net of tax		\$ 75,528	\$ 68,729

Signed and authorized for release on behalf of management:



Farid Akhundov
General Director



Ziya Hajiye
Finance Manager

4 June 2015

The accompanying notes are an integral part of these consolidated financial statements.

Caspian Drilling Company LLC
Consolidated Statement of Financial Position
as at 31 December 2014
(All amounts are in thousands of US Dollars)

	Notes	As at 31 December 2014	As at 31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	11	\$ 229,744	\$ 249,444
Intangible assets	12	8,633	8,667
Prepayment (long-term)	13	48,869	82,821
Other non-current assets	13	126,008	—
Deferred income tax assets	10	6,361	4,634
		419,615	345,566
Current assets			
Cash and cash equivalents	14	158,374	115,491
Deposit in bank	15	20,000	20,000
Restricted cash	16	10,000	10,000
Trade and other receivables	17	49,578	28,907
Due from related parties	18	17,850	29,313
Inventories	19	8,278	9,772
Prepayments	20	46,257	4,813
Other current assets	21	13	920
		310,350	219,216
Total assets		\$ 729,965	\$ 564,782
Equity and liabilities			
Equity			
Charter capital	22	\$ 285,846	\$ 285,846
Additional paid-in capital		448	448
Retained earnings		193,983	149,114
Cumulative translation differences		8	—
Total equity		480,285	435,408
Non-current liabilities			
Advances received (long-term)	13	45,787	82,794
Other non-current liabilities	13	126,008	—
Deferred revenue (non-current portion)	23	—	799
		171,795	83,593
Current liabilities			
Accounts payable and accrued liabilities	24	25,231	28,290
Advances received (short-term)	13	40,472	—
Due to related parties	25	5,730	2,670
Deferred revenue	23	799	1,598
Income tax payable	10	5,653	13,223
		77,885	45,781
Total liabilities		249,680	129,374
Total equity and liabilities		\$ 729,965	\$ 564,782

The accompanying notes are an integral part of these consolidated financial statements.

Caspian Drilling Company LLC
Consolidated Statement of Changes in Equity
for the year ended 31 December 2014
(All amounts are in thousands of US Dollars)

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Cumulative translation differences	Total equity
As at 1 January 2013		\$ 30	\$ 264,656	\$ 140,394	\$ (9)	\$ 405,071
Profit for the period		–	–	68,720	–	68,720
Other comprehensive income		–	–	–	9	9
Total comprehensive income		–	–	68,720	9	68,729
Dividends paid	22	–	–	(60,000)	–	(60,000)
Increase in charter capital	22	285,816	(264,208)	–	–	21,608
As at 31 December 2013		\$ 285,846	\$ 448	\$ 149,114	\$ –	\$ 435,408
Profit for the period		–	–	75,520	–	75,520
Other comprehensive income		–	–	–	8	8
Total comprehensive income		–	–	75,520	8	75,528
Dividends paid	22	–	–	(30,651)	–	(30,651)
As at 31 December 2014		\$ 285,846	\$ 448	\$ 193,983	\$ 8	\$ 480,285

The accompanying notes are an integral part of these consolidated financial statements.

Caspian Drilling Company LLC

Consolidated Statement of Cash Flows

for the year ended 31 December 2014

(All amounts are in thousands of US Dollars)

	Notes	2014	2013
Operating activities			
Profit before tax		\$ 96,396	\$ 86,463
<i>Non-cash adjustments to reconcile profit before tax to net cash flows:</i>			
Depreciation and amortization	6, 7	23,495	23,270
Finance costs		–	20
Disposal of PP&E		–	24
Foreign exchange (gain)/loss		524	(42)
Impairment of Property, plant and equipment	6	–	4,749
Other non-cash transactions		–	302
Working capital adjustments			
Increase in trade and other receivables		(20,671)	(978)
Decrease/(increase) in prepayments		(41,444)	299
Decrease/(increase) in due from related parties		3,818	(3,818)
Decrease/(increase) in inventories		1,494	(3,452)
Decrease/(increase) in other current assets		907	(862)
Increase/(decrease) in accounts payable and accrued liabilities		(3,542)	5,946
Increase/(decrease) in due to related parties		3,060	(493)
Increase in advances received (short-term)		40,472	–
Decrease in deferred revenue		(1,598)	(1,598)
Decrease/(increase) in prepayment (long-term)		37,007	(82,821)
Increase/(decrease) in advances received (long-term)		(37,007)	82,794
		102,911	109,803
Income tax paid		(30,173)	(10,352)
Net cash flows from operating activities		72,738	99,451
Investing activities			
Loan provided to the parent	18	(17,850)	(25,495)
Purchase of property, plant and equipment		(6,816)	(7,263)
Acquisition of interest in joint operation		–	(4,800)
Placement of deposit in bank	15	–	(20,000)
Net cash flows used in investing activities		(24,666)	(57,558)
Financing activities			
Capital contribution by shareholder	22	–	21,608
Dividends paid	22	(5,156)	(60,000)
Net cash flows from financing activities		(5,156)	(38,392)
Net increase in cash and cash equivalents		42,916	3,501
Effect of foreign exchange gain		(33)	52
Cash and cash equivalents as at 1 January	14	115,491	111,938
Cash and cash equivalents as at 31 December	14	\$ 158,374	\$ 115,491

Non-cash transactions performed by the Group during 2014 are represented by:

- Settlement of allowance for impairment of trade receivables with accounts payable in amount of USD 3,444 (2013: nil);
- Settlement of declared dividends with loan receivable from shareholder in amount of USD 25,495 (2013: nil).

The accompanying notes are an integral part of these consolidated financial statements.