

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document or as to what action you should take, you are recommended to seek your own financial advice immediately from an independent financial adviser who is authorised for the purposes of the Financial Services and Markets Act 2000 (as amended) and who specialises in advising on the acquisition of shares and other securities in the United Kingdom. The whole of the text of this document should be read.

**Your attention is drawn to Part 2 of this document, which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Group's business, financial position and prospects should be viewed in light of these risk factors.**

This document, which is an admission document required by the AIM Rules, does not constitute a prospectus pursuant to the Financial Services and Markets Act 2000 (as amended), but has been drawn up in accordance with the requirements of the AIM Rules. A copy of this document has been delivered to the London Stock Exchange as an admission document in respect of the Ordinary Shares.

Application has been made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence in the Ordinary Shares on AIM on 27 April 2006.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those that relate to the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. The London Stock Exchange has not itself examined or approved the contents of this document.

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## **Baltic Oil Terminals PLC**

*(Incorporated and registered in England and Wales with registered no. 05752493)*



### **Placing of 22,428,571 Ordinary Shares at 140p per share and Admission to trading on AIM**

**Nominated adviser and broker  
Arden Partners Limited**

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#### **Share capital on Admission**

<b>Authorised</b>		<b>Issued and Fully Paid</b>	
<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>
<b>£630,000.00</b>	<b>63,000,000</b>	<b>£434,478.21</b>	<b>43,447,821</b>

Ordinary Shares of 1p each

All of the New Ordinary Shares will, upon Admission, rank *pari passu* in all respects with the existing Ordinary Shares in issue at the date of this document including the right to receive all future dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission.

Arden Partners, which is regulated and authorised in the United Kingdom by the Financial Services Authority, is acting exclusively for the Company as nominated adviser and as broker for the purpose of the AIM Rules in connection with the Placing and Admission. Arden Partners is not acting for any other person and will not be responsible to any other person for providing the protections afforded to clients of Arden Partners, or for advising any other person in connection with the Placing or Admission. The responsibilities of Arden Partners, as nominated adviser, are owed solely to the London Stock Exchange and not to the Company or to any Director or to any other person in respect of their decision to acquire Ordinary Shares in reliance on any part of this document.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document, including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge of the Directors (who have taken reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

This document does not constitute an offer to sell or issue, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution into the United States, Canada, Australia, Japan, the Republic of Ireland or South Africa. The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended, or under the securities laws of Canada, Australia, Japan, the Republic of Ireland or South Africa. Accordingly, subject to certain exceptions, they may not be offered or sold, directly or indirectly, within the United States, Canada, Australia, Japan, the Republic of Ireland or South Africa or to, or for the account or benefit of, any person in, or any national, citizen or resident of, the United States, Canada, Australia, Japan or the Republic of Ireland or South Africa. The distribution of this document outside the United Kingdom may be restricted by law and therefore persons outside the United Kingdom into whose possession this document comes should inform themselves about and observe any restrictions as to the Placing, the Ordinary Shares or the distribution of this document.

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## DIRECTORS, SECRETARY AND ADVISERS

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<b>Directors and company secretary</b>	Philip Dayer – <i>Non-Executive Chairman</i> Simon Escott – <i>Chief Executive</i> Robert Wilde – <i>Finance Director and company secretary</i>
<b>Registered office</b>	6-8 Underwood Street London N1 7JQ
<b>Nominated adviser and broker</b>	Arden Partners Limited Nicholas House 3 Laurence Pountney Hill London EC4R 0EU
<b>Solicitors to the Company (as to English law)</b>	Covington & Burling 265 Strand London WC2R 1BH
<b>Solicitors to the Company (as to Russian law)</b>	Salans Gazetnyi Pereulok, 17/9 125009 Moscow Russian Federation
<b>Auditors and reporting accountants</b>	Ernst & Young LLP 1 More London Place London SE1 2AF
<b>Solicitors to Arden Partners</b>	Norton Rose Kempson House Camomile Street London EC3A 7AN
<b>Registrar</b>	Lloyds TSB Registrars Princess House 1 Suffolk Lane London EC4R 0AX
<b>Competent person (Engineering)</b>	TH Project Management AB 200 25 Malmö Sweden
<b>Competent person (Exploration)</b>	Exploration Consultants Limited Highlands Farm Greys Road Henley-on-Thames Oxon RG9 4PR

## **PLACING STATISTICS**

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Placing Price	140p
Total number of New Ordinary Shares being placed on behalf of the Company	16,428,571
Total number of Existing Ordinary Shares being sold on behalf of existing Shareholders	6,000,000
Percentage of the Enlarged Share Capital being placed	51.62 per cent
Estimated proceeds of the Placing receivable by the Company after expenses	£21.0 million
Number of Ordinary Shares in issue immediately following Admission	43,447,821
Expected market capitalisation of the Company following Admission at the Placing Price	£60.83 million

## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

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Admission and commencement of dealings in Ordinary Shares on AIM	8.00 am on 27 April 2006
Delivery of Ordinary Shares into CREST accounts	27 April 2006
Despatch of definitive share certificates (where applicable)	by 11 May 2006

Each of the times and dates above is subject to change.

## **FOREIGN CURRENCY AMOUNTS**

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In this document, unless otherwise stated, US dollar amounts have been converted into Sterling at US\$1.7777=£1.00 (being the closing mid-point spot exchange rate set out in the Financial Times on 19 April 2006, the latest practicable date prior to the publication of this document).

## DEFINITIONS

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The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Admission”	admission of the Enlarged Share Capital to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange governing admission to, and the operation of, AIM, as amended from time to time
“Arden Partners”	Arden Partners Limited
“Articles”	the articles of association of the Company adopted on 19 April 2006, conditional on Admission and with effect from Admission
“Baltic” or the “Company”	Baltic Oil Terminals PLC or, where the context requires, any member of the Group
“Baltic Group” or “Group”	Baltic and its subsidiary undertakings
“Baltic Petroleum”	Baltic Petroleum Limited, a wholly owned subsidiary of the Company
“Baltic Terminals”	Baltic Terminals Limited, a wholly owned subsidiary of the Company
“certificated” or “in certificated form”	the description of a share or security which is not in uncertificated form (that is, not in CREST)
“CREST”	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo
“CRESTCo”	CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001
“Directors” or the “Board”	the directors of the Company, whose names appear on page 3 of this document
“ECL”	Exploration Consultants Limited
“Enlarged Share Capital”	the share capital of the Company immediately following Admission consisting of the Existing Ordinary Shares and the New Ordinary Shares
“EU”	the European Union
“Existing Ordinary Shares”	27,019,250 Ordinary Shares in issue immediately prior to Admission
“Founders”	Messrs Escott, Gilchrist and Pockney
“Founder Options”	options granted to the Founders to subscribe for 2,775,000 Ordinary Shares at the Placing Price by no later than 26 April 2009, as described in paragraph 12.1.14 of Part 7 of this document

“FSA”	the Financial Services Authority
“FSMA”	the Financial Services and Markets Act (as amended)
“FSU”	the former Soviet Union, comprising the 15 former Republics of the USSR, being Armenia, Azerbaijan, Belarus, Estonia, Georgia, Latvia, Lithuania, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan
“HMRC”	HM Revenue and Customs
“Lock-in Agreements”	the lock-in agreements dated 20 April 2006 among (1) the Directors, (2) the Company and (3) Arden Partners, and (1) RAB Capital, (2) the Company and (3) Arden Partners, details of which are set out in paragraph 12.1.9 of Part 7 of this document
“London Stock Exchange”	London Stock Exchange plc
“New Ordinary Shares”	16,428,571 new Ordinary Shares to be issued by the Company and subscribed for pursuant to the Placing
“Official List”	the Official List of the UK Listing Authority (being the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA)
“Orderly Marketing Agreements”	the orderly marketing agreement dated 20 April 2006 among (1) Mark Gilchrist and James Pockney (two of the Founders), (2) the Company and (3) Arden Partners, the orderly marketing agreement dated 20 April 2006 among (1) RAB Capital, (2) the Company and (3) Arden Partners, and the orderly marketing agreement dated 20 April 2006 among (1) Caldwell Associates Limited, (2) the Company and (3) Arden Partners, details of which are set out in paragraph 12.1.10 of Part 7 of this document
“Ordinary Shares”	ordinary shares of 1 pence each in the capital of the Company
“Performance Shares Plan”	the Baltic Oil Terminals PLC 2006 Performance Shares Plan
“Placing”	the conditional placing by Arden Partners of the New Ordinary Shares and 6,000,000 Existing Ordinary Shares with institutional and other investors at the Placing Price pursuant to the Placing Agreement and the Sale Agreement, respectively
“Placing Agreement”	the conditional agreement dated 20 April 2006 among (1) Arden Partners, (2) the Company, (3) the Directors and (4) Mark Gilchrist and James Pockney, further details of which are set out in paragraph 12.1.7 of Part 7 of this document
“Placing Price”	140p per Ordinary Share
“Polex”	OOO Polex Service, a limited liability company incorporated in Russia

“Polex Agreement”	the agreements dated 31 March 2006 for the acquisition of 50 per cent of the issued share capital of Polex by Baltic Terminals details of which are set out in paragraph 12.1.3(b) of Part 7 of this document
“QCA Corporate Governance Guidelines”	the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance
“RAB Capital”	the RAB Energy Fund Limited and the RAB Special Situations (Master) Fund Limited
“Rosmorport”	Federal Unitary Enterprise Rosmorport, the Russian Port Authority
“Sale Agreement”	the conditional agreement dated 20 April 2006 between (1) RAB Capital and (2) Arden Partners pursuant to which Arden Partners has agreed, as agent for RAB Capital, to sell 6,000,000 Existing Ordinary Shares to institutional and other investors in the Placing
“SEG”	Siberian Energy Group, Inc., a company incorporated in Nevada, USA
“Shareholders”	holders of Ordinary Shares
“subsidiary” and “subsidiary undertaking”	have the meanings respectively ascribed to them by the Act
“Tetol”	Tetol Limited, including, where the context so requires, its subsidiary company Tetol (Russia)
“Tetol Agreement”	the agreement dated 1 March 2006 between Baltic Terminals, Alexander Sergeevich Dronov, Alexei Alexeevich Palchevskiy and Polex pursuant to which Baltic Terminals has acquired 58.35 per cent of the share capital of Tetol, details of which are set out in paragraph 12.1.2(b) of Part 7 of this document
“Tetol (Russia)”	OJSC Tetol, an open joint stock company incorporated in Russia
“TH Management”	Top Housing Project Management AB
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction
“US\$”	United States dollar
“Zauralneftegaz”	Zauralneftegaz Limited, including, where the context so requires, Zauralneftegaz (Russia)
“Zauralneftegaz (Russia)”	OOO Zauralneftegaz, a limited liability company incorporated in Russia

## KEY INFORMATION

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**The following information should be read in conjunction with the full text of this document, from which it is derived and which must be read in its entirety in order to obtain a full appreciation of the Group.**

### Introduction

The Baltic Group has been established to invest in oil related infrastructure projects and upstream activities in Russia and other countries in the FSU to generate a diversified and recurring revenue stream with reduced exposure to fluctuations in oil and gas prices.

The Group's principal asset is its 58.35 per cent equity interest in Tetoil. The Directors propose that Tetoil, having completed basic and intermediate engineering, will construct an oil export transshipment terminal in Kaliningrad, a sovereign Russian territory located on the Baltic Sea between the EU states of Poland and Lithuania. The Directors intend that the terminal will commence operations in January 2007 and reach full capacity by the end of 2008, by when it should be capable of transshipping approximately 5.8 million tonnes per annum of light crude oil and refined products.

In addition to its interest in Tetoil, the Group has a 50 per cent equity interest in Porex, a vessel cleansing business based in Kaliningrad.

Finally, Baltic also has a 50 per cent equity interest in Zauralneftegaz, a company which is exploring for hydrocarbons over up to approximately 1.0 million acres in the Kurgan area of Western Siberia, and which is under the board and operational control of the Group.

### The market for a new oil export transshipment terminal in Russia

Since the mid 1990s, oil and gas revenues, and in particular the export thereof, have become increasingly important to the Russian economy, to the extent that independent analysts estimate that oil and gas revenues now represent approximately 25 per cent of gross domestic product of the country and 50 per cent of exports.

The principal export route for Russian crude and refined product to North Western Europe and Scandinavia is via the Baltic Sea. As a result of growing demand from Europe, the Baltic Sea ports have enjoyed, and are forecast to continue to enjoy, stronger growth than other Russian oil export routes.

Tetoil will build its export transshipment terminal in Kaliningrad, a sovereign Russian territory located on the Baltic Sea between the EU states of Poland and Lithuania.

As a Russian port, Kaliningrad, which is the only ice-free Russian port on the Baltic Sea, benefits from domestic rail tariffs, whereas all the ports located in other countries are subject to higher international tariffs for the transport of oil by railway in Russia.

Kaliningrad also enjoys a significant competitive advantage, relative to the other Russian ports, through its southernmost geographic location, being closer both to the Russian oil production fields in Western Siberia and to the Western European destination ports.

The Directors believe its ice-free status, cheaper rail tariffs and geographic location have contributed significantly to the much higher growth which Kaliningrad has enjoyed, and which the Directors believe it will continue to enjoy, relative to the Baltic ports in general. Growth in the export of crude and refined products via Kaliningrad from 2003 to 2005 amounted to 50.8 per cent per annum and is forecast to grow by a further 10.0 per cent in 2006.

The Directors understand that each of the existing export ports in Kaliningrad, with the exception of Lukoil, Svetly, which exclusively transships Lukoil product, have limited, if any, practicable scope for further expansion. They therefore believe there to be a significant opportunity for a new terminal in Kaliningrad, to meet the continuing growth in demand which they anticipate for transshipment capacity.

### The Tetoil transshipment terminal

The Directors intend that Tetoil will build a new oil export transshipment terminal in Kaliningrad. The terminal has been designed, when fully constructed, to have an annual throughput capacity of approximately 5.8 million tonnes. In addition, it will incorporate a blending unit with an annual capacity of 960,000 tonnes and a topping unit with an annual capacity of 120,000 tonnes.



The design and construction planning of the terminal is at an advanced stage. The basic engineering for the terminal was concluded in November 2005 and the intermediate engineering was concluded in January 2006. The Directors intend that the detailed engineering and construction drawings will be completed in June 2006, which will enable Tetoil to enter into a lease agreement for the land on which the terminal is to be situated and commence construction in July 2006. The Directors are confident that the first shipment of oil will take place in January 2007 and that construction of the terminal will be completed, and full capacity reached, by the end of 2008.

The terminal will be located on approximately 120 acres of a 280 acre site on the Rybachiy peninsular on the south bank of the Pregol River, immediately to the west of Kaliningrad. The site has approximately 1 km of river frontage, and already has a jetty of sufficient size to load simultaneously two ships with 10,000 tonnes of oil or refined products.

The Directors believe that Tetoil has secured all of the necessary approvals and consents to commence the initial phase of the terminal construction, subject to entering into a lease agreement for the land. They have also been advised that certain environmental approvals are required for the second phase construction, and anticipate these being obtained later this year.

The Directors intend that the terminal will provide the following services to customers:

- export transshipment of light crude and refined products, including gasoline, gasoil, diesel and Mazut;
- stocking of customer crude and products in the tank farm;
- refining of customer crude through the topping unit; and
- blending of customer product in the blending unit.

The Directors will market the terminal's services principally to the mid-market sector of the Russian market, i.e. to wholesalers and traders of crude oil, smaller independent producers and international traders of crude and refined products.

### **Zauralneftegaz**

Zauralneftegaz holds four petroleum exploration licences in Zapadno-Suersky, Mokrousovsky, Privolny and Orlov-Pashkovsky in the Kurgan region of Russia. The area under licence amounts to approximately 645,000 acres. In addition Zauralneftegaz has applied for a further seven licences over an area totalling approximately 360,000 acres in the same region.

The principal objective of Zauralneftegaz's exploration activity in the region is to establish the presence of a viable hydrocarbon source rock system.

The Company has been advised that, whilst the licences are at an early stage of exploration, there are indications that a working petroleum system may be present and that ongoing work is appropriate to further delineate the potential to a stage where drilling will be required to prove up that potential.

Therefore the Directors intend to identify, by the autumn of 2006, the two locations with the greatest potential for drilling and, subject to successful results, to conduct test drilling as soon as practicable.

### **Polex**

Polex provides vessel cleansing services in Kaliningrad using two specially converted vessels under an agreement with Rosmorport, the Russian port authority.

### **Dividend policy**

The Directors' intention is that the Company will distribute at least 50 per cent of its distributable profits.

### **Reasons for Admission and use of proceeds**

The principal reason for the Placing is to provide the necessary funding for the initial phase of the construction of the Tetoil terminal. The Directors intend that the subsequent phase will be financed from internally generated funds. The net proceeds will also be used to finance the ongoing exploration and drilling of two wells on the Zauralneftegaz project and for general working capital purposes.

## PART 1

### INFORMATION ON THE GROUP

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#### Introduction

The Baltic Group has been established to invest in oil related infrastructure projects and upstream activities in Russia and other countries in the FSU to generate a diversified and recurring revenue stream with reduced exposure to fluctuations in oil and gas prices.

The Group's principal asset is its 58.35 per cent equity interest in Tetoil. The Directors propose that Tetoil, having completed basic and intermediate engineering, will construct an oil export transshipment terminal in Kaliningrad, a sovereign Russian territory located on the Baltic Sea between Poland and Lithuania. The Directors intend that the terminal will commence operations in January 2007 and reach full capacity by the end of 2008, by when it should be capable of transshipping approximately 5.8 million tonnes per annum of light crude oil and refined products.

In addition to its interest in Tetoil, the Group has a 50 per cent equity interest in Porex, a vessel cleansing business based in Kaliningrad.

Finally, Baltic also has a 50 per cent equity interest in Zauralneftegaz, a company which is exploring for hydrocarbons over up to approximately 1.0 million acres in the Kurgan region of Western Siberia, and which is under the board and operational control of the Group.

#### Strategy

The Board's strategy is to develop a vertically integrated group, with business operations in Russia and other countries of the FSU, to provide a diversified and recurring revenue stream with reduced exposure to fluctuations in oil and gas prices. The Directors believe that this strategy enables the Group to exploit Russia's important and growing oil and gas export market, whilst fully utilising the technical and geographic expertise of the Group's operational management team.

In selecting opportunities for investment by the Group that are consistent with the overall strategy, the Board focuses on the potential for significant returns to shareholders and either strong extant cash flow or the proven potential for short term cash flow, with minimal, if any, existing debt. In addition, the Board will normally seek control and structure its investment agreements to achieve payback of the original investment prior to distribution of returns to local partners.

#### History

Baltic was founded in December 2004 by Simon Escott, James Pockney and Mark Gilchrist. Simon Escott is the Chief Executive of the Company; James Pockney and Mark Gilchrist provide consulting services to the Company on a part-time basis.

On 18 February 2005, RAB Capital subscribed US\$5.0 million (£2.81 million) by way of an equity investment in Baltic Petroleum.

On 14 October 2005, Zauralneftegaz acquired from SEG for US\$75,000 (£42,189) 100 per cent of the issued share capital of Zauralneftegaz (Russia), a company exploring for hydrocarbons in Western Siberia which had at that point in time exhausted its financial resources, in exchange for issuing to SEG shares representing 50 per cent of the issued share capital of Zauralneftegaz. Subsequently, the Group secured board and operational control, and provided a loan facility to Zauralneftegaz (Russia) of US\$6.9 million (£3.88 million), of which US\$2.6 million (£1.46 million) was then advanced to enable it to settle its liabilities.

On 1 March 2006, Baltic Terminals entered into an agreement which resulted in it holding an interest of 58.35 per cent in the issued share capital of Tetoil.

On 15 March 2006, Baltic Petroleum raised a further £2.3 million through a placing of new Ordinary Shares at a post new money valuation of £31.05 million.

On 31 March 2006, the whole of the issued share capital of Baltic Petroleum was acquired by the Company pursuant to the terms of a share exchange agreement, details of which are set out in paragraph 12.1.11 of Part 7 of this document.

On 31 March 2006, Baltic Terminals entered into the Porex Agreement pursuant to which it acquired for approximately US\$2.0 million (£1.13 million) 50 per cent of the issued share capital of Porex, the company which will lease the site on which Tetoil will build the first phase of the transshipment terminal.

In the period from 3 December 2004 to 31 December 2005, the Group made a loss before taxation of approximately £0.8 million, reflecting amongst other items the Group's share of exploration costs borne by Zauralneftegaz and charged against profit in accordance with the Group's accounting policies and general office expenses. Net assets at 31 December 2005 amounted to approximately £2.1 million.

### **The market for a new oil transshipment terminal in Russia**

Since the mid 1990s, oil and gas revenues, and in particular the export thereof, have become increasingly important to the Russian economy, to the extent that independent analysts estimate that oil and gas revenues now represent approximately 25 per cent of gross domestic product of the country and 50 per cent of exports.

The table below sets out the tonnage production, domestic consumption and export of crude and refined product in each year from 2003 to 2005, with forecasts for 2006.

<b>Table 1: Russian oil market growth</b> Tonnes (millions)	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006 forecast</b>
Russian production of crude and refined products	421	458	470	485 <sup>1</sup>
Domestic consumption of crude and refined products	84	98	92	92
Export of crude and refined products by Russia	337	360	378	393 <sup>2</sup>

Source: 1. Russian Ministry of Economic Development  
2. Alternative Energy Finance

Russian production of crude and refined products increased by 5.6 per cent per annum over the period 2003 to 2005, and is forecast to increase by a further 3.3 per cent in 2006. This growth, combined with declining domestic consumption, has resulted in exports of crude and refined products increasing at 5.9 per cent per annum from 2003 to 2005, with a forecast increase of a further 3.9 per cent in 2006.

The principal export route for Russian crude and refined product to North Western Europe and Scandinavia is via the Baltic Sea. As a result of growing demand from Europe, the Baltic Sea ports have enjoyed, and are forecast to continue to enjoy, stronger growth than the other Russian oil export routes, as is evident from the following table.

<b>Table 2: Export of crude and refined products via the Baltic Sea</b> Tonnes (millions)	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006 forecast</b>
Export of crude and refined products via the Baltic Sea	114	147	159	168 <sup>1</sup>

Source: 1. Alternative Energy Finance

Over the period from 2003 to 2005, the export of crude and refined products via the Baltic Sea increased by 18.1 per cent per annum, and is forecast to increase by a further 5.3 per cent in 2006.

The map below of the Eastern shore line of the Baltic Sea depicts all of the ports with oil export transshipment facilities.

#### Baltic Sea ports with oil transshipment facilities



Source: Nefte Transport — Petroleum Argus, January 2006

The ports of Kaliningrad, Primorsk, Vysotsk and St Petersburg are all located in Russia. Kaliningrad is a sovereign Russian territory located on the Baltic Sea between the EU states of Poland and Lithuania. The remaining ports are located in Poland, Lithuania, Latvia, Estonia and Finland.

All of the Russian Baltic ports, other than Kaliningrad, are prone to significant ice coverage during the winter months, which results in high shipping costs due to the need for ice breaking ships to maintain shipping channels and, often, double hull tankers.

Of the non-Russian Baltic ports, all except Gdansk are affected by either ice or adverse weather conditions during the winter, although none has been closed in the last three years.

Of the Russian ports with transshipment facilities on the Baltic Sea:

- Primorsk is serviced by the main Transneft pipeline and therefore handles only Urals blend crude, as this has been the only oil transported by this pipeline to Primorsk (Urals is a heavy blend of crude which is of lower quality than both Brent and high quality Russian crude and therefore generally trades at a discount to the latter);
- Vysotsk is a Lukoil captive terminal which is using a new rail line to bring in predominantly refined product and light crude (which are of higher value than Urals blend crude);
- St Petersburg, which is heavily ice-bound in winter (which can impact its capacity by 60 per cent) is supplied by railway and therefore handles mainly light crude and refined products; and
- Kaliningrad is also serviced by rail and specialises in light, high quality crude and most refined products.

The principal Baltic Sea export transshipment terminals outside Russia are Riga and Ventspils, both of which are located in Latvia, and Tallinn in Estonia. However, Riga and Ventspils have suffered significant declines in the transshipment of crude since the Transneft pipeline commenced operations to Primorsk in

2001. Other significant export transshipment terminals on the Baltic Sea are located at the Lithuanian ports of Butinge, which is serviced by rail and pipeline, and Klaipeda, which is serviced by rail. Both ports have suffered significant declines in crude shipments following reductions in transit rail tariffs to Kaliningrad by the Russian Ministry of Transport in August 2001. As a result, both ports are now focusing on the transshipment of specialist cargoes, such as vacuum gasoil.

As a Russian port, Kaliningrad benefits from domestic rail tariffs, whereas all the ports located in other countries are subject to higher international tariffs for the transport of oil by rail in Russia. As a result, the cost of transporting oil and refined products by rail from the major Russian production fields in Western Siberia to Kaliningrad is cheaper than via other Baltic ports located outside Russia; for example, rail transportation costs from Samara in Western Siberia to Kaliningrad are approximately 70 per cent lower than the costs to other Baltic ports located outside Russia.

In September 2005, Russia entered into an agreement with Lithuania to reduce the differential in favour of domestic tariffs relative to international tariffs in Russia in respect of rail transport to Lithuanian ports by 2009. The Directors believe that Kaliningrad will continue to enjoy an advantage in terms of cheaper rail tariffs over its Lithuanian counterparts thereafter.

Kaliningrad also enjoys a significant competitive advantage, relative to the other Russian ports, through its southernmost geographic location, being closer both to the Russian oil production fields in Western Siberia by rail and also to the Western European destination ports.

The Directors believe its ice-free status, cheaper rail tariffs and geographic location have contributed significantly to the much higher growth which Kaliningrad has enjoyed, and which the Directors believe it will continue to enjoy, relative to the Baltic ports in general. Growth in the export of crude and refined products via Kaliningrad from 2003 to 2005 amounted to 50.8 per cent per annum and is forecast to grow by a further 10 per cent in 2006, as illustrated by the following table:

**Table 3: Export of crude and refined products via Kaliningrad**

Tonnes (millions)	2003	2004	2005	2006 forecast
Crude and refined products exported from Russia via Kaliningrad	4.4	7.4	10.0	11.0 <sup>1</sup>

Source: 1. Alternative Energy Finance

There are currently four oil export terminals in Kaliningrad, of which three are currently operating. The fourth, TDK, Vostochny, is currently not operating pending resolution of a dispute between the Russian Navy, on whose land it is based, and the Russian Transportation Ministry, which regulates its activity. The current capacity and 2005 throughput of each of these terminals is shown in the table below.

**Table 4: Annual throughput capacity of Kaliningrad export transshipment terminals**

Tonnes (millions)	Maximum annual capacity	2005 throughput
Lukoil, Svetly	6.0	5.6
Kaliningrad Nefty Base, Kaliningrad	3.5	2.6
Baltic Oil Loading, Baltysk	1.8	1.3
TDK, Vostochny	1.8	Nil

Source: Alternative Energy Finance

The Directors understand that each of the above ports, with the exception of Lukoil, Svetly, which exclusively tranships Lukoil product, have limited, if any, practicable scope for further expansion.

The Directors therefore believe there to be a significant opportunity for a new terminal in Kaliningrad, to meet the continuing growth in demand which they anticipate for transshipment capacity.

#### **The Tetoil transshipment terminal**

The Directors intend that Tetoil, in which the Group has a 58.35 per cent equity interest, will build a new oil export transshipment terminal in Kaliningrad. The terminal has been designed, when fully constructed,

to have an annual throughput capacity of approximately 5.8 million tonnes. In addition, it will then comprise a blending unit with an annual capacity of 960,000 tonnes and a topping unit with an annual capacity of 120,000 tonnes.

### *Design and engineering*

The design and construction planning of the terminal is at an advanced stage. The basic engineering for the terminal was concluded in November 2005 and the intermediate engineering was concluded in January 2006. The Directors intend that the detailed engineering and construction drawings will be completed in June 2006, which will enable Tetoil to enter into a lease agreement with the Administration of the City of Kaliningrad for the land and commence construction in July 2006. The Directors are confident that the first shipment of oil will take place in January 2007 and that construction of the terminal will be completed, and full capacity reached, by the end of 2008.

### *Location*

The terminal will be located on approximately 120 acres of a 280 acre site on the Rybachiy peninsular on the south bank of the Pregol River, immediately to the west of Kaliningrad. The site has approximately 1 km of river frontage, and already has a jetty of sufficient size to load simultaneously two ships with 10,000 tonnes of oil or refined products.

The site was zoned by the Kaliningrad authorities in 2003 for use as a transshipment terminal and, since then, has been under the control of Messrs Dronov and Palchevskiy, the minority shareholders in Tetoil. It is, in the Directors' opinion, the only vacant site of sufficient size for a new oil transshipment terminal on the south bank of the Pregol River. The Directors believe that were any new terminals to be built on the north bank, such terminals would necessitate, at the very least, considerable additional expenditure on new railway infrastructure.

Of the 280 acre site, approximately 27 acres will be available on a long-term lease (49 years) to Porex, in which the Group holds a 50 per cent equity interest. In addition, Porex leases the jetty from Rosmorport, the Russian port authority. Tetoil has entered into a binding agreement with Porex to secure access to the land and the jetty for a consideration of US\$1,000 (£563) per month. Further information in relation to the land and jetty is set out in the section entitled "Risks relating to operations, (b) Tetoil" in Part 2 of this document.

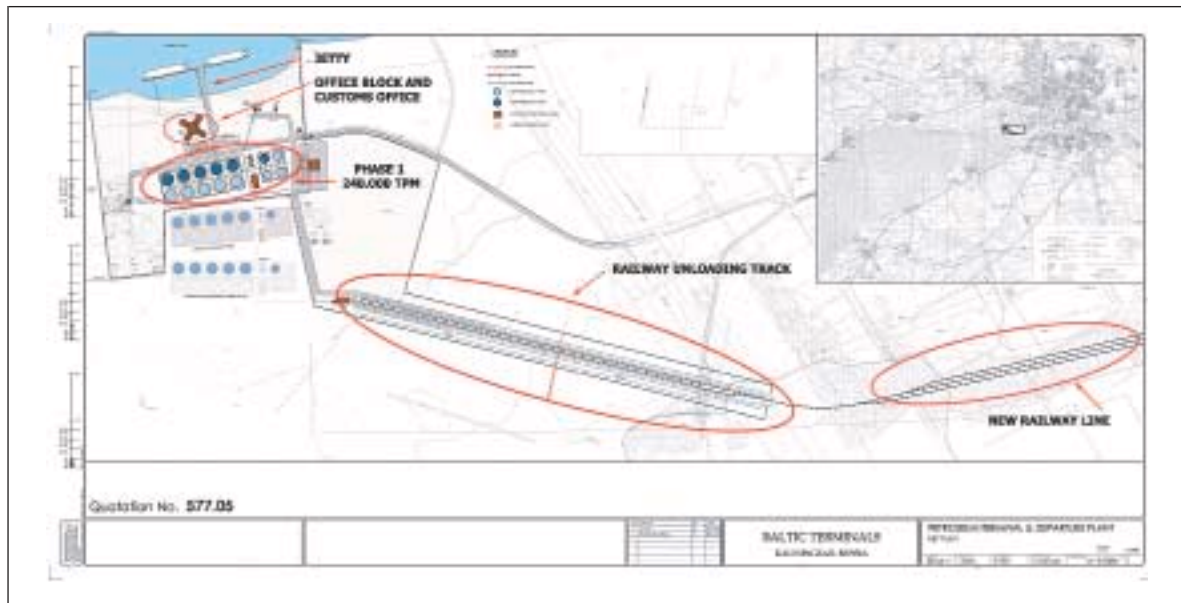
Approximately 253 acres of the site are subject to a decree of the Mayor of Kaliningrad which grants Tetoil the right to conduct a feasibility study for the construction of the terminal. Following approval of the detailed engineering and environmental impact studies, which the Directors expect to receive by early July 2006, Tetoil should be able to enter into a long-term lease agreement for the site with the Administration of the City of Kaliningrad.

Following expiry of the leases, the Directors anticipate that the various lessees will have the right to acquire title to their sites at prevailing 2006 valuations.

### *Construction*

The following plan shows the proposed layout of the Tetoil terminal (both the initial and subsequent phases), and the new railway unloading area and railway line on the 280 acre site on the Pregol River in Kaliningrad.





The Directors intend that the initial phase of the construction of the terminal will comprise:

- the upgrading of the existing jetty and installation of storage tanks, together with associated piping, pumps and control systems;
- the construction of a railway spur from the existing main railway line to the unloading racks on the private section of the line to be constructed on the site; and
- the installation of utilities, using existing infrastructure, together with an upgrade of the electrical grid and transformer stations.

They further intend that civil engineering will include upgrade of the private access road, site preparation and pad work for the installation of storage tanks. An office and staff facility building of 1,000 sq metres will be pre-fabricated and erected on the site by October 2006.

The Directors expect that loading onto vessels will commence in January 2007, rising gradually to 240,000 tonnes per month by October 2007.

The second phase of the terminal will allow for an aggregate throughput of up to 480,000 tonnes of product per month, i.e. 5.8 million tonnes per annum, and is intended by the Directors to be completed by the end of 2008.

Baltic has engaged the engineering contractor OJSC Lenmorniiproekt of St Petersburg, Russia, to carry out the detailed design. This company has many years of experience in the design and engineering of similar terminals and was a lead design contractor for the construction of the Lukoil, Svetly terminal in Kaliningrad in 2003 and 2004.

OJSC Lenmorniiproekt will use the Latvian company, Olimps, as sub-contractor to ensure that the detailed design is completed in the timeliest manner. This company also has many years' experience in designing terminals and was responsible for the engineering, procurement and construction contract in respect of the VentBunkers terminal in Ventspils, Latvia.

#### *Railway access*

The total line will be approximately 5.5 kms in length, including a 3.8 km spur from the existing main public railway line to the unloading racks on the private section of the land (approximately 40 acres), and the private section. The line will have a single entry line of approximately 1 km, splitting into a three line crossover track (to enable two trains to pass) culminating in a two line unloading rack on site.

The line will be constructed by a division of the Russian Railway Company. All design work and planning is complete and the line is scheduled for completion by mid December 2006.

#### *Planning approvals and consents*

The Directors believe that Tetoil has secured all of the necessary approvals and consents to commence the initial phase of the terminal construction, subject to entering into a lease agreement for the land. They

have also been advised that certain environmental approvals are required for the second phase construction, and anticipate these being obtained later this year.

#### *Financing the terminal*

Under the terms agreed, the Group will advance to Tetoil up to US\$19.8 million (£11.14 million) by way of interest bearing commercial loans to finance the first phase of the construction. The agreement provides that these loans will be repaid prior to any distributions to the shareholders of Tetoil.

The agreement also provides that the final phase of construction of the terminal will be financed from funds generated from operations by Tetoil. Finally, it provides, following repayment of the aforementioned loan to Tetoil, for the standard distribution by Tetoil to its shareholders of 90 per cent of profits available for distribution. Further details of the Tetoil Agreement are set out in paragraph 12.1.2(b) of Part 7 of this document.

#### *Commercialisation*

The Directors intend that the terminal will provide the following services to customers:

- export transshipment of light crude and refined products, including gasoline, gasoil, diesel and Mazut;
- stocking of customer crude and products in the tank farm;
- refining of customer crude through the topping unit; and
- blending of customer products in the blending unit.

In addition to the above terminal services, the Directors also intend that Tetoil will provide, where requested, transport management services to customers using the terminal.

The Directors will market the terminal's services principally to the mid-market sector of the Russian market, i.e. to wholesalers and traders of crude oil, smaller independent producers and international traders of crude and refined products. The Directors believe that this sector of the market is constrained in its ability to export crude and refined products via the Baltic Sea by a shortage of throughput capacity. Tetoil has already received expressions of interest from potential customers totalling 800,000 tonnes per month, which represents over 300 per cent of the terminal capacity at the conclusion of the first phase of the construction.

#### **Competent person's engineering report**

The attention of investors is drawn to the text of the report by TH Management concerning the terminal proposed to be built by Tetoil which is set out in Part 3 of this document.

#### **Polex**

Polex, in which the Group has a 50 per cent equity interest, provides vessel cleansing services in Kaliningrad using two specially converted vessels. It provides these services under an agreement with Rosmorport, the Russian port authority.

It provides the services from a 27 acre site and jetty on the south bank of the Pregol River, immediately to the west of Kaliningrad. The site is leased by Polex until 2053, at which point the Directors anticipate that Polex will have the right to acquire the site at prevailing 2006 valuations. The jetty is leased from Rosmorport in perpetuity.

As set out above in the section entitled "The Tetoil transshipment terminal," Polex has granted Tetoil exclusive access to the site and jetty alongside Polex for the purpose of constructing the transshipment terminal.

Further information in relation to the land and jetty is set out in the section entitled "Risks relating to operations, (b) Tetoil" in Part 2 of this document.

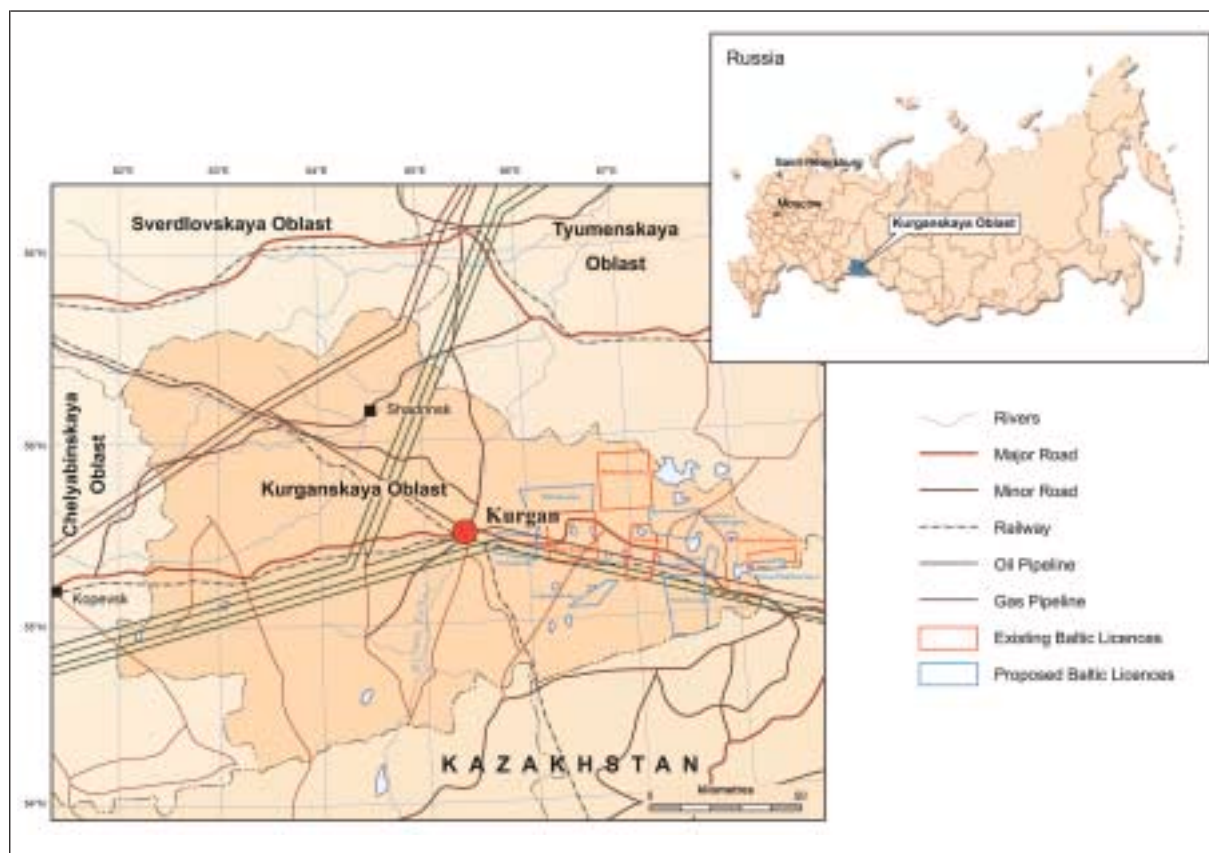
#### **Zauralneftgaz**

Zauralneftgaz, in which the Group has a 50 per cent equity interest and which is under the Group's board and operational control, holds four petroleum exploration licences in Zapadno-Suersky, Mokrousovsky, Privolny and Orlov-Pashkovsky in the Kurgan region of Russia. The area under licence amounts to



approximately 645,000 acres. In addition, Zauralneftegaz has applied for a further seven licences over an area totalling approximately 360,000 acres in the same region; the Directors expect to receive the results of five of the applications by May 2006.

The areas under licence and the areas for which Zauralneftegaz is seeking further licences are identified on the map below.



Before Zauralneftegaz commenced exploration in 2003, limited oil and gas exploration had been undertaken in the Kurgan region since the Second World War, as a result of strategic activities in the region and of the considerable success enjoyed by exploration in the West Siberian basin. The Directors believe that it is possible that the Kurgan region might benefit from a south-western extension of the West Siberian basin and/or a northern migration from the Turgai basin in Kazakhstan.

The principal objective of Zauralneftegaz's exploration activity in the region has been, and continues to be, to establish the presence of a viable hydrocarbon source rock system. The Group has contracted Exploration Consultants Limited ("ECL") as its prime engineering and geological contractor.

ECL has reviewed the available geological and geophysical data relating to Zauralneftegaz's licence areas and conducted a preliminary programme of geochemical analyses of borehole rock samples to investigate the hydrocarbon source rock potential. These analyses, and palynological age dating of potential source rock samples from wells in the vicinity of the licence area, have demonstrated that Triassic, oil-prone, organic-rich shales could lie at depths where they could generate hydrocarbons. However, the existence of a sufficiently thick section of rocks, which could provide viable hydrocarbon source rocks, has yet to be demonstrated. Accordingly Zauralneftegaz has instructed ECL to investigate whether such thick sections exist and also the timing of any hydrocarbon generation.

In light of the results of the geochemical analyses, which the Board considers to be encouraging, Zauralneftegaz has commissioned ECL to undertake further, more extensive sampling to provide a more thorough understanding of the geographical extent, vertical maturation profiles and thermal history of potential source rock intervals. In addition, gravimetric surveys of Mokrousovsky, Privolny and Orlov-Pashkovsky are being conducted by Bazhenov Geophysical Expedition. The Directors intend to integrate the results of these surveys with existing gravity and magnetic data, together with borehole information and the limited seismic data that exists in respect of the area, to provide models of the structure and

lithological composition of the rock sequences, as a basis for the design of subsequent seismic surveys and the choice of drilling locations in the licence areas.

ECL has advised the Company that, whilst the licences are at an early stage of exploration, there are indications that a working petroleum system may be present and that ongoing work is appropriate to further delineate the potential to a stage where drilling will be required to prove up that potential.

Therefore, the Directors intend to identify, by the autumn of 2006, the two locations with the greatest potential for drilling, and subject to successful results, to conduct test drilling as soon as practicable.

### **Competent person's exploration report**

The attention of investors is drawn to the text of the report concerning Zauralneftgaz prepared by ECL which is set out in Part 4 of this document.

### **Directors, senior management, local partners and employees**

#### *Directors*

**Philip Dayer (aged 55) — Non-Executive Chairman.** On qualifying as a Chartered Accountant with Peat, Marwick, Mitchell & Co., Philip pursued a corporate finance career in investment banking where he specialised in advising small and mid-market UK companies. He was first appointed an advisory director of Barclays Merchant Bank Limited in 1983 and since then has held the position of corporate finance director with a number of banks. He retired from Hoare Govett Limited in 2004. Philip is now a financial consultant to OJSC Rosneft Oil Company, the Russian state owned oil and gas company, and a non-executive director of Dana Petroleum plc and of County Contact Centres plc. He joined the Board on 29 March 2006.

**Simon Escott (aged 61) — Chief Executive Officer.** Simon has over 30 years of management experience in the oil and gas and petrochemical industries. He is a qualified Petroleum and Mechanical Engineer and has worked in a senior capacity for ESSO GmbH, BP Brazil, Phillips Petroleum Incorporated, Elf Aquitaine S.A., Pennzoil/Cities Services (Brazil), Norsk Hydro A/S, Saga Petroleum A/S, Zhetybay Quest Petroleum GmbH, Reliance Industries Limited and the Mannai Corporation WLL. He has run major construction projects for Brown & Root Incorporated in the North Sea and for ABB Lummus Crest Incorporated in India. In 1992, Simon was a Project Director for the Russian World Bank Oil Rehabilitation Loans 1 and 2, based in Moscow and Siberia. He co-founded Baltic in 2004.

**Robert Wilde (aged 41) — Finance Director.** Robert has over 20 years' experience in the energy industry, initially having worked in upstream oil and gas with Phillips Petroleum (UK) Limited and Ranger Oil (UK) Limited. He subsequently moved downstream into power generation, joining Powergen plc's European business development group in 1995 working on various structured-financed M&A and green-field development opportunities in Central & Eastern Europe. After working for the German-based industrial group, RWE Power AG, Robert returned to the UK, taking up the role of Chief Financial Officer for Novera Energy Limited which was admitted to AIM in 2005. Robert is a chartered accountant and joined the Board on 22 March 2006.

The Board will appoint a further non-executive Director following Admission.

#### *Senior management*

**Ingemar Lundmark (aged 58) — Project Director.** Ingemar is a Swedish citizen and a qualified engineer, specialising in construction. Ingemar has 24 years' management experience on major construction and oilfield projects in Russia, Sweden, Norway (off-shore and on-shore), Kazakhstan, Libya and Nigeria. Ingemar was project manager for the "Master Plan" Project at the Nynas Terminal and Refinery in Nynasham, Sweden, where he was responsible for the construction of 21 new storage tanks and the refurbishment of 33 more. He was a senior project manager, working with Simon Escott, for the World Bank Oil Rehabilitation Loans, based in Moscow and also worked with Simon as his deputy on the Zhetybay Quest Joint Venture in Kazakhstan. In 2004, he completed his latest assignment in Nigeria as construction manager for a Swedish project involving the construction of a tourist holiday complex. He has also worked in the oil and gas industry in Norway where, once again, he worked with Simon Escott who was representing the client in the construction of a drilling module for the Shell Troll Field, offshore Norway.

**Peter Gee (aged 51) — Operations Manager.** Peter has 28 years' experience in the oil and gas industry. A qualified engineer to BSc level, he has extensive world wide experience in start-up and trouble shooting assignments and has been a senior consultant and manager for British Gas, The World Bank, ABB-Lummus Crest Incorporated, PDSVA (Venezuela), ELF Total Limited, ABB-Global BV, Arabian Company

(Saudi Arabia) SA, Brown & Root Incorporated, and McDermott International Incorporated. Overseas locations have included Venezuela, Russia (Western Siberia and Moscow), Norway, Germany, Trinidad, Saudi Arabia, Egypt and offshore locations in the North Sea. He has worked on numerous projects with Simon Escott.

**Stefan Priestley (aged 64) — Head of Sales & Trading.** Stefan has considerable experience in trading in general and in energy related products within the FSU in particular. His trading experience started in the mid 1960s when he was based for periods of time in Europe, Far East and North America. In 1977, he headed up the European petrochemical unit of Phibro Incorporated and from that time on dealt extensively within Russia. In the 1990s Stefan was involved with oil related product trading in Siberia, as well as acting as consultant to the Pavlodar Refinery in Kazakhstan for a period of three years, where he dealt extensively with Simon Escott and Ingemar Lundmark.

#### *Local partners*

**Alexander Dronov (aged 37)** — Alexander has an 18.62 per cent equity interest in Tetoil. Alexander is the director general and principal shareholder of OOO KaliningradRegionStroy, a construction company which is undertaking a €650 million redevelopment project in Kaliningrad, a patron of which is President Vladimir Putin's wife, who was born in Kaliningrad.

**Alexei Palchevskiy (aged 33)** — Alexei has a 15.68 per cent equity interest in Tetoil and a 30 per cent interest in Porex. Alexei is the Chief Executive of Porex.

#### *Employees*

In addition to the Directors and senior managers, the Group has a further 16 employees, 11 of whom are employed within Zauralneftegaz. Porex, in which the Group has a 50 per cent equity interest, has 51 employees.

#### **Locations**

The Group's head office is located in leasehold premises at 18b Charles Street, London W1J 5DU. In addition, the Group has rented office accommodation in both Kaliningrad and Kurgan City.

#### **Financial information**

Ernst & Young's report on the audited consolidated financial information of Baltic Petroleum for the period ended 31 December 2005 is set out in Part 5 of this document.

Financial information concerning Porex for the three years ended 31 December 2005 is set out in Part 6 of this document.

#### **Current trading and prospects**

Since 31 December 2005, the Group has continued to trade in line with the Directors' expectations as it progresses the engineering planning for the construction of the Tetoil terminal and the preliminary exploration of the Zauralneftegaz acreage.

#### **Corporate governance**

The Directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the Company. Following Admission, the Board intends that Baltic will comply with the QCA Corporate Governance Guidelines. However, Baltic will not be in a position to comply with all aspects of the guidelines until a second non-executive director is appointed (which it intends will happen following Admission).

The Board has established an audit committee and a remuneration committee which will comprise, in each case, Philip Dayer, the non-executive Chairman, and the second non-executive director (when appointed). Philip Dayer will be chairman of both committees. The committees have duties and responsibilities formally delegated to them by the Board.

The audit committee is primarily responsible for ensuring that the financial performance of the Group is properly monitored and reported on, for meeting with the auditors and reviewing reports from the auditors relating to the Company's accounting and internal controls, and for reviewing the effectiveness of the Company's systems of internal control.

The remuneration committee has a primary responsibility to review the performance of the Company's executive Directors and senior employees and to set their remuneration and other terms of employment. The remuneration committee is also responsible for administering the Performance Shares Plan referred to below.

The Board has also established a nomination committee, which will comprise the non-executive Chairman, the second non-executive director (when appointed), together with Simon Escott, and which, amongst other matters, is responsible for making recommendations on the appointment of additional Directors and for reviewing the composition of the Board and membership of board committees.

#### **Dividend policy**

The Directors' intention is that the Company will distribute at least 50 per cent of its distributable profits.

#### **Taxation**

A general guide to the taxation of dividends for Shareholders who are resident in the UK is set out in paragraph 11 of Part 7 of this document and your attention is drawn to this section. **Potential shareholders who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional advisers immediately.**

#### **Performance Shares Plan and Founder Options**

The Company has established the Performance Shares Plan in order to provide an incentive to executives, consultants and employees. Details of the Performance Shares Plan are set out in paragraph 4 of Part 7 of this document.

Immediately prior to Admission, nil-cost options will be granted under the Performance Shares Plan over 879,463 Ordinary Shares (representing 2.02 per cent of the Enlarged Share Capital).

Founder Options over 2,775,000 Ordinary Shares (representing 6.39 per cent of the Enlarged Share Capital) have been granted to the Founders. Details of the Founder Options are set out in paragraph 12.1.14 of Part 7 of this document.

Baltic will comply with the Association of British Insurers' Principles and Guidelines on Remuneration following Admission. In any event, share capital under option pursuant to the Performance Shares Plan (excluding the Founder Options) will not exceed 10 per cent of the Company's issued share capital from time to time.

#### **Reasons for Admission and use of proceeds**

The principal reason for the Placing is to provide the necessary funding for the initial phase of the construction of the Tetoil terminal. The Directors intend that the subsequent phase will be financed from internally generated funds. The net proceeds will also be used to finance the ongoing exploration and drilling of two wells on the Zauralneftegaz project and for general working capital purposes.

The Placing will also serve to enhance the profile of Baltic and, in conjunction with the Performance Shares Plan, will help the Group to incentivise its key executives, employees and consultants.

#### **Details of the Placing**

16,428,571 New Ordinary Shares are being made available in the Placing at the Placing Price. The New Ordinary Shares being issued by the Company pursuant to the Placing will represent approximately 37.81 per cent of the Enlarged Share Capital.

Philip Dayer and Robert Wilde intend to subscribe for 121,428 and 50,000 New Ordinary Shares, respectively, in the Placing at the Placing Price.

6,000,000 Existing Ordinary Shares are also being sold in the Placing at the Placing Price on behalf of RAB Capital.

The Directors, who in aggregate are expected to hold 4,671,428 Ordinary Shares following Admission (representing approximately 10.75 per cent of the Enlarged Share Capital), have agreed with Arden Partners and the Company not to dispose of any of their Ordinary Shares during the period from Admission until the announcement of the preliminary results of the Company for the year ending 31 December 2006 or, if later, the first anniversary of the date of Admission, save in limited circumstances, and have further undertaken, until the announcement of the preliminary results for the year ending 31 December 2007, to observe certain orderly marketing restrictions with respect to the disposal of such shares.



RAB Capital, who in aggregate are expected to hold 8,639,000 Ordinary Shares following Admission (representing 19.88 per cent of the Enlarged Share Capital), have undertaken during the period of nine months following the date of Admission not to dispose of any of their Ordinary Shares. This restriction will cease to have effect if, during such period, the market price of an Ordinary Share is in excess of 200p for five consecutive dealing days and will be replaced by orderly marketing restrictions in respect of such shares for the remainder of the period.

In addition RAB Capital, Mark Gilchrist, James Pockney and Caldwell Associates Limited, who in aggregate are expected to hold 15,389,000 Ordinary Shares following Admission (representing approximately 35.42 per cent of the Enlarged Share Capital) have undertaken, for the period of nine months following the date of Admission, to observe certain orderly marketing restrictions with respect to the disposal of such shares.

The Placing has been fully underwritten by Arden Partners and is conditional, *inter alia*, upon Admission becoming effective and the Placing Agreement becoming unconditional in all respects.

The Company's shareholder profile immediately following Admission is expected to be as follows:

	<u>Number of Ordinary Shares</u>	<u>Percentage of issued share capital</u>
RAB Capital	8,639,000	19.88
Simon Escott	4,500,000	10.36
Other Directors	171,428	0.39
James Pockney	2,750,000	6.33
Mark Gilchrist	2,750,000	6.33
Caldwell Associates Limited	1,250,000	2.88
Other shareholders	23,387,393	53.83

Further details of the Placing Agreement, the Lock-in Agreements and the Orderly Marketing Agreements are set out in paragraphs 12.1.7, 12.1.9 and 12.1.10, respectively, of Part 7 of this document.

#### **Admission, settlement and dealings**

Application has been made for Admission of the Enlarged Share Capital to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 27 April 2006.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of Ordinary Shares in CREST. Application has been made for all of the issued and to be issued Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place in CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the New Ordinary Shares will be registered in the names of the placees subscribing for them and issued either:

- (a) in certificated form, where the placee so elects, with the relevant share certificate expected to be despatched by post, at the placee's risk, by 11 May 2006; or
- (b) in CREST, where the placee so elects and only if the placee is a "system member" (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the New Ordinary Shares subscribed for expected to take place on 27 April 2006.

Notwithstanding the election by placees as to the form of delivery of the New Ordinary Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk.

Pending the dispatch of definitive share certificates (as applicable), instruments of transfer will be certified against the register.

The International Securities Identification Number (or "ISIN") for the Ordinary Shares is GB00B12V3082.

#### **Additional information**

Prospective investors should read the whole of this document which provides additional information on the Group, the Placing and Admission and not rely on summaries or individual parts only. In particular, the attention of prospective investors is drawn to Part 2 of this document, which contains a summary of the risk factors relating to any investment in the Ordinary Shares.

## PART 2

### RISK FACTORS

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THE ATTENTION OF PROSPECTIVE INVESTORS IS DRAWN TO THE FACT THAT OWNERSHIP OF SHARES IN THE COMPANY WILL INVOLVE A VARIETY OF RISKS WHICH, IF ANY WERE TO OCCUR, COULD HAVE A MATERIALLY ADVERSE EFFECT ON THE GROUP'S BUSINESS OR FINANCIAL CONDITION, RESULTS OR FUTURE OPERATIONS. IN SUCH CASE, THE MARKET PRICE OF THE ORDINARY SHARES COULD DECLINE AND AN INVESTOR MIGHT LOSE ALL OR PART OF HIS OR HER INVESTMENT.

In addition to the information set out in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company. The following factors do not purport to be an exhaustive list or explanation of all the risk factors involved in investing in the Company and they are not set out in any order of priority. In particular, the Company's performance might be affected by changes in market and/or economic conditions and in legal, regulatory and tax requirements. Additionally, there may be additional risks of which the Board is not aware or believes to be immaterial which may, in the future, adversely affect the Group's business and the market price of the Ordinary Shares.

Before making a final investment decision, prospective investors should consider carefully whether an investment in the Company is suitable for them and, if they are in any doubt, should consult with an independent financial adviser authorised under the FSMA which specialises in advising on the acquisition of shares and other securities in the UK.

#### Risks relating to operations

##### (a) General

###### **Senior managers and other key personnel**

The Group's growth and future success depends on its senior management, particularly Mr. Escott and the operational management team, as well as on its ability to attract employees with relevant expertise.

###### **Operating risks inherent in the oil and gas industry**

The insurance industry is not yet well developed in Russia and many forms of insurance protection are unavailable, or unavailable on commercially reasonable terms, including coverage for business interruption. Baltic intends to maintain insurance against some, but not all, potential risks and losses affecting its operations. The Directors can provide no assurance that the Group's insurance will be adequate to cover all of its losses or liabilities. The Directors also can provide no assurance that insurance will continue to be available to the Group on commercially reasonable terms. The Group does not yet have in place insurance relevant to the operation of the Tetoil terminal or any drilling by Zauralneftgaz.

##### (b) Tetoil

###### **Operational licences**

Tetoil (Russia) does not intend to apply for any operational licences, including in respect of the storage and sale of crude oil, natural gas and their by-products, on the understanding that these "activity licences" are no longer required by applicable law. However, Tetoil (Russia) and/or Pollex may, subject to clarification by the relevant licensing authorities, require a licence for the loading and unloading of hazardous cargo prior to the commencement of the oil transshipment terminal's operation.

###### **Land plots**

Tetoil (Russia) presently does not own or lease any property on which to construct the terminal. Although Tetoil (Russia) has initiated a process for the allocation of a land plot for the construction of an oil transshipment terminal with the Administration of the City of Kaliningrad, in order to conclude a land plot lease agreement with the City Administration, it will need to take further procedural steps which include the presentation of detailed engineering project documentation which has been approved by the relevant

competent authorities, as to how the terminal will be built, together with certain other documentation. Tetoil (Russia) has started to prepare such project documentation but this will require a portion of the funds raised from the Placing. Porex will also apply, in parallel to the application outlined above, to the City Administration for permission to build an oil transshipment terminal on the land plot leased by Porex from the City Administration so as to ensure that, if Tetoil (Russia)'s application is delayed, construction of the oil transshipment terminal by Tetoil (Russia) could be commenced on Porex's land.

### **Jetty**

The project documentation used to complete Tetoil (Russia)'s first stage of the procedure for applying for a land plot for the construction of the oil transshipment terminal shows that the oil transshipment terminal will include the use of a berthing facility to be located on a land plot leased by Porex from Rosmorport. Tetoil (Russia) has entered into an agreement with Porex reflecting its understanding that Tetoil (Russia) will be granted an access right to the berthing facility.

Any defects in or restrictions under Porex's lease with Rosmorport could therefore create an access problem to the berthing facility for Tetoil (Russia). The lease, in common with lease agreements for this type of asset, is capable of unilateral termination *inter alia* (i) by either party on three months' prior notice to the other party and the relevant authority and (ii) by the lessor in the event of material breach of the lease by the lessee. There is a risk that Tetoil (Russia) and Porex may be unable to conclude definitive agreements in relation to access rights to the berthing facility with the relevant state lessors before the commencement of the construction of the terminal. In these circumstances, there is an additional risk that Porex's lease agreement with Rosmorport may be capable of termination if Porex's arrangements with Tetoil (Russia) are deemed to be in contravention of the terms of Porex's lease with Rosmorport or the lease is, in any event, terminated on three months' notice, as this would result in neither Porex nor Tetoil (Russia) having any rights in respect of the jetty.

### **Porex land**

Porex leases from the City of Kaliningrad three plots of land relating to the use of land as an open area for cargo, the construction of certain support facilities and a motor road which may be used in connection with Tetoil (Russia)'s development of the terminal. Tetoil (Russia) has entered into an agreement with Porex reflecting its understanding that Tetoil (Russia) will be granted access to the three land plots, subject to entering into relevant land plot agreements with the municipal lessors.

There is a risk that Tetoil (Russia) and Porex may be unable to conclude definitive agreements in relation to the land plots with the relevant municipal lessors before the commencement of construction of the terminal. In these circumstances there is a risk that the lessor may unilaterally terminate Porex's lease in respect of these plots in the event of a breach by the lessee of certain obligations set out in the lease, including for the late payment of rent for three consecutive months, thereby terminating Tetoil (Russia)'s rights in respect of the plots. In such instances the lease provides that the lessor may, under applicable Russian law, claim entitlement to immovable property located on the land plots which could include any development undertaken by Tetoil (Russia).

### **Permits and other authorisations**

Tetoil may not have obtained all the permits and other authorisations required for the construction and full operation of the terminal. If it is not able to obtain all the required permits and other authorisations, then this could delay construction or commencement of operation of the terminal or it could be required to cease construction or operation of the terminal.

### **Delays in the construction and commissioning of the terminal**

There can be no assurance that the design, construction and commissioning of the terminal, both the first and subsequent phases, will be completed in accordance with the Board's plan.

### **Delays in the construction of the extension of the railway line**

There can be no assurance that the construction of the railway line will be completed in accordance with the Board's plan.

### **Capital intensive nature of the project**

The construction of the Tetoil terminal is highly capital intensive. Whilst the Placing will provide sufficient finance for the first phase of the construction, there can be no guarantee that profits generated by the

terminal will be sufficient to conclude the construction. In addition, the costs of the development may overrun those estimated by the Directors.

### **Operating experience of the Tetoil terminal**

There can be no assurance that the terminal will be able to reliably process the volumes that the Directors anticipate both in the build up to, and at, the stage of full scale operation.

### **Dependence on OAO Russian Railways**

Tetoil's customers will be dependent on OAO Russian Railways, or RZD, the government-owned entity that controls the transportation by rail of liquid products from its customers to its transshipment terminal in Kaliningrad. The ability to transport products by rail depends on the availability of railway tank cars, which are typically provided by RZD or private companies. There can be no assurance that Tetoil's customers will be able to obtain access to a sufficient number of tank cars in the future.

## **(c) Zauralneftgaz**

### **Licences, permits and authorisations**

The licensing regime in Russia for the exploration of natural gas, gas condensates and crude oil is governed primarily by the Russian Subsoil Law and numerous regulations issued thereunder. The Group is currently conducting operations under multiple exploration licences principally held by Zauralneftgaz. Most of its licences also provide that they may be terminated if, among other things, the Group fails to comply with licence requirements, does not make timely payments of levies and taxes for the use of the subsoil, systematically fails to provide information, becomes bankrupt or fails to fulfil any capital expenditure obligations set forth in its development plans and licence agreements with the Federal Subsoil Agency.

The Group may not be able to remain in compliance with some or all of these or other requirements. If it fails to fulfil the specific terms of any of its licences or government approved development plans or if it operates in the licence areas in a manner that violates Russian Federation law, government regulators may impose fines on the Group or suspend or terminate its licences.

Under Russian Federation law, where more than one application is submitted for an exploration licence, the licences must be issued through an auction process. As more than one application has been submitted for each of the licences for which Zauralneftgaz (Russia) has applied, the issue of such licences will be conducted through such an auction process. Zauralneftgaz (Russia) has been informed by the local division of the Federal Subsoil Agency that its bid applications have been accepted for such licences, and the method for selection of the bidders, whether a tender or an auction, shall be announced by the Federal Subsoil Agency in accordance with the Order No 61 by the Ministry for Natural Resources dated 15 March 2005. Under this order, the winning bidder is entitled to receive a combined exploration and development licence. There can be no guarantee that the licences will be granted to Zauralneftgaz (Russia) and there is therefore a risk that it will not acquire the right to explore for hydrocarbons over the land to which the licence applications relate (approximately 360,000 acres).

### **Early stage of operations**

Currently, Zauralneftgaz does not have any proven reserves and its projects are wholly in the exploration phase. Consequently, there is a high degree of uncertainty as to the success of its ongoing activities. Zauralneftgaz is likely to remain cash flow negative for some time and there can be no assurance that it will achieve or sustain profitability or positive cash flow from its operating activities. It has limited debt capacity, and therefore its exploration activities are expected to be financed from part of the proceeds of the Placing. Consequently, the Group may need to raise additional capital in the future to fund ongoing work commitments on its properties either for further exploration or production. There can be no assurance that additional financing will be available on terms acceptable to the Group.

### **Exploration and development**

No assurance can be given that exploration activities will result in the discovery of oil and gas. Zauralneftgaz is also subject to normal operating risks including irregularities in geological formations, blowouts, cratering, fires, shortages or delays, equipment failure or accidents and adverse weather conditions. If exploration activities prove unsuccessful over a prolonged period of time, the Group is unlikely to invest further funds into Zauralneftgaz.



### **Ability to exploit successful discoveries**

It may not always be possible for Zauralneftegaz to participate in the exploitation of any successful discoveries which may be made in any areas in which it has an interest. Such exploitation will necessitate obtaining the requisite licences and clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied. In addition, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as the Group. As described above, such further work may require Zauralneftegaz to meet or commit to financing obligations for which it may not have planned.

### **Availability of equipment, facilities and materials**

The availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world. An increase in drilling operations worldwide may reduce the availability of drilling rigs and other equipment and services to Zauralneftegaz. The reduced availability of such equipment and services may delay Zauralneftegaz's ability to discover new reserves.

### **Regulatory and environmental compliance**

Oil and natural gas operations are subject to extensive controls and regulations imposed by federal and local government which may be amended from time to time. There can be no assurance that all permits and clearances required by Zauralneftegaz will be obtainable on reasonable terms or on a timely basis, that applicable laws and regulations will not change or that they will not have an adverse effect on any resource project undertaken by it.

Zauralneftegaz's oil and natural gas operations are subject to compliance with laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain oil and gas industry operations. A breach of such legislation may result in the imposition of fines and penalties. In addition, there are also requirements to submit and approve environmental impact assessments. Environmental legislation is evolving in a manner that is creating stricter standards and enforcement and fines and penalties for non-compliance that are more stringent and may lead to delays and increased costs.

The extent of potential liability, if any, for the costs of abatement of environmental hazards cannot accurately be determined.

### **Access to markets**

The marketability of oil and natural gas discovered could be affected by factors beyond the control of Zauralneftegaz. These factors include hydrocarbon characteristics, price fluctuations, the proximity and capacity of oil and natural gas pipelines or alternative modes of transportation and the location of processing equipment as well as government regulation, both domestically and in foreign markets.

The failure of Zauralneftegaz or other project potential participants to secure contracts or agreements in relation to the processing and transportation of production to the market will negatively impact the operation of the projects.

### **Price fluctuations**

Both oil and natural gas general market prices can be unstable and subject to substantial fluctuations. Any material decline in prices could result in a reduction of Zauralneftegaz's possible future net production revenue. The economics of producing from some wells may change as a result of lower prices and it might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Zauralneftegaz's possible future net production revenue.

### **Risk of loss of oil and gas rights**

Subsoil exploration licences, agreements and permits granted to Zauralneftegaz are structured in such a way that if Zauralneftegaz does not meet its work and/or expenditure obligations thereunder, the rights granted therein may be forfeited and it may be liable to pay penalties related to the minimum outstanding work obligations. Such penalty amounts may be significant relative to its financial resources and assets.

## **Use of contractors**

Zauralneftegaz is exposed to various risks related to its use of contractors that may adversely affect its proposed activities and project interests, including insolvency or managerial failure by any of the contractors used by it or any joint venture or farm-in partner in its activities.

## **How, where and when the Group explores for new reserves is subject to the approval of the Russian government**

The Russian government must approve all of the Group's exploration and development plans within Russia. The government does not always agree with the initial plans the Group submits, and therefore its plans are sometimes modified to meet the government's requirements, even if the Directors do not believe that these requirements represent the best use of the Group's capital. Thus, the Group may be required to make capital expenditures on projects that the Directors believe to be less attractive than those that the Directors would otherwise choose to undertake.

## **Risks relating to Russia**

### **(a) General**

#### **Emerging markets such as Russia are subject to greater risks than more developed markets**

Investors in emerging markets such as Russia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of Russia are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making an investment in the Ordinary Shares.

#### **Corruption, investigations thereof and negative publicity associated therewith**

The local and international press have reported significant criminal activity, including organised crime, in Russia. In addition, the local and international press have reported high levels of corruption, including the bribing of officials and the press by competitors and others for the purpose of interfering with normal business activities. Press reports have also described instances in which governmental agencies have engaged in selective investigations and prosecutions. Additionally, published reports indicate that a part of the Russian print media regularly publishes disparaging articles in return for payment.

Baltic or its local partners may be the subject of press speculation and other accusations relating to, among other things, its shareholders, directors and management.

### **(b) Economic risks**

#### **Economic instability**

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

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;

- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-denominated securities, the Central Bank of Russia stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by a major banking crisis in the Russian banking sector after the events of 17 August 1998, as evidenced by the termination of the banking licences of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

Recently, the Russian economy has experienced positive trends, such as an increase in the gross domestic product, a relatively stable national currency, strong domestic demand, rising real wages and a reduced rate of inflation; however, these trends may not continue or may be abruptly reversed.

### **The Russian banking system**

There are currently a limited number of creditworthy Russian banks, most of which are located in Moscow. Baltic may try to reduce its risk by receiving and holding funds in a number of Russian banks, including subsidiaries of foreign banks. Another banking crisis of the type which occurred in 1998 or the bankruptcy or insolvency of the banks from which the Group receives or with which it holds funds could result in the loss of its deposits or affect its ability to complete banking transactions in Russia.

### **Russian Infrastructure**

The infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks, power generation and transmission systems, communication systems and building stock. The Russian government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of infrastructure in Russia harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations. These difficulties impact the Group directly.

### **Fluctuations in the global economy**

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Russian businesses could face severe liquidity constraints, further materially adversely affecting their economies. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the rouble against foreign currencies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy.

### **(c) Political and social risks**

#### **Political and governmental instability**

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure

of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Future changes in government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could also disrupt or reverse economic and regulatory reforms.

### **Conflict between central and regional authorities and other conflicts**

The Russian Federation is a federation of 88 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders the Group's long-term planning efforts and creates uncertainties in the Group's operating environment, both of which may prevent the Group from effectively and efficiently implementing its business strategy.

### **Social instability**

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the economy of Russia, and increased violence. An occurrence of any of the foregoing events could restrict the Group's operations and lead to the loss of revenue.

## **(d) Legal risks and uncertainties**

### **Legal system and legislation**

Russia is still developing the legal framework required to support a market economy. The following risk factors relating to the Russian legal system create uncertainties with respect to the legal and business decisions that the Group makes, many of which uncertainties do not exist in countries with more developed market economies:

- inconsistencies between and among laws, the Constitution, Presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- the relative inexperience of judges and courts in handling commercial disputes;
- the lack of an independent judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licences; and
- poorly developed bankruptcy procedures that are subject to abuse.

Furthermore, several fundamental laws have only recently become effective. The recent nature of much of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory

infrastructure. All of these weaknesses could affect the Group's ability to enforce its rights under its licences and under its contracts, or to defend itself against claims by others. The Directors cannot assure investors that regulators, judicial authorities or third parties will not challenge the Group's internal procedures and by-laws or the Group's compliance with applicable laws, decrees and regulations.

#### **Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation**

The Group's operations and properties are subject to regulation by various government entities and agencies in connection with obtaining and renewing various licences, permits, approvals and authorisations, as well as with ongoing compliance with existing laws, regulations and standards. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences, permits, approvals and authorisations and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to conduct periodic inspections of the Group's operations and properties throughout the year. Any such future inspections may conclude that the Group's subsidiaries have violated laws, decrees or regulations, and the Group may be unable to refute such conclusions or remedy the violations.

The Group's failure to comply with existing laws and regulations or the findings of government inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of the Group's licences and permits, or in requirements that the Group ceases certain of its business activities, or in criminal and administrative penalties applicable to its officers. Moreover, an agreement made or transaction executed in violation of a law may be invalidated and unwound by a court decision. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Group's operations, could increase the Group's costs.

#### **Formal non-compliance with certain requirements of Russian law**

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards, or RAS, as at the end of the second or any subsequent year of a company's operation, can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their RAS balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that the company failed to fully comply with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation.

This judicial approach is supported by a recent decision of the Constitutional Court of the Russian Federation that held that even repeated violations of law may not serve as a basis for an involuntary liquidation of a company, and instead consideration should be given as to whether the liquidation would be an adequate sanction for such violations. The Group does have subsidiaries with negative net assets. However the Directors believe that neither Baltic, nor any of its subsidiaries, should be subject to liquidation on such grounds. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, then the Group may be forced to reorganise the operations it currently conducts through the affected subsidiaries. Any such liquidation could lead to additional costs.

#### **Difficulty in ascertaining the validity and enforceability of title to land or other real property**

After the Soviet Union ceased to exist, land reform commenced in Russia and real estate legislation changed continuously over the following years; more than one hundred federal laws, presidential decrees and governmental resolutions were issued. Almost all Russian regions passed their own real estate legislation. Until recently, the land legislation in Russia was unsystematic and contradictory. In many



instances, there was no certainty regarding which municipal, regional or federal government body had power to sell, lease or otherwise dispose of land. In 2001, the Russian Civil Code was amended and the new Russian Land Code, as well as a number of other federal laws regulating land use and ownership, was enacted. Nevertheless, the legal framework relating to the ownership and use of land and other real property in Russia is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in countries with more developed market economies. As a result of Russia's vast territory and difficulties of being in a transitional phase, the process of surveying and title registration may last for many years. Thus, it is often difficult to ascertain the validity and enforceability of title to land or other real property in Russia and the extent to which it is encumbered.

### **Non-compliance with governmental and administrative real estate regulations**

In order to use and develop land or other real property in Russia, approvals and consents of various federal, regional or local governmental authorities, such as the various environmental, sanitation and epidemiological control authorities, are required. The approval and consent requirements vary from locality to locality; they are numerous, sometimes contradictory and are subject to change without public notice and are occasionally applied retroactively. The enforcement of such requirements is inconsistent and is often arbitrary and selective. Failure to obtain the required approvals and consents may lead to severe consequences to landowners and leaseholders or other property holders. No assurance can be given that the Group will at all times be in full compliance with all governmental and administrative real estate regulations in Russia. If any of the Group's existing or prospective sites is found not to be in compliance with all applicable regulations, it may be subject to fines or penalties or the Group's rights to such properties may be affected.

### **The judiciary's lack of independence, overall inexperience, occasional abuse of discretion, the difficulty of enforcing court decisions and governmental discretion in enforcing claims**

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. The court system in Russia is understaffed and under funded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Russian judicial system can be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims or infighting. The Group may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation.

The judiciary's corruption and occasional abuse of discretion can lead to unjustified and abusive court decisions. For example, it is not uncommon for excessive injunctive remedies to be sought by claimants and granted by courts in commercial disputes.

### **Selective or arbitrary government action**

The Group operates in an uncertain regulatory environment. Governmental authorities in Russia have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of,

nullify or terminate contracts. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, the Group's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over it.

### **Shareholder liability under Russian legislation**

The Civil Code and the Federal Law on Joint Stock Companies, or the Joint Stock Companies Law, generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent". The person whose decisions are capable of being so determined is deemed an "effective subsidiary". Under the Joint Stock Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, the Group could be liable in some cases for the debts of its subsidiaries.

### **The Russian tax system**

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income taxes;
- value-added tax, or VAT;
- mineral resources extraction tax and export duties;
- unified social tax; and
- property tax.

The tax environment in Russia historically has been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. This uncertainty could potentially expose the Group to significant fines and penalties and enforcement measures despite the Group's best efforts at compliance, and could result in a greater than expected tax burden and the suspension or termination of its licences.

As a result of the political changes which have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (the "Tax Code"), which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code.

In practice, the Russian tax authorities generally interpret the tax laws in ways that rarely favour taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number

of authorities, each of which may impose fines, penalties and interest charges. Generally, in an audit, taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorises upper-level tax inspectorates to review the results of tax audits conducted by subordinate tax inspectorates. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. As none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed” or “hindered” an inspection and ultimately seek penalties beyond the three-year term. In some instances, new tax regulations have been given retroactive effect.

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of the Group’s Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9 per cent, if being distributed to Russian residents, and 10 per cent, if being distributed to UK residents subject to the respective tax treaty and limitations imposed thereunder. Tax residency must be proved in accordance with the regulations applicable in the Russian Federation. If the receiving company itself pays a dividend, it may offset the withholding against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign resident.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on the Group’s operations, including management resources. In addition to the Group’s substantial tax burden, these risks and uncertainties complicate tax planning and related business decisions, potentially exposing the Group to significant fines and penalties and enforcement measures despite its best efforts at compliance.

#### **Russian currency control regulations**

Over the past several years, the rouble has fluctuated dramatically against the US dollar. The Central Bank of Russia has from time to time imposed various currency control regulations in attempts to support the rouble, and may take further actions in the future. Furthermore, the government and the Central Bank may impose additional requirements on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia, which could prevent the Group from carrying on necessary business transactions, or from successfully implementing its business strategy.

A new framework law on exchange controls took effect in June 2004. This law empowers the government and the Central Bank of Russia to further regulate and restrict currency control matters, including operations involving foreign securities and foreign currency borrowings by Russian companies. The new law also abolishes the need for companies to obtain transaction-specific licences from the Central Bank, envisaging instead the implementation of generally applicable restrictions on currency operations. As the evolving regulatory regime is very recent and untested, it is unclear whether it will be more or less restrictive than the prior laws and regulations it has replaced.

#### **Foreign judgments may not be recognised in Russia**

Judgments rendered by a court in any jurisdiction outside Russia are likely to be recognised by courts in Russia if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country in which the judgment is rendered; and
- a federal law of Russia provides for the recognition and enforcement of foreign court judgments.

No such federal law has been passed and no such treaty exists between the United Kingdom and Russia for the reciprocal enforcement of foreign court judgments. Thus, enforcement of foreign court judgments in Russia may be impossible. Russia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in Russia due to a number of factors, including the lack of experience of Russian courts in international commercial transactions and their limited experience in the enforcement of foreign arbitral awards. The possible need to re-litigate in Russia a judgment obtained in a foreign court on the merits may significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.



## **Risks relating to the Ordinary Shares and the trading market**

### **No prior market for the Ordinary Shares**

Before Admission, there has been no prior market for the Ordinary Shares. Although application has been made for the Ordinary Shares to be admitted to trading on AIM, an active public market may not develop or be sustained following Admission. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Ordinary Shares does not develop, the price of the Ordinary Shares may become more volatile and it may be more difficult to complete a buy or sell order for such Ordinary Shares. The share price for publicly traded companies, particularly those at an early stage of development, can be highly volatile.

### **Factors affecting the price of the Ordinary Shares**

The trading prices of the Ordinary Shares may be subject to wide fluctuations in response to a number of factors, including:

- variations in the Group's operating results;
- publication of research and reports that industry or securities analysts publish about the Company or its industry;
- variations in national and industry growth rates;
- actual or anticipated announcements of new services or discoveries by the Group or its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within the Group's business sectors or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

### **Future sales or issues of shares**

Sales, or the possibility of sales, of substantial numbers of the Ordinary Shares in the public markets following Admission, could have an adverse effect on the market trading prices of the Ordinary Shares. Notwithstanding statutory pre-emption rights, the Company's subsequent equity offerings may reduce the percentage ownership of the Shareholders.

If Shareholders sell substantial amounts of Ordinary Shares, the market price of the Ordinary Shares may fall. The dilution resulting from the exercise of outstanding options and warrants could adversely affect the market price of the Ordinary Shares.

### **Foreign exchange risk**

The Group operates internationally and is therefore exposed to the effects of changes in currency exchange rates. In particular, pricing in the oil and gas industry (and therefore the potential future revenues of the Group) are typically denominated in United States dollars, whereas the Company is raising capital pursuant to the Placing in pounds sterling. The Group does not currently hedge these currency risks.

### **Investment in AIM quoted securities**

AIM is a market designated primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser authorised under the FSMA who specialises in advising on the acquisition of shares and other securities. The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than the original amount subscribed pursuant to the Placing and could lose their entire investment.

### **Additional requirements for capital**

Additional financing may be required in the future for the Group to exploit opportunities available and to fund expansion of the Group. Such funding requirements may be met by way of the issue of further

Ordinary Shares on a non-pre emptive basis. No assurances can be given that the Group will be able to raise the additional finance that it may require for its anticipated future operations. Oil prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures and operating expenses are all factors which will have an impact on the amount of additional capital that may be required. Any additional equity financing may have a dilutive effect and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Group or at all. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion or terminate its operations.

### **Dividends**

The Company does not currently anticipate paying dividends in the short term. Furthermore, there can be no guarantee that the Company will be able to pay dividends on the Ordinary Shares in the foreseeable future.

### **Other risks**

#### **Information sourced from third parties**

The Directors have sourced certain information contained in this document from third parties, including private companies and Russian government agencies, and they have relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and charged in connection with their misuse of economic data.

#### **Forward-looking statements**

Certain statements in this document constitute “forward-looking statements”. Forward-looking statements include statements concerning the plans, objectives, goals, strategies and future operations and performance of the Group and the assumptions underlying these forward-looking statements. The Group uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should”, and any similar expressions to identify forward-looking statements. These statements involve risks and uncertainties, including the risks that are identified in this document, which are primarily described in this Part 2. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Group’s actual results, performances or achievements to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which the Group will operate in the future. Among the important factors that could cause its actual results, performance or achievements to differ materially from those in the forward-looking statements include those factors set out in this Part 2 and elsewhere in this document. These forward-looking statements speak only as at the date of this document. The Group is not obliged, and does not intend, to update or to revise any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Group, or persons acting on behalf of the Group, are expressly qualified in their entirety by the cautionary statements contained throughout this document. As a result of these risks, uncertainties and assumptions, a prospective investor should not place undue reliance on these forward looking statements.

Prospective investors should consider carefully whether an investment in the Company is suitable for them in light of the potential risk factors, their personal circumstances and the financial resources available to them.

## PART 3

### COMPETENT PERSON'S ENGINEERING REPORT



The Directors  
Baltic Oil Terminal PLC  
Charles House  
18B Chales Street  
LONDON W1J 5DU

20 April 2006

The Directors  
Arden Partners Limited  
Nicholas House  
3 Laurence Pountney Hill  
LONDON EC4R 0EU

Dear Sirs,

#### **BALTIC OIL TERMINALS PLC**

#### **KALININGRAD OIL TRANSHIPMENT EXPORT TERMINAL**

In accordance with your letter dated 2 February 2006, TH Project Management has pleasure in submitting to you our findings and recommendations.

#### **1. Executive Summary**

Top Housing Project Management AB (THPM), has been engaged by Baltic Oil Terminals PLC (Baltic) and Arden Partners Limited to review and assess the engineering feasibility of the Oil Transhipment Terminal, Tank Farm, Processing Facility and Mini Refinery proposed to be built by Tetoil Limited on the Rybachiy Peninsula just outside the City of Kaliningrad, Russia (the Project).

Our review has relied upon the Project documents prepared and presented by Baltic as well as a two-day site visit and interviews with the management and potential suppliers and partners for the Project. Drawings, figures and assumptions made in these documents have been assessed in comparison to our experience and that of our principal sub-contractor for this assignment, Bibliopola BV, in the design, construction and operation of similar rail offloading, tank farm and marine loading terminals in Russia and elsewhere in the petroleum industry.

To all intents and purposes we believe that, having undertaking a fair and accurate assessment of the Tetoil Terminal as described in the admission document of even date, we find the Project to be feasible within the basic stage of engineering currently elaborated.

Furthermore, we find the Budget for the initial phase and the subsequent phases to be reasonable and allowing for sufficient margins to cover contingencies should these arise. We have found the documentation and Baltic management to be cognizant of the various risks involved in the construction and in the efficient and environmentally responsible operation of the Project. While out of Baltic's direct control, delays in the issuing of final permits has the potential to delay Project execution, so we stress the importance of the Management's continued involvement and communication with local authorities, both directly and through its local partners, to mitigate this risk. We also believe that preparation of staff training and operations manuals should begin early in the process of the Project elaboration, since documenting procedures can be a slow process.

THPM is an independent civil engineering firm with direct and sub-contracted experience in designing and appraising oil terminals. None of THPM, its management, its staff, nor its chief sub-contractor for

<i>Postal address:</i>	<i>Office address:</i>	<i>Telephone:</i>	<i>Fax:</i>	<i>E-mail:</i>	<i>Home page:</i>	<i>Bank:</i>
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this review, Bibliopola BV, has an ownership interest in Baltic nor, beyond the preparation of this report, have they any direct involvement with it or will they receive compensation for the views expressed herein. THPM has relied upon the documents provided and statements made by Baltic to prepare this report, and therefore can take no responsibility for the accuracy or completeness of such information, and hence must limit and disclaim its recommendations and conclusions based upon such reliance.

## 2. Introduction

### 2.1 Due diligence covered by this report

This report is based on a review of documents submitted by Baltic (listed below), and a two day site visit in Kaliningrad concerning the proposed construction by Tetoil Limited of an Oil Transshipment Terminal, Tank Farm, Processing Facility and Mini Refinery on the Rybachiy Peninsula just outside the City of Kaliningrad (the Project).

The main part of our work has been to verify and assess information contained in the documents as well as to judge its reasonableness and feasibility for terminal construction and operation.

Various officers of Baltic have been interviewed, particularly Baltic's Project Director Mr. Ingemar Lundmark who has been instrumental in assembling information, arranging the site visit and addressing questions as they arose during our investigation. Mr. Lundmark has experience in project management and engineering for petroleum, power and civil projects including petroleum tank farm upgrades and oil field services.

Our assessment and conclusions rely on civil engineering expertise and experience from the international petroleum industry in general.

Several potential suppliers and consultants who are engaged in the industry have been consulted to provide second opinions on various aspects of the project:

- **Midrock:** A conglomerate of construction companies in Sweden that specialise in building tanks and whose methods are world leading regarding quality and efficiency;
- **PIC Engineering** from Karlstad in Sweden, design consultants for the tank farm at the refinery that was rebuilt South of Stockholm; and
- **Bibliopola BV**, an independent engineering consulting firm led by **Leen Kok** whose career mainly has focused on the construction and operation of tank farms, rail receiving and export terminal projects in Pakistan, the Netherlands, Ukraine and Estonia, the latter two of which dealt with products from Russia/CIS.

A site visit has been conducted, and is referenced further down in this report.

List of documents as submitted by Baltic:

*Business Management Information Memorandum Rev 12 Dated 13.01.06*

- Appendices
  - 1 Decree from Mayor of Kaliningrad & Legal Opinion
  - 2 Diagrams & Drawings
  - 3 Tetoil Basic Engineering
  - 4 Nominated Engineering Contractor Olimps
  - 5 Letters of Interest
  - 6 List of Russian Oil Producers & Oil Refineries
  - 7 Financials
  - 8 Model Assumptions
  - 9 Pollex Due Diligence and Financial Report
  - 10 Analysis of the Current Conditions relating to the Transit of Freight from Russia to Kaliningrad

## 2.2 CV of Top Housing Project Management and Bibliopola key personnel

### CV

**BO-GUNNAR SVENSSON**

**TOP HOUSING PROJECT MANAGEMENT**

#### Managing Director

Year of birth 1958

Languages Swedish, English, German

Education Master of Science in Construction Engineering, Chalmers University of Technology, Gothenburg, Sweden

*Nachdiplom* (storm water),  
Swiss University of Technology, Zurich, Switzerland

- Experience and employment history

2001 – date	<b>Managing Director</b>	Top Housing AB, Malmö, Sweden. Prefabricated buildings to emerging markets
1991 – 1999	<b>Production Manager</b>	Top Housing AB, Malmö, Sweden. Prefabricated buildings to emerging markets
1989 – 1991	<b>Production Manager</b>	NPL Housing AB, Malmö, Sweden. Prefabricated buildings to emerging markets
1986 – 1989	<b>Project Manager</b>	NPL International AB, Malmö, Sweden. Prefabricated buildings to emerging markets
1985 – 1986	<b>Site Manager</b>	JCC (Johnson Construction Co), Malmö, Sweden. Factory construction in Sweden
1981 – 1984	<b>Various</b>	Consultant in waste water and structural engineering, supervisor for concrete construction (Switzerland), technical calculator (Sweden)

**C V**  
**LEEN KOK**  
**BIBLIOPOLA**

**Director**

Year of birth 1945

Languages Dutch, English, French, German

• Experience and employment history

2001 – 2005	<b>Senior Management Consulting</b>	STR (Service Terminal, Rotterdam), The Netherlands. Conversion of terminal from disposal to bunker (65' cu m fuel)
2004 – 2005	<b>Senior Management Consulting</b>	Trendgate A S, Tallinn, Estonia. Design review of inland terminal for import/export of crude oils and heavy fuels from Russia into the West
2002 – 2003	<b>Senior Management Consulting</b>	Shell Aviation, London, UK. Detailed engineering of fuel hydrant System, Ollombo airport, Congo Brazzaville
2001	<b>Senior Management Consulting</b>	Nitram Hellevoetsluis, The Netherlands. Feasibility study for storing vegetable oils and liquid petro chemicals, Odessa, Ukraine
2000	<b>Senior Management Consulting</b>	Oiltanking Amsterdam, The Netherlands. Design review of railcar handling systems, Muuga port, Tallinn, Estonia
1999	<b>Senior Management Consulting</b>	Aircraft Fuel Supply Amsterdam (Shell Aviations), The Netherlands. Extension of aircraft loading systems, Amsterdam airport
1998	<b>Senior Management Consulting</b>	St Petersburg Terminal, Russia. Design review of oil storage terminal
1997 – 1999	<b>Senior Management Consulting</b>	Oiltanking Amsterdam, The Netherlands. Feasibility studies for construction of oil storage terminal, Riga port, Latvia
1997	<b>Senior Management Consulting</b>	Paktank Engro Port, Quasim, Pakistan. Commissioning and start-up of tank terminal (acids, xylenes), training of new local staff, Karachi, Pakistan

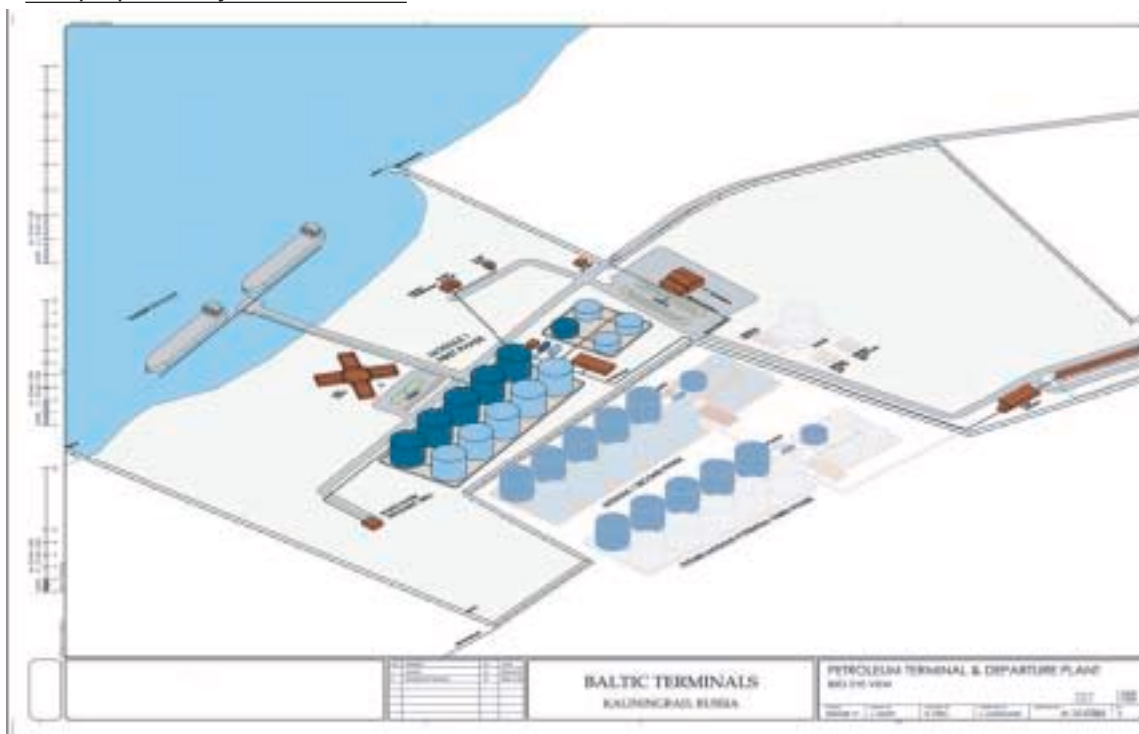
### 3. Present Situation

#### 3.1 Overall planning and feasibility of an oil transshipment terminal in Kaliningrad

Baltic Petroleum's submitted documentation *Business Management Information Memorandum*, including Appendices 1 – 7 (presented earlier in this document), are as detailed as can be expected at this stage of the Project. However, on-going cooperation with local authorities must be maintained as the Project progresses to avoid delays in the overall planning.



The proposed layout of terminal:



The overview of capital investment provides “in aggregate” realistic figures so the overall Budget of US \$19m for Phase 1 seems well specified for this stage of design and allows for 10-20 per cent contingency on individual items.

We also find that the budget for the subsequent phases to be reasonable allowing sufficient margin for contingencies should these arise.

The overall time-line, provides for a realistic period to implement the Project as specified.

However allowance has not been made for significant changes in design and/or for additional tasks which may need to be performed to accomplish particular tasks within the allotted time.

However allowance has not been made for significant changes in design and/or for additional tasks which may need to be performed to accomplish particular tasks within the allotted time.

Tetol Basic Engineering appears to be realistic, feasible and in keeping with our prior experience with similar petroleum terminal projects.

### 3.2 Process and process related buildings and installations

#### 3.2.1 Site

The site generally consists of a flat, empty space with a few overhead power lines. The power lines should be no hindrance for the intended construction of the terminal.

Top soil has to be removed, and suitable fill has to be arranged for the construction of roads and sub-foundations for buildings and installations. Excess material from excavation can most probably be dumped on site.

No survey points are observed but the borders of the land generally seem to correspond with the locations and measurements given on the site plan.

The access road to site needs minor improvement for the construction and operation of the terminal.

The geotechnical properties of the site are not known, and a geotechnical investigation in order to confirm the data given in the existing geotechnical report is recommended. There is however no reason to doubt the given geotechnical report that generally confirms suitability for the intended construction.

Picture, South West direction, Site March 2006:



Picture, East direction, Site March 2006:



#### 3.2.1.1 Overall and intermediate engineering

The documents as developed at this stage show that the engineering works follow Russian technical requirements and standards.

Tank pits, some of which are under construction already, have been dedicated to the petroleum products listed below for operational reasons as well as to save construction costs.



Related to the different flashpoints listed below, required a safety distance specified for the most hazardous products, in accordance with the Gost and SNIP standards pertaining in Russia.

- Crude classification K1
- Mazut classification K3
- Slops classification K1
- Gasoil classification K3
- Bunkers classification K3

Providing shore tanks for multi-purpose allows flexibility in responding to the market demand. This is accomplished by having both “dirty” and “clean” lines for both offloading trains and loading vessels.

#### 3.2.1.2 Compliance with local codes and permits by local authorities

We understand that development of the Project is proceeding in cooperation with the local authorities and that all their requirements will be met and restrictions will be adhered to.

#### 3.2.1.3 Budget

Tetol's capital allocation for the Project. The general price of \$144/cubic meter of storage seems reasonable for construction in Russia and should be cost effective.

This figure compares to an average price for similar tanks constructed in Europe of \$180 to \$190 per cubic meter.

#### 3.2.1.4 Time schedule

The Project Timeline (Information Memorandum, page 25) allows the Project to be executed within the allocated time without jeopardizing worker safety or soundness of the final works. Meeting this schedule, however, assumes that environmental and construction permits will be granted by local authorities without significant delay. We are informed that weather is not a factor in Kaliningrad and that construction may continue all year.

#### 3.2.1.5 Environmental aspects

The environmental issues are covered by the various documents.

### 3.2.2 Train terminal Railway Unloading Area (RUA)

#### 3.2.2.1 Overall and intermediate engineering

The submitted documents, though not in final form, reflect what appears to be feasible engineering.

Side-tracks to the connecting railroad are part of the unloading facility of any terminal to serve as parking or waiting areas for railcars, because of possible logistic problems. Demurrage costs for railcars waiting at the railroad tracks of third parties are expensive, so to move them off the mainline and onto terminal grounds, efficient design should allow for at least two full trains. In the case of this Project, the development document allows sufficient space for three trains at the same time.

The heat exchanger envisaged for use under loading/unloading is acceptable.

#### 3.2.2.2 Compliance with local codes and permits by local authorities

We understand that cooperation with the authorities is without complications, and that the construction shall comply with Snip codes and Gost standard requirements (i.e. the applicable Russian Standards and requirements).

Cooperation with local Russian railways is essential for a smooth and efficient operation. The railroad system is to be designed and constructed in conjunction with the Russian Railway Company, which in this particular case is its subsidiary Kaliningrad Railroad Company.

#### 3.2.2.3 Budget

Tetol's proposed Capital Expenditure of US \$50,000 for railway site preparation and US \$1,925,000 for 5.2km of side-tracking plus associated and supporting civil works seems appropriate.

#### 3.2.2.4 Time schedule

Operations can be executed within the targets presented in the Project Timeline. Environmental and construction permits, however, need to be granted by local authorities without delay.

#### 3.2.2.5 Environmental aspects

The environmental issues are covered and listed by the various developed documents.

### 3.2.3 Tank farm and mini refinery

#### 3.2.3.1 Overall and intermediate engineering

The submitted documentation reflects feasible engineering.

The construction of tanks with double walls and bottoms is not required for this installation and considered too expensive for these petroleum products. Other options are possible and are in the chosen design.

The pipeline configuration shown should be effective, but will be refined further as the engineering progresses.

#### 3.2.3.2 Compliance with local codes and permits by local authorities

Cooperation with the authorities is part of the on-going process of Project development and it is expected and that all requirements and restrictions will be fulfilled.

#### 3.2.3.3 Budget

Tetoil Capital Expenditure table, reflects a budget cost applicable for tank farm (US \$3.4m), and the mini-refinery (2.5m) which seems suitable for the local requirements.

#### 3.2.3.4 Time schedule

The Project Timeline, allows sufficient time to execute the Project within the allowed time period assuming that environmental and construction permits are granted by local authorities without delay.

#### 3.2.3.5 Environmental aspects

Environmental issues are given adequate attention by the various documents for this stage of engineering.

Tetoil Basic Engineering's environmental approach, seems acceptable; however, the emission control has to be worked out in more detail. This is not a major item and will not impact on the Construction.

### 3.2.4 Jetty water area, pier complex and loading of ships

The jetty, and especially its load bearing concrete sub-base seems to be in good order. Re-building of the jetty into suitable condition for the intended ships has been taken into consideration in the given business plan.

The jetty is used today by OOO Pollex Service (Pollex) for their operation of waste oil spill etc and seems to be fit for purpose.

Jetty including one of Porex's Vessels, March 2006:



Sub-Base of Jetty, March 2006



Looking North at the Ice Free Channel/port March 2006:



#### 3.2.4.1 Overall and intermediate engineering

The submitted documentation seems to reflect generally well calculated and described engineering.

#### 3.2.4.2 Compliance with local codes and permits by local authorities

We understand that cooperation with the authorities as well as Rosmorport and Kaliningrad Harbour is underway, and that all requirements and restrictions will be fulfilled.

#### 3.2.4.3 Budget

Tetol's budget has sufficient contingencies to include some dredging around their moorings. However, all dredging is supposed to be performed by Rosmorport and/or Kaliningrad Harbour.

#### 3.2.4.4 Time schedule

The timeline allows sufficient time for the construction of the tank farm and mini-refinery. These works can be readied without interference to other activities on site. Environmental and construction permits, however, need to be granted by the local authorities without delay.

#### 3.2.4.5 Environmental aspects

The environmental issues seem to be covered by the various documents.

### 3.3 Non-process buildings and installations

#### 3.3.1 Site, fence, guardhouse, road & parking areas

##### 3.3.1.1 Overall and intermediate engineering

The land usage as such appears to combine a cost effective dense usage of land, allowing for the envisioned later Project phases as well as further potential expansion.

Since the later phases are to be located on the east side of the lot and south of the train tracks, the construction of these phases is not expected to interrupt normal terminal operations.

##### 3.3.1.2 Compliance with local codes and permits by local authorities

We understand that the alliance with Pollex helps very much in the permitting process with local authorities. To our knowledge, all necessary temporary permits are already in hand.

#### 3.3.1.3 Budget

The budget for the land construction work is not fully determined owing to further assessment of the need for piling. However this has no effect on the overall budget cost. The side of Rybachiy peninsula which lies on the estuary is swampy but the side towards the Pregol River where the Project will be constructed appears to be solid and stable. Already engineering for the railway spur has been done by the Russian Railways and it remains to be seen whether they might have to put in some filling on a small part of the spur, but maybe not. As to Tetoil's budget, sufficient contingency seems to have been allocated should piling be required to support the rail spur.

#### 3.3.1.4 Time schedule

The time schedule for the land preparation work seems to fit well with the overall time schedule and should not be a critical item.

#### 3.3.1.5 Environmental aspects

The environmental issues seem to be addressed by the various documents.

### 3.3.2 Office

#### 3.3.2.1 Overall and intermediate engineering

The office layout as presented should function well to modern Western standards with suitable provision made for the estimated number of work stations required for BALTIC's operation.

If and when more staff or associated companies and/or authorities need work space, the office may need to be expanded.

#### 3.3.2.2 Compliance with local codes and permits by local authorities

To our knowledge, the office meets the set requirements.

We would point out, however, that more engineering work is needed before a conceptual design can be presented and approved by the concerned local authorities. This is not an area of concern.

#### 3.3.2.3 Budget

The given budget figures for the office (US \$600,000 in direct costs), seem to be well supported by quotations and price indications from local and Western companies specialized in this type of building.

#### 3.3.2.4 Time schedule

The time schedule for the office seems to fit well with the overall time schedule, and the site issue would most probably not be a critical item.

#### 3.3.2.5 Environmental aspects

The design of the office, choice of materials as well as possible emissions, seem well within the Western European ISO 14 000 requirements.

Our conclusion is that any influence on the environment by the office will be negligible.

### 3.3.3 Warehouse

#### 3.3.3.1 Overall and intermediate engineering

The warehouse layout should be well functioning and adequately spaced for changing rooms/toilets/showers for the intended staff.

It also seems suitable for the estimated need of field staff for Baltic Petroleum's operation.

If and when more staff is required and operations expand in the second or third stage, the warehouse may need extension.



### 3.3.3.2 Compliance with local codes and permits by local authorities

To our knowledge, the warehouse meets the set requirements.

We would point out, however, that more engineering work is needed before a conceptual design can be presented and approved by the concerned local authorities.

### 3.3.3.3 Budget

The given budget figures for the warehouse (US \$400,000 in direct costs), seem to be well supported by quotations and price indications from local and Western companies specialized in this type of building.

### 3.3.3.4 Time schedule

The time schedule for the warehouse seems to fit well with the overall time schedule, and the site issue would most probably not be a critical item.

### 3.3.3.5 Environmental aspects

We understand that any and all hazardous goods that may be stored in the warehouse will be treated with appropriate care and according to regulations.

The environmental effect of the warehouse operations is therefore believed to be negligible.

## 3.4 Company Organisation and Resources

### 3.4.1 Overall organisation

The intended organisation of Baltic Oil Terminals seems appropriate for operation. A special organisation during the construction phase is however needed, and it is envisaged that western project management is ensured by employing various consultants/suppliers for the construction.

### 3.4.2 Market and Marketing Efforts

The market development for oil products from Baltic is depending on the general economic developments in Western Europe as the intended clients are all western refineries and oil traders.

So far, we are informed an expression of interest for approximately 800.000 Tonnes per month has been received. As the maximum throughput of the terminal will reach 240.000 Tonnes per month in the first year of operations, we conclude that the potential for filling the Terminal is well established.

### 3.4.3 Present Key Personnel

The present Key Personnel are all very qualified. The management team consists of:

•	Mr Simon Escott,	Chief Executive
•	Mr Robert Wilde,	Finance Director
•	Mr Alexander Dronov,	General Director Regionneftegaz
•	Mr Alexei Palchevskiy,	General Director Polex Service
•	Mr Ingemar Lundmark,	Project Director
•	Mr Peter Gee,	Operations Manager
•	Mr Stefan Priestley,	Head of Sales

### 3.4.4 Sub-contractors

#### 3.4.4.1 Nominated Engineering Contractor

Baltic has entered into a strategic alliance agreement with Engineering Contractor "Olimps" of Riga, Latvia.

Olimps is a civil engineering company established in 1991 and employing 170 persons many with 20 years or more of design experience with specific focus on oil and oil products storing and handling terminals (See [www.olimps.lv](http://www.olimps.lv)). All employees and sub-consultants involved are fluent Russian speakers and those involved with the Tetoil terminal have particular experience in petroleum installations in Russia.

In addition to the agreement with Olimps there is a separate agreement developed with Engineering Company Lenmorniiproekt (See [www.lenmor.ru](http://www.lenmor.ru)) from St. Petersburg. Lenmorniiproekt are specialists in jetty and loading handlings and have considerable experience of this type of operations in the Kaliningrad area, itself having been a main contractor for the Lukoil Terminal in Svetley.

#### 3.4.4.2 Other sub-contractors

Further sub-contractors from the Baltic region (Russia, Sweden, Finland, Poland, Lithuania etc), will be engaged for the construction following an international competitive tendering process.

## 4. Vision for the future

### 4.1 Projected growth and financial forecasts

The Business Plan as presented reveals a strong belief in the profitability and growth of Baltic. The economies of the countries in the Baltic region as well as of Western Europe will grow, with a corresponding demand for energy.

Today's energy resources in Russia represent a significant part of Western Europe's energy supply. Oil terminals are hence needed to access Russian oil.

Baltic's strategic location in Kaliningrad, the only ice-free harbour on Russian territory, will most probably be in a leading position to take advantage of the growing demand for energy.

### 4.2 Quality issues, ISO certification and recruitment/training of staff

We are totally convinced that the present management of Baltic is capable of managing the company, recruiting and training staff etc.

We would however recommend developing a Quality Manual without delay, with the ensuing Quality System certified to both ISO 9000 and 14 000 standards (production and environmental respectively).

The recruitment of qualified staff and continuous training/improvement of present staff are essential for the future success of Baltic. We would recommend establishing a Development Plan including a log of training courses etc.

In this instance, the management of Baltic would benefit from determining and updating early on the individual required level of all staff.

### 4.3 Risk analysis

To construct and operate an oil terminal in Russia is probably a much riskier business than a corresponding venture in Western Europe.

The author(s) of the submitted documents seem to be well aware of this fact, and risk elements are touched on in a number of documents and areas.

Furthermore, a special part of the Business Plan is dedicated to Risk Analysis. We much appreciate the shown risk awareness, and generally agree with the various risk factors as identified.

During design and construction work various problems and hindrances will most probably occur. It is nevertheless our recommendation that the engineering be continued, as counter-actions can be taken as soon as hindrances are encountered.

## 5. Conclusions and Recommendations

In general, we consider the submitted documents pertaining to the planned works as very well structured and excellent foundations for the further elaboration of the Tetoil terminal.

We also see it as very positive that the management has local partners and has already formed relationships with local ventures such as Kaliningrad Prom Projekt, Kontinenet, Intorg etc. It is certainly much easier to achieve results in Russia through local partners and local collaborators.

We would recommend that the engineering work be continued and, if possible, speeded up, so as to address potential risk factors, such as approval by authorities, as quickly as possible.

The capital expenditure budgets as given in the documents all seem reasonable. Continuous updates will of course be needed, but the budget as reflected in the admission documents being issued in connection with Baltic's admission to AIM seems basically verifiable and correct.

As mentioned (clause 4.2), we believe it is essential for future success that a Quality Management System be initiated as soon as possible, since it is a rather long process. Baltic management expects this system to be in place before the Construction commences.

Our overall conclusion and recommendation upon studying the submitted documents, combined with a site visit, is that Baltic's Business Plan is well supported by facts. It complies with Russian regulations and norms while following established Western engineering standards and business models. As such we find the engineering design of the Project to be feasible and recommend that its development continue.

Malmö, Sweden 20 April 2006

TOP HOUSING PROJECT MANAGEMENT AB

Bo-Gunnar Svensson  
/Managing Director/

**PART 4**  
**COMPETENT PERSON'S EXPLORATION REPORT**

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**EXPLORATION CONSULTANTS Ltd**  
**AN ECL GROUP COMPANY**

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The Directors  
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20 April 2006

Dear Sirs,

**An Independent Review of the Exploration Potential of Certain  
Licence areas in Kurgan Oblast, Russia**

In response to your request we have reviewed and commented on the exploration potential of certain licences held by OOO Zauralneftgaz (Zauralneftgaz) in Kurgan Oblast, Russia.

In our opinion, the licences are at an early stage of exploration but there are indications that a working petroleum system may be present and that the ongoing work programme is appropriate to further delineate the potential to a stage where drilling will be required to prove up that potential.

We hereby consent to the inclusion of our Review ("Report") as described above and the use of our name in the admission document that is being prepared in connection with the admission of Baltic Oil Terminals PLC to AIM. The Report was provided on the basis that it should be included in its entirety and cannot be edited, nor excerpts taken, except with the express permission of Exploration Consultants Limited (ECL). The Report represents ECL's best professional judgement based on our experience and certain data supplied by Baltic Oil Terminals PLC and cannot be considered as a guarantee of results.



### **Professional Qualifications**

This report was prepared by Exploration Consultants Limited. Exploration Consultants Limited is a consultancy specializing in geology, geophysics, petrophysics, petroleum engineering and economic analyses. Exploration Consultants Limited has undertaken reserves reporting and valuation functions since 1980. The author of this report is Dr. Michael Golden BSc. PhD. Geology who has 37 years experience in evaluation of oil and gas assets predominantly in Africa and the Former Soviet Union. Dr. Golden is a retained Associate of Exploration Consultants Limited.

Except for the provision of professional services on a fee basis, Exploration Consultants Limited and its employees & associates have no commercial arrangement with any person or company involved in the interests that are the subject of this report.

Yours faithfully

A handwritten signature in grey ink, appearing to read 'A. Soulsby', written over a light blue horizontal line.

Alan Soulsby  
Director  
Exploration Consultants Limited





**INDEPENDENT  
REVIEW OF THE EXPLORATION POTENTIAL  
OF CERTAIN LICENCE AREAS IN  
KURGAN OBLAST, RUSSIA**

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**20 April 2006**

**NOTICE**

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## 1.0 EXECUTIVE SUMMARY

Under the terms of a Consultancy Agreement, Exploration Consultants Limited. (ECL) have been engaged by Baltic Petroleum Limited (Baltic), a wholly owned subsidiary of Baltic Oil Terminals PLC, since February 2005 to undertake a review and evaluation of the exploration potential of certain licences in Kurgan Oblast, Russia.

On 1st February 2006, Exploration Consultants Limited was requested by Baltic Oil Terminals PLC to provide a Competent Persons Report (CPR) of the exploration potential of these licences in Kurgan Oblast, Russia for an AIM admission document.

Kurgan Oblast (Region) is located approximately 1700km due east of Moscow and borders Kazakhstan to the south (**Figure 1**). The Kurgan region has well developed infrastructure: trunk oil and gas pipelines, railway connection to two oil refineries at a reasonable distance, a well developed system of all-weather roads and a well educated labour force.

The Regional Agency for Subsurface Use — Ural Federal District (Uralnedra) has registered 4 licence blocks (**Figure 2**) for geological exploration of hydrocarbons in Kurgan Region by the Open Joint Stock Company OOO Zauralneftgaz (Zauralneftgaz) with expiration date of 28th February 2008. The 4 licences are as follows;

Zapadno-Suersky (#11452)	Area 927 km <sup>2</sup> / 229.1 thousand acres
Mokrousovsky (#11455)	Area 957 km <sup>2</sup> / 236.5 thousand acres
Privolny (#11454)	Area 525 km <sup>2</sup> / 129.7 thousand acres
Orlovo-Pashkovsky (#11453)	Area 200 km <sup>2</sup> / 49.4 thousand acres

According to the licence documents there are no grounds for pre-term withdrawal of the licences mentioned above from Zauralneftgaz, subject to the timely fulfilment by Zauralneftgaz of all obligations stated in the work programme dated 27 June 2005. All the licences and any new applications are in the name of Zauralneftgaz.

A copy of the most recent version of the Zauralneftgaz work programme is provided as **Appendix 1**.

In addition Zauralneftgaz is actively pursuing the acquisition of a further seven licence areas in 2006 (**Figure 2**), as follows;

1. Pichuginsky
2. Mikhailovsky
4. Lebyazhevsky
5. West Petukhovsky
6. Petukhovsky
7. Orlovo-Pashkovsky-2.

### Summary table of assets

Asset	Operator	Zauralneftegaz Interest	Status	Licence Area, Km <sup>2</sup>	Expiry date	Comments
West-Suersky licence block, Russia	Zauralneftegaz	100%	Exploration	925	28 February 2008	Exploration programme in Progress
Orlovo-Pashkovsky licence block, Russia	Zauralneftegaz	100%	Exploration	200	28 February 2008	Exploration programme in Progress
Privolny licence block, Russia	Zauralneftegaz	100%	Exploration	500	28 February 2008	Exploration programme in progress
Mokrousovsky licence block, Russia	Zauralneftegaz	100%	Exploration	957	28 February 2008	Exploration programme in progress
Petukhovsky licence block, Russia	Zauralneftegaz	100%	Exploration	840	25 years term	Licence application decision — April 2006
Mikhailovsky licence block, Russia	Zauralneftegaz	100%	Exploration	726	25 years term	Licence application decision — May 2006
Pichuginsky licence block, Russia	Zauralneftegaz	100%	Exploration	331	25 years term	Licence application decision — May 2006
South-Voskresensky licence block, Russia	Zauralneftegaz	100%	Exploration	520	25 years term	Licence application decision — April 2006
Lebyazhevsky licence block, Russia	Zauralneftegaz	100%	Exploration	170	25 years term	Licence application decision — May 2006
Orlovo-Pashkovsky-2 licence block, Russia	Zauralneftegaz	100%	Exploration	95	25 years term	Licence application decision — 2006
West-Petukhovsky licence block, Russia	Zauralneftegaz	100%	Exploration	154	25 years term	Licence application decision — 2006

The main objective of ECL's work over the past year has been to establish whether or not a viable petroleum system exists in the Kurgan region.

ECL geologists were initially concerned that potential hydrocarbon source rocks in the shallow sedimentary section (Triassic-Jurassic to Recent age) in this area would be thin and immature for hydrocarbon generation and that the older and thicker (Devonian to Carboniferous age) underlying sedimentary section might be overmature for hydrocarbon generation.

ECL, at Baltic's request, has reviewed the available geological and geophysical data pertinent to this area, and has conducted a programme of geochemical analyses of borehole rock samples, to investigate the hydrocarbon source rock potential within this area.

A limited number of rock samples were obtained from old wells in the area. Most of these wells were not drilled with the express purpose of finding hydrocarbons as these were mainly drilled for geological study purposes. Samples were collected from these wells where possible and a low-cost programme of geochemical analyses and biostratigraphical age dating has been performed.

Some of the potential source rock samples from these wells have demonstrated that Triassic, oil-prone, organic-rich shales, previously considered to be thermally immature in the area, could locally be present at depths where they could generate hydrocarbons. The underlying Devonian-Carboniferous carbonate and shale section might also have hydrocarbon potential.

ECL's palaeontological dating of samples from the NVS-1 well, which is located in the South Voskresensky prospective licence area, indicates that rocks, at depths of 1.6 km, previously dated as being Devonian-Carboniferous in age, may be of Triassic age. These samples, although low in organic carbon content, have reached the 'oil generation window'.

Possibly more importantly, part of the significantly thicker section of Devonian-Carboniferous shales and carbonates, albeit less organic-rich, has been found to be only marginally mature to early-mid-mature for oil generation, in several samples available for analysis from relatively shallow core holes. If a sufficiently thick, adequately organic-rich section of Devonian-Carboniferous rocks exists in the area, this could also provide viable hydrocarbon source rocks, in or adjacent to the existing Baltic licence areas.

In addition to a few vintage regional seismic profiles, more detailed seismic surveys were conducted in various parts of the region (**Figure 2**). In the general area of the South Voskresensky licence area (formerly Dmitrievsky licence area), this seismic data is of sufficient quality to illustrate fault blocks and fold structures within the deeper Palaeozoic (Devonian-Carboniferous) section, and fold/drape structures within the shallow overlying Cretaceous-Recent sedimentary section.

The main conclusion of ECL's study is that, in terms of structural configuration and the possible presence of viable source rocks, the existing Zauralneftegaz eastern licence areas (Mokrousovsky, Privolnyi) & the

prospective eastern licence areas (South Voskresenky, Petukovsky and Western Petukovsky) appear to be the most prospective, at the present state of knowledge of the geology.

An exploration budget of \$5.9 million for 2006 has been approved by Baltic/Zauralneftgaz and is currently being implemented (see Appendix 1–Zauralneftgaz 2006 Work Programme). The main components of the exploration programme are gravity/magnetic surveys over the existing Zauralneftgaz licence areas, together with further geochemical sampling and analysis. As the results of the geochemical analytical programme thus far have provided some encouragement, consideration could be given to defining various locations for a stratigraphic test well, or even exploratory drilling locations.

However, prior to commitment to significant expenditure on geophysical surveys and drilling, rapid, cost-effective reconnaissance exploration methods such as gas seismotomography should also be employed to identify high-grade areas with potential for mature source rocks and hydrocarbon accumulations.

## **2.0 GEOLOGICAL OVERVIEW**

As a result of other industrial activities in the Kurgan area, from the Second World War onwards, and the focus of attention for hydrocarbon exploration being in West Siberia, Kurgan Oblast was a ‘closed’ area. Oil and gas exploration in the Kurgan Region was not considered to be a priority, and there was limited exploration activity in the form of seismic surveys and exploratory drilling.

On the western side of the Ural Mountains, in the Volga-Ural and Timan-Pechora Basins, there are major hydrocarbon accumulations in the Devonian-Carboniferous-Permian sedimentary sections. On the south-eastern side of the Ural Mountains, in the Kurgan region and in northern Kazakhstan, there are analogous sedimentary rocks that were also deposited during the Early Palaeozoic opening of the Uralic Ocean, which lay between the East European and West Siberian continental plates. Along the Ural Fold-Mountain Belt, these rocks were subsequently deformed and metamorphosed, when these plates collided. To the south of the Kurgan Region, analogous Lower Palaeozoic sedimentary rock formations in Kazakhstan have been subject to thermal metamorphism, uplift and erosion and are exposed at the present day land surface.

In the Kurgan Region, and in the immediately adjacent area to the south in Kazakhstan, the eroded surface of the Lower Palaeozoic rocks (**Figure 3**) is overlain by a thin cover sequence, some 300-700m thick, of Triassic, Jurassic, Cretaceous and Recent rocks (**Figure 4**). In the adjacent northern sector of Kazakhstan, essentially the northwards continuation of the Turgai Basin, there are reports of gas, bitumen and liquid oil shows in many shallow core-holes in the Kustanai area.

## **3.0 EXPLORATION PROGRAMME**

Baltic was initially attracted to the Kurgan Region in that it was proposed by the Russians as an overlooked, south-western extension of the highly productive West Siberian Basin, where there is a thick, thermally mature, hydrocarbon source rock formation of organic-rich black shales (Bazhenov Formation), within a section of Middle Jurassic to Middle Cretaceous sandstones. ECL considers that this hydrocarbon play concept is not applicable to the Kurgan area, and that the possibility of other viable hydrocarbon source rocks has to be investigated.

Unlike the main West Siberian Basin, several hundred kilometres to the north, the Jurassic-Cretaceous section in the Kurgan area is considered by ECL to be insufficiently deeply buried to have reached thermal maturation for oil and gas generation, even if this section were to contain potential source rocks with a high organic carbon content. The available geological data indicate that viable Jurassic source rocks are totally absent in the Kurgan area.

However, locally developed, highly organic-rich Triassic shales, underlying the Jurassic-Cretaceous section and overlying the older Devonian-Carboniferous rocks, are known in the Kurgan Region. (**Figures 3, 4**) The Triassic rocks were also initially considered by ECL to be more than likely immature for oil generation, given their reported depths of burial. Results of new biostratigraphical age dating by ECL of rocks from greater depths, previously identified as being of Devonian-Carboniferous age, have yielded Triassic ages. Although these samples are themselves ‘lean’ in terms of organic carbon content, they have, at some stage in their burial history, reached temperatures that took them into the early stages of the ‘oil-generation window’.

The biostratigraphical-dating results indicate that Triassic rocks may locally be found at depths where, if they include organic-rich varieties, they may have been capable of generating hydrocarbons.



On the other hand, voluminous, Soviet-style geological reports and surface geochemical reports of hydrocarbon-related geochemical anomalies (as yet unsubstantiated), made available to Zauralneftegaz by local geological/geophysical associations, indicated that there might be hydrocarbon potential, in the Kurgan Region, within the older, pre-Jurassic, Palaeozoic sedimentary rocks, previously referred to as 'Basement'. Upper Devonian to Lower Carboniferous shales and carbonates were proposed by the Russians to be potential oil and gas source rocks. On a 1998 map of the Pre-Jurassic subcrop surface (**Figure 10**), in the vicinity of the Zapadno-Suersky licence area, four of the old 'parametric' wells are shown as having found "oil shows". It has not so far been possible to verify these from either well logs, lithological descriptions, drilling reports or other sources.

The focus of work to date by ECL and summarized in this review, has been on the currently perceived key risks:

- the existence of a viable petroleum system in the region, in particular the existence of mature source rocks, capable of generating significant volumes of hydrocarbons; and
- the adequacy of previous mapping of the potentially prospective Palaeozoic sedimentary section, by seismic and other methods.

### 3.1 HYDROCARBON SOURCE ROCKS

ECL's primary concern in assessing the prospectivity of the Kurgan Region was to establish the possible existence of viable hydrocarbon source rocks. On the basis of current western geochemical concepts, the shallow Triassic to Recent sedimentary section is thought likely to be thermally immature in the Kurgan area, given the shallow depths of burial.

As regards the older Palaeozoic (Devonian-Carboniferous) sedimentary section, there are reports that, much further to the south, in Kazakhstan, where these rocks are exposed at the present-day land surface, they have been metamorphosed beyond the limits of hydrocarbon generation. The Late-Palaeozoic Hercynian Orogeny (post-Carboniferous), that led to the formation of the Ural Mountains, and contemporaneous thermal events known to the south in Kazakhstan, might also have overcooked the Devonian-Carboniferous section in the Kurgan region.

Hence, organic richness and thickness of the deeper Palaeozoic rocks, and the timing of their thermal maturation and of hydrocarbon expulsion, had to be determined, in relation to the timing of formation of potential structural and stratigraphical hydrocarbon traps within the Palaeozoic and overlying Triassic-Jurassic-Cretaceous sedimentary sections.

To address the question of hydrocarbon source rocks, a low cost geochemical analytical programme was designed by ECL for Zauralneftegaz. Samples of cores and cuttings from wells drilled into the Devonian-Carboniferous section were required, from old 'parametric' wells and other shallow boreholes, for geochemical analysis. For maturation/depth calibration purposes, samples were also requested from the overlying Triassic-Jurassic sedimentary section in the area. The objectives were to establish organic richness and maturation level of the rocks (i.e. source rock potential), to assist in basin modelling, i.e. the timing and degree of thermal maturation of the organic material, and of hydrocarbon generation, in the various levels of the sedimentary section, in relation to the timing of oil and gas trapping mechanisms.

The key results of the geochemical and biostratigraphical analytical programme are as follows:

- Four of the sampled wells have emerged as being of particular interest in determining the existence of viable hydrocarbon source rocks and the timing of hydrocarbon generation in the East of Kurgan Region. These wells are: Voskresenskaya (NVS-1), Duvankulskaya (DUV-5), Rechenskaya Rech-1 (NP-1) and C-10 (**Figure 2**). NVS-1 is of particular relevance as it lies in close proximity to and geologically on trend with two of Zauralneftegaz's existing licence areas (Mokrousovsky and Privolny) and three of the prospective new licence areas (South Voskresensky, Petukhovsky, West Petukhovsky). C-10 lies immediately south of the West Suersky licence area.
- There are highly organic-rich, oil-prone Triassic black shales in the Kurgan area, but the samples obtained from the C-10 well are, as predicted, immature for oil generation (**Figure 5**). Given sufficient depths of burial, these Triassic shales could be viable oil and gas source rocks. ECL's initial understanding of the regional geology did not suggest that they would be present in any great quantity or were likely to be found at significantly greater depths of burial within the east Kurgan region, in the vicinity of the Zauralneftegaz licence areas. The results from the NVS-1 well indicate that this needs to be further investigated.

- In the Voskresenskaya **NVS-1** well, which is located south east of the Zauralneftegaz licence area Mokrousovsky and north of their licence area Privolnyi, certain samples, purportedly from a part of the stratigraphical section previously identified as being of Devonian-Carboniferous age, at depths down to 1.6 km, have yielded younger, Triassic age-dates and, although these few samples obtained are lean in terms of organic carbon content, their level of maturation lies just within the oil generation window. If these sample locations are valid, the age-dates indicate that, in the Kurgan region, Triassic rocks, whether or not including rich source rocks, may occur at greater depths and at higher thermal maturation levels than previously recognised.
- Rock samples from several other wells (adjacent to the Zauralneftegaz eastern licence areas) which are at similar depths and apparently of Upper Devonian to Lower Carboniferous age, have also, at some stage in their burial history, reached the early mature stage of oil generation. If a sufficient thickness of adequately rich source rocks of this age is present within the area, there is the chance of significant hydrocarbon generation from this section.
- The geographical coverage and depth range of the samples obtained give only a very limited areal and vertical view of the source rock potential of the Kurgan area. As a result the geochemical and biostratigraphical analytical results obtained provide an incomplete picture of the Palaeozoic and Triassic source rock potential of the region.
- Samples were also obtained from wells Duv-4, 5, 6 (ND-4, ND-5, ND-6) in the south-west of the Kurgan region, near the Tobol River and close to the Kazakhstan border, some 120 km south-west of the Zauralneftegaz licence areas. There were reports of oil shows in these wells and of oil sheen on the River Tobol, close to one of the wells, which might be indicative of an active oil seep. It was decided to include samples from these wells in the analytical programme, to provide a somewhat wider geographical assessment of the prospectivity of the Kurgan area. Samples from the shallower part of the Devonian-Carboniferous section proved to be organic-rich, oil-prone and immature to early mature for oil generation (**Figures 6, 7**), whereas at deeper levels there is a sharp increase in maturation level, into the gas-generation window (**Figure 8**). The positive results from the Duvankul'skaya wells were unexpected, as regional considerations had indicated that the Lower Palaeozoic section here would likely have been more highly metamorphosed, during the Late Palaeozoic Hercynian Orogeny, towards the south and west of the area, in proximity to the Ural Fold-Mountain Belt. Given the sudden increase in the levels of maturation of the samples analysed from this well, the age of the sections penetrated in the Duvankul'skaya wells needed to be confirmed: i.e. whether they were in fact younger, e.g. Triassic, age. Samples from the Duv-5, NVS-1 and Rech-1(NP-1) wells (**Figures 2, 10**) were therefore sent out for palynological age dating. The samples from the Duv-5 and Rech-1 wells proved to be of Carboniferous age.
- The geochemical results from the NVS-1 and Duv-5 wells (**Figure 9**) indicate that there is a previously unrecognised major unconformity within what was thought to be a sequence of Upper Devonian to Lower Carboniferous limestones and shales: The Palaeozoic rocks below the unconformity are overmature for oil generation. The rocks above are immature to early mature for oil generation, but some are potentially rich oil source rocks, if they could be found at greater depths of burial. Alternatively, the sudden increase in maturation level seen in these wells might result from the intrusion of hot igneous rocks into the Palaeozoic rocks in the vicinity of the well-bores. This does raise questions as to the age dating of the rocks in the area, and is the subject of an on-going analytical programme.

The conclusions from the analytical results are being integrated with the results of earlier gravity/magnetic and seismic exploration surveys of the East Kurgan Region.

## 3.2 STRUCTURAL MAPPING

### 3.2.1 Zapadno-Suersky Licence Area

Prior to the Zauralneftegaz's acquisition of the Zapadno-Suersky licence area, a new seismic survey had been shot over this licence area (**Figure 2**) and an exploratory well had been proposed. The seismic data are currently being processed and interpreted in Ufa. ECL reviewed the processing of the new seismic in Ufa, in June and July 2005, and made recommendations as to how the processing route should address the imaging of the deeper Devonian-Carboniferous section.

A concurrent gravity/magnetic survey over the Zapadno-Suersky licence and adjacent areas was undertaken by the Bazhenov Geophysical Expedition, covering an area of 925 sq km in and around the Zapadno-Suersky licence area. This study was carried out in 2004-2005, and was reviewed by ECL in June 2005.

Bazhenov's interpretation of the gravity and magnetic data was integrated with existing geological and geophysical data. The results are viewed by ECL as not especially encouraging as regards to the Zapadno-Suersky licence, but do suggest that Baltic's other licence areas and the potential new licence areas available to Baltic, further to the east and north, may have more exploration interest.

The objectives of the study were to integrate existing well and gravity/magnetic data with a new gravity survey, conducted on a 500x200m grid, to elucidate the structure and composition of the pre-Jurassic 'basement' rocks, and to define areas of possible hydrocarbon anomalies.

The maps of the study include gravity and magnetic anomaly maps of the Zapadno-Suersky licence area including interpreted maps showing the fault pattern within the deep Palaeozoic section, two east-west interpreted vertical profiles, which show the modelled composition and structure of the Palaeozoic sedimentary and igneous rocks. There is also an updated semi-regional relief map of the Pre-Jurassic erosional surface, based on a combination of gravity, magnetic, borehole and older seismic data (**Figure 10**).

There are other derivative maps over Zapadno-Suersky, including a Pre-Jurassic geological subcrop map and a structural elements map of the Pre-Jurassic section. All of the above are reliable products, although in ECL's opinion, they seriously down-grade the prospectivity of Zapadno-Suersky licence area. However these maps will greatly assist the seismic structural interpretation of the Zapadno-Suersky licence and adjacent areas.

The Bazhenov report also goes into some detail in discussing the petroleum geology of the area. The geological cross sections (**Figure 4**) confirm that the Cretaceous-Recent section is at most 500-700m thick in the Zapadno-Suersky licence area. The underlying Triassic section, based on well control and the gravity/magnetic interpretation, is restricted to the western part of the licence area and is likely to be composed mostly of volcanic rocks. The presence within the Triassic section of organic-rich shale source rocks can not be excluded but, unless locally high heat flows can be invoked, they are likely to be immature for oil generation.

The potentially prospective Upper Devonian-Lower Carboniferous clastic-carbonate section is only patchily developed in the Zapadno-Suersky licence area and is relatively thin (500-1000m) where it is present. If this is indicative of its original depositional thickness and depth of burial, maturation for oil generation may be problematic. The underlying Middle Devonian section is relatively thick – up to 3 km – and is fairly widespread. It is interpreted by Bazhenov as comprising conglomerates, sandstones, siltstones and red shales, together with extensive interbedded lavas and tuffs (**Figure 4**). This section may have reservoir potential, but is probably lacking in the required source rocks.

ECL's present conclusion is that Zapadno-Suersky may be the least prospective of the Zauralneftegaz licence areas.

### 3.2.2 East Kurgan Licence Areas

Zauralneftegaz's existing eastern licence areas (Mokrousovsky, Privolnii) and the prospective new eastern licence areas (South Voskresensky, Petukhovsky and Western Petukhovsky) may include potentially prospective Devonian-Carboniferous rocks and could also have Triassic potential. The results of geochemical analysis of the NVS-1 samples are crucial and the most recent analytical results suggest that these parts of the sedimentary section may lie within the oil generation window, in and adjacent to these eastern licence areas.

In the course of ECL's review, older vintage seismic data, together with the corresponding interpreted structural maps of the cover sequence and pre-Jurassic erosional surface, have recently become available. These data encompass parts of the eastern licence areas but are mainly from the prospective new licence area, South Voskresensky. A brief review of this data set has revealed that there is a high degree of structuring, both within the Palaeozoic 'basement' and in the overlying platform cover sequence, which could yield potential hydrocarbon traps, should the presence of a viable hydrocarbon source rock system be established. A thick section of potential source rocks has not yet been identified in the area, but this in part is due to the lack of a fully representative suite of rock samples for analysis.

On the map of the pre-Jurassic erosional surface (**Figure 10**), east of the Zapadno-Suersky licence area, in the vicinity of the **NVS-1** well, there is a marked depression, where the pre-Jurassic surface lies at

considerably greater depths (down to 1.2 km). The configuration of this surface strongly suggests the presence of a buried graben or basin at Base Jurassic and deeper levels. The NVS-1 well, drilled on the uplifted eastern margin of this depression, found Triassic shales, poor in terms of organic carbon content, but early-mature for oil generation, at a depth of 1.6 km. There is every possibility that the adjacent depression could contain thicker, more mature Triassic rocks.

The internal stratigraphy and structure of the pre-Jurassic section has not yet been mapped, but it clearly has the potential for fault block and fold structures that could create hydrocarbon traps.

As the results of the geochemical analytical programme are encouraging, the next stage of exploration will involve further analyses and maturation/migration modelling.

Reprocessing and remapping of the available seismic data would proceed in tandem.

Consideration should be given to defining a location for a parametric/exploratory well, to test the Triassic and Palaeozoic section.

### 3.3 CURRENT EXPLORATION ACTIVITY

- There is an ongoing search for core and cuttings samples, in various corestores, museums and institute collections, for further geochemical and biostratigraphical analysis
- Further gravity/magnetic surveys, covering the existing Zauralneftegaz licences, have been commissioned by Zauralneftegaz from the Bazhenov Geophysical Expedition.
- ECL has requested that the recent seismic survey over the Zapadno-Suersky licence area should be re-processed, in order to better image the deeper, pre-Jurassic part of the section. Re-processing and interpretation are currently in progress at the Ufa Geophysical Institute.
- A search is also underway to locate electronic format seismic data over the South Voskresenky, Petukhovskiy and Western Petukhovskiy licence areas, in order that the data can be re-processed, to better image the deeper, Devonian-Carboniferous section.
- ECL strongly recommends that alternative, rapid and cost-effective geological reconnaissance methods such as 'gas-seismotomography' should be applied in this high-risk 'frontier' exploration region, in order to high-grade areas of interest for more intensive exploration methods.
- Details of the 2006 work programme are presented in **Appendix 1**.

### 4.0 CONCLUSIONS

ECL's review has led to the conclusion that the area may have the potential for oil and gas accumulations:

- Any potential structural or stratigraphical traps within the deeper Palaeozoic section can at best be expected to contain gas. Oil pools previously generated from source rocks in the deeper Palaeozoic section and trapped in reservoirs within this section, where the potential source rocks are now overmature for oil generation, will themselves have been naturally 'cracked' into gas, if not totally destroyed. This was one of ECL's original concerns, and one of the reasons for the programme of geochemical analyses.
- Contrary to initial concerns, the Upper Devonian to Lower Carboniferous section immediately beneath the Cretaceous-Recent cover sequence is not over mature for oil generation. Where these rocks are more deeply buried, they could lie within the oil generation window.
- There is as yet no firm evidence of the presence in the area of a thick shale source rock sequence with adequate organic carbon content that could yield significant volumes of hydrocarbons. However, it has to be borne in mind that there is a thick sequence of Devonian-Carboniferous limestones. Hydrocarbon expulsion efficiency from limestones is generally much greater than from shales, such that even relatively 'lean' contents of the total organic carbon content throughout the limestone section could generate and expel moderate volumes of hydrocarbons, if the thermal conditions are appropriate.
- Permo-Triassic sediments, thicker than previously recognised, could be present in the Kurgan area, e.g. in downfaulted grabens, beneath the Cretaceous-Recent cover sequence, which opens up a hitherto unrecognised hydrocarbon play possibility, with successful analogues elsewhere in the Caspian-Kazakhstan area (e.g. the Fergana Basin).

As regards the overall hydrocarbon prospectivity of the region, the main conclusion of this review is that, in terms of structural configuration and the possibility of rich Triassic and/or Devonian/Carboniferous source rocks lying at sufficient depths of burial to have generated significant volumes of hydrocarbons, the eastern licence areas, held by or which are potentially available to Zauralneftegaz, appear to be the most prospective at our present level of knowledge regarding the geology of the area. The South Voskresensky licence area, which Zauralneftegaz is currently applying for, is of particular interest.



## APPENDIX 1 ZNG 2006 WORK PROGRAMME AND BUDGET

Adjusted:

Approved:  
General director of  
OOO Zauralneftgaz

Peter Gee

O.V. Zhuravlev

### Preliminary time-scale of works of OOO Zauralneftgaz

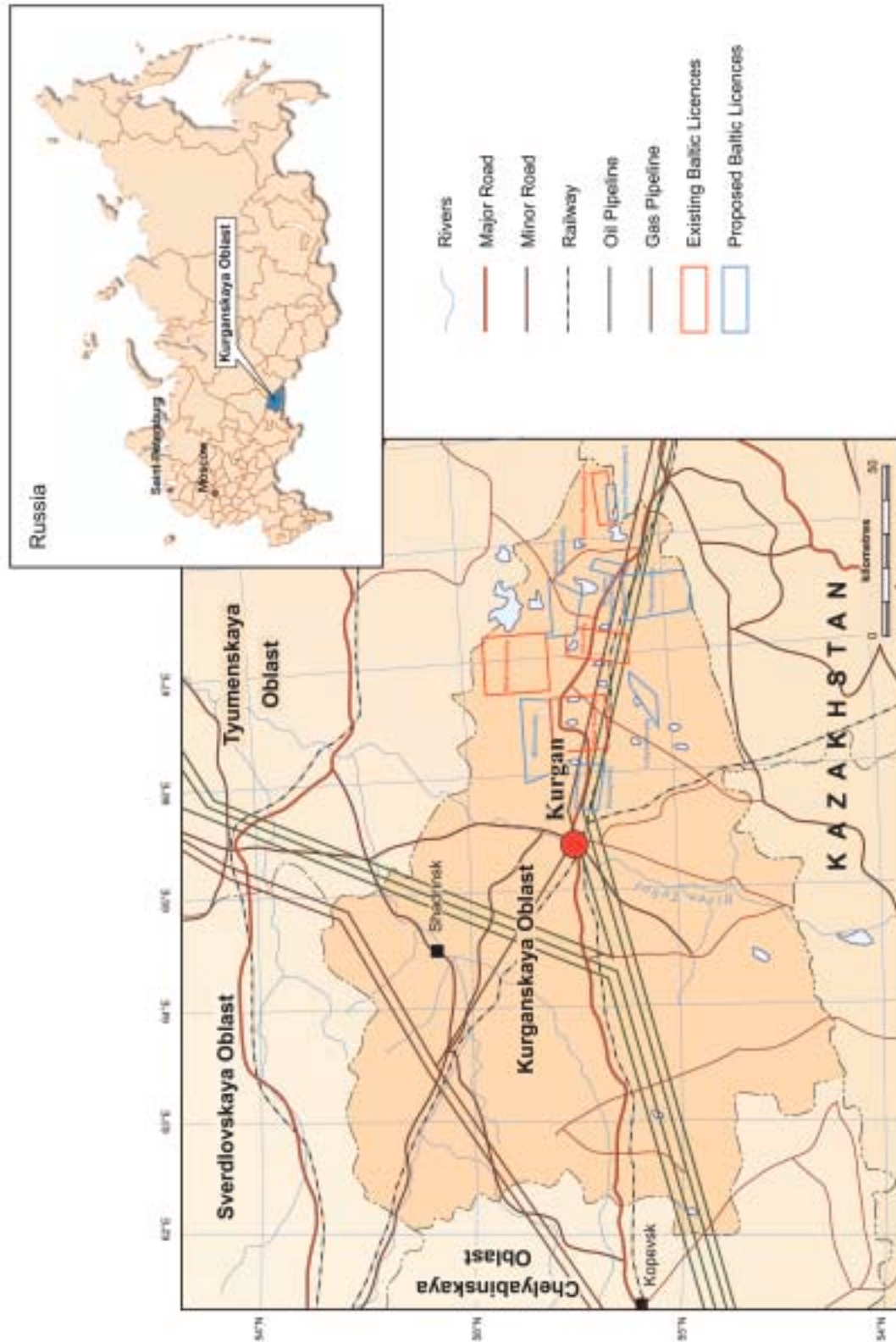
<b>I. Geophysical works</b>			
<i><b>Types of work</b></i>	<i><b>Due date of works</b></i>	<i><b>Volume of work</b></i>	<i><b>Value, USD</b></i>
<b>1.</b> Integrated interpretation of seismic and gravimetric surveys over West-Suersky block.	Late February – March 2006	925 sq km	71,430
<b>2.</b> Compilation of project and cost-estimation documentation; permits acquisition; gravimetric mapping over Mokrousovsky, Privolny and Orlovo-Pashkovsky licence blocks in 2005-2006.	IV quarter of 2005 – I, II quarter of 2006	1,909 sq km	818,143
<b>3.</b> Integrated interpretation of geological and geophysical data on the territory of 2,834 sq km.	I quarter of 2006 – IV quarter of 2006	2,834 sq km	202,430
<b>4.</b> Analysis and review of previously conducted seismic surveys by CDP method over Dmitrievsky area and of seismic data over Kurgan profile by correlation refraction method.	December 2005	280 linear km – CDP 150 linear km – correlation refraction method	7,143
<b>5.</b> Re-processing, re-interpretation and structural re-mapping of CDP data over Dmitrievsky area.	IV quarter of 2005 – 28 February 2006	280 linear km	34,800
<b>6.</b> Re-processing, re-interpretation and structural re-mapping of correlation refraction method data over Kurgan profile.	IV quarter of 2005 – 28 February 2006	150 linear km	18,643
<b>7.</b> Integrated analysis of geological and geophysical materials 1:200,000 scale over the Eastern area.	January 2005 – August 2006	17,785 sq km	635,178
<b>8.</b> Execution and provision of final report to the Customer.	December 2006		7,143
<b>9.</b> Choice of areas for 2D seismic within Mokrousovsky, Privolny and Orlovo-Pashkovsky licence blocks based on the results of gravimetric surveys.	III quarter of 2006		56,000
<b>10.</b> Compilation of project and cost-estimation documentation; permits acquisition; seismic surveys, interpretation/mapping over Mokrousovsky, Privolny and Orlovo-Pashkovsky license blocks. Identification and choice of drilling locations.	III-IV quarters of 2006	Project planning, topographical survey, experimental work, field survey, processing, interpretation and structural mapping.	892,857
<b>11.</b> Core sample collection, source rock analysis.	1 March 2006		

<b>II. Drilling operations</b>			
1. A competitive bidding procedure for the choice of drilling department.	I quarter 2006		—
2. Planning of projects (2 pcs.), permits acquisition (individual safety, ecological assessment etc.)	II-III quarters 2006		125,000
3. Well construction and mobilization of work.	IV quarter of 2006 – I quarter of 2007		1,000,000
4. Drilling.	IV quarter 2006 – I quarter 2007		1,500,000
Subtotal:			5,368,767
Contingency costs 10%:			536,876
TOTAL: USD			5,905,643



Location Map of Kurgan

Figure 1



Kurgan Oblast, Location map of licences, wells, seismic surveys and pipelines

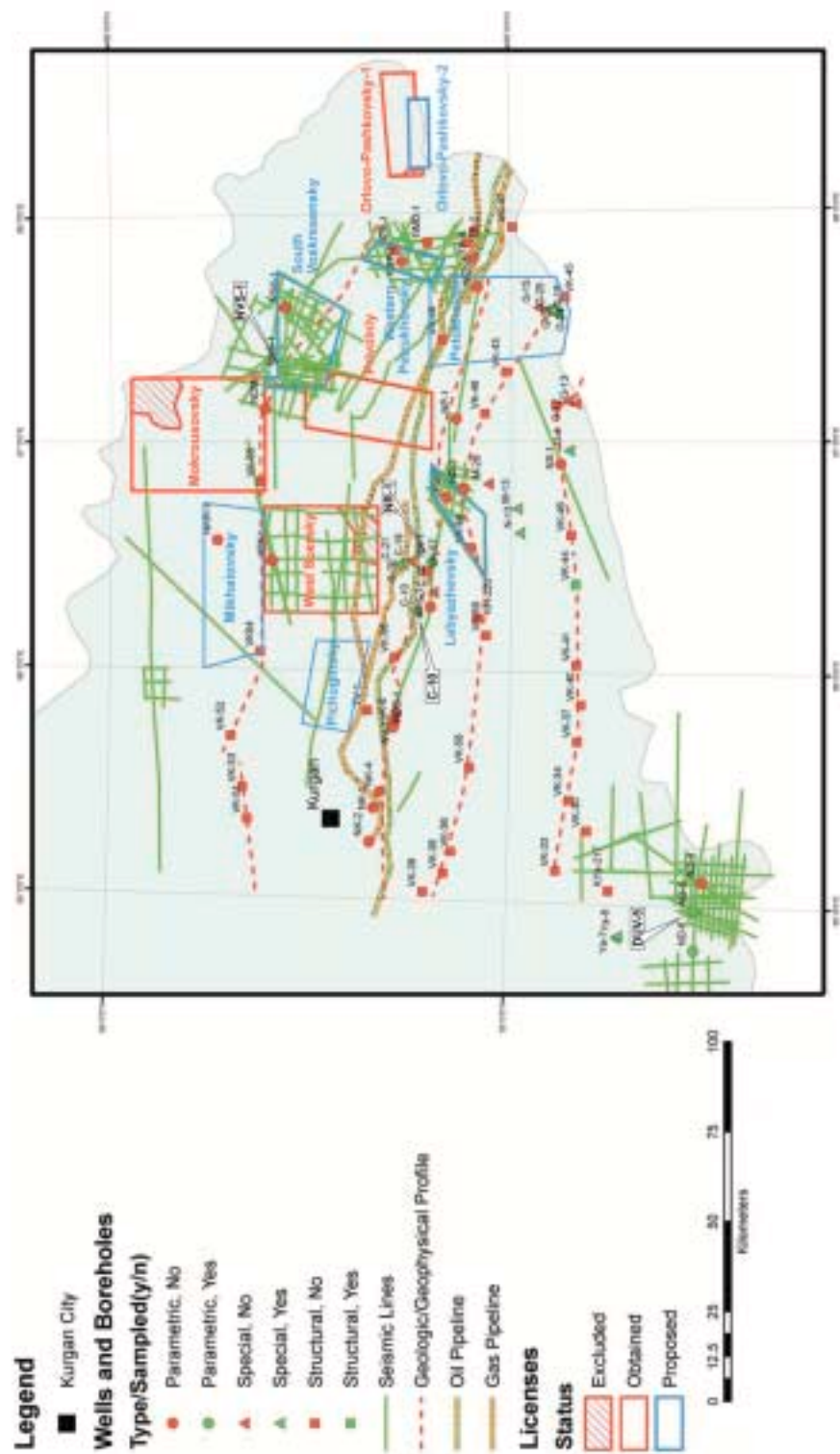
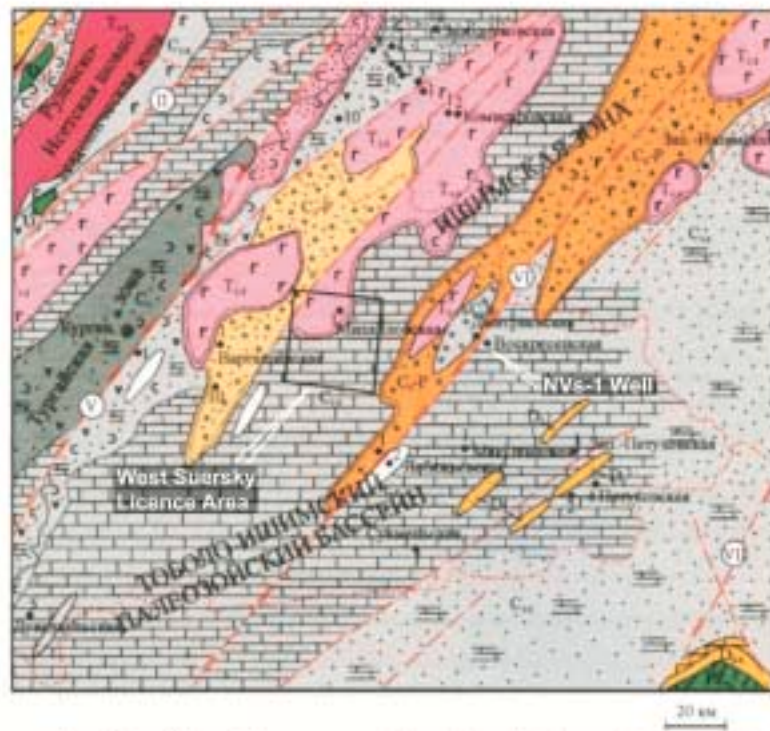


Figure 2





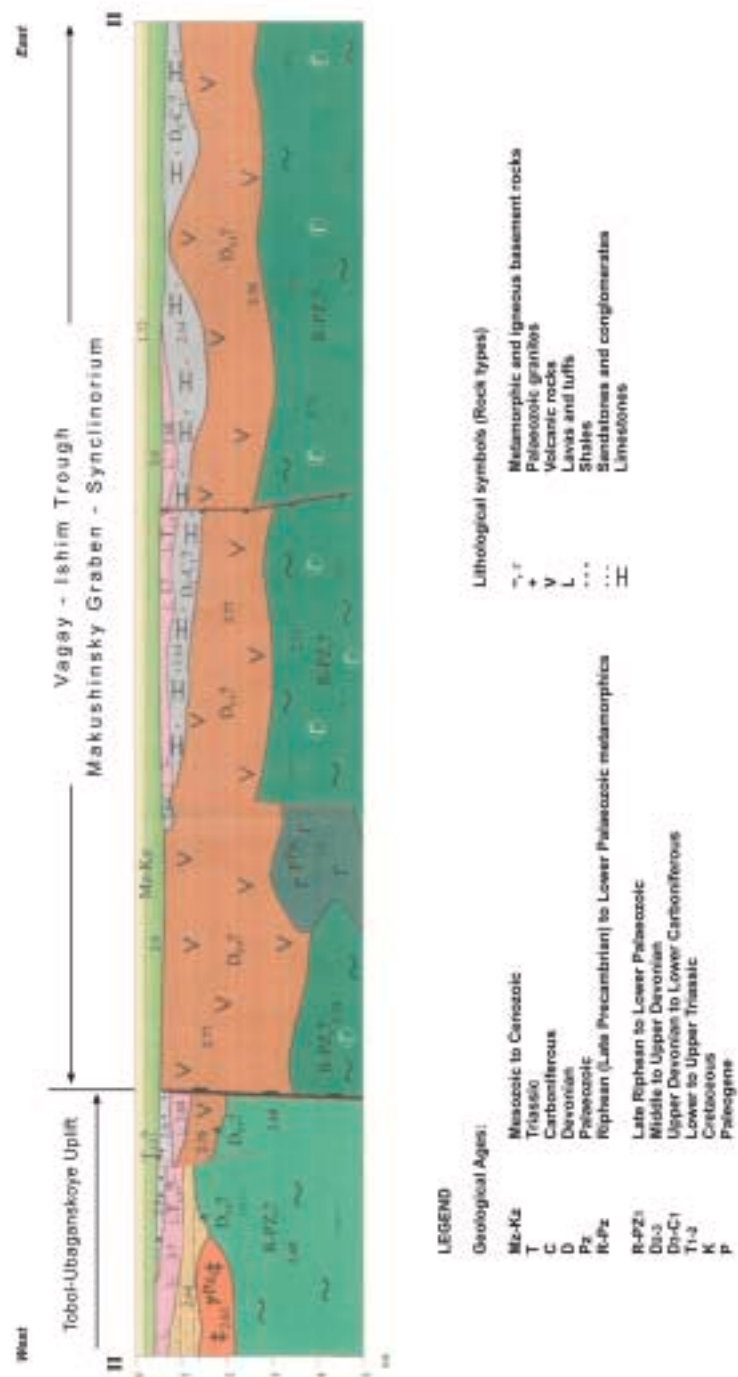
Geological Formations		Lithologies (Rock types) indicated in symbols	
<b>Pg</b>	Lower Palaeozoic, metamorphic, clastic and igneous rocks		Sandstones and conglomerates
<b>D4</b>	Middle to Upper Devonian clastic and carbonate rocks		
<b>D3</b>	Upper Devonian carbonate, clastic and volcanic rocks		Carbonates
<b>C1</b>	Lower Carboniferous carbonates and clastic rocks		
<b>C1V1</b>	Lower Carboniferous carbonates and lavas		Volcanic rocks
<b>C2V1</b>	Middle Carboniferous clastic and volcanic rocks		
<b>C3</b>	Middle to Upper Carboniferous clastics, carbonates and volcanics		
<b>C4P1</b>	Middle Carboniferous to Lower Permian conglomerates, sandstones, shales, carbonates and volcanic rocks		
<b>C5P1</b>	Upper Carboniferous to Lower Permian conglomerates, sandstones and shales		
<b>T1</b>	Lower to Upper Triassic volcanics, shales, sandstones, conglomerates		
<b>T2</b>	Middle to Upper Triassic shales, sandstones and volcanics		

**Note:** This subcrop geology map needs to be updated, based on the results of more recent boreholes and the revised age-dating of rock samples being carried out by ECL. In particular, the C-10 well (not shown on this map) immediately south of the West Suersky Licence Area, found organic-rich, albeit immature Triassic shales. In addition, the likely age of the sedimentary fill of the NE-SW trending troughs, in the vicinity of the Vs-1 (Боксеевская) well, needs to be re-examined.

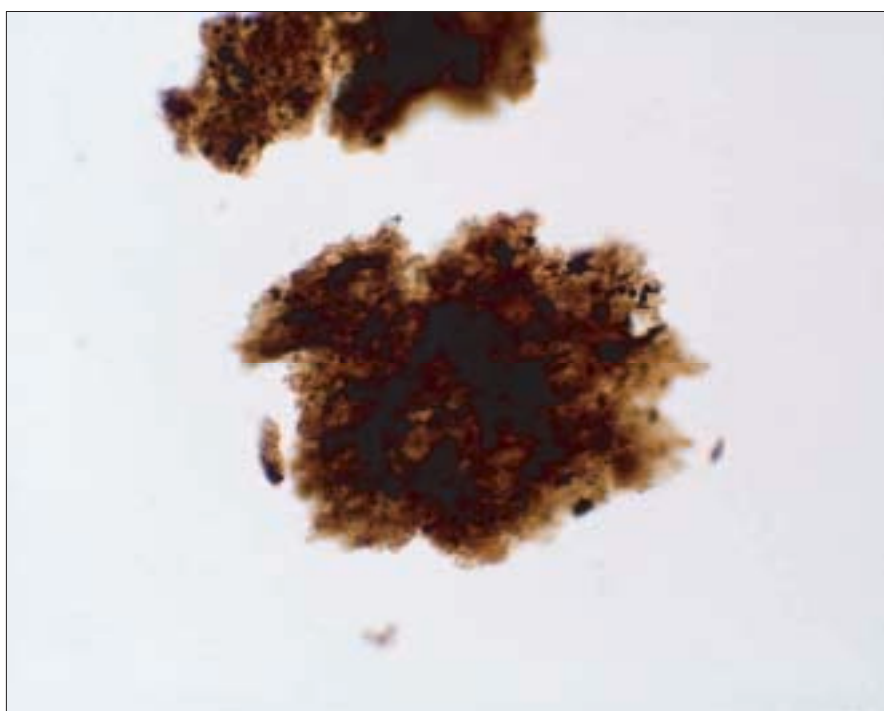


**Pre-Jurassic Geological Subcrop Map  
East Kurgan Region (1982)**

**Figure 3**

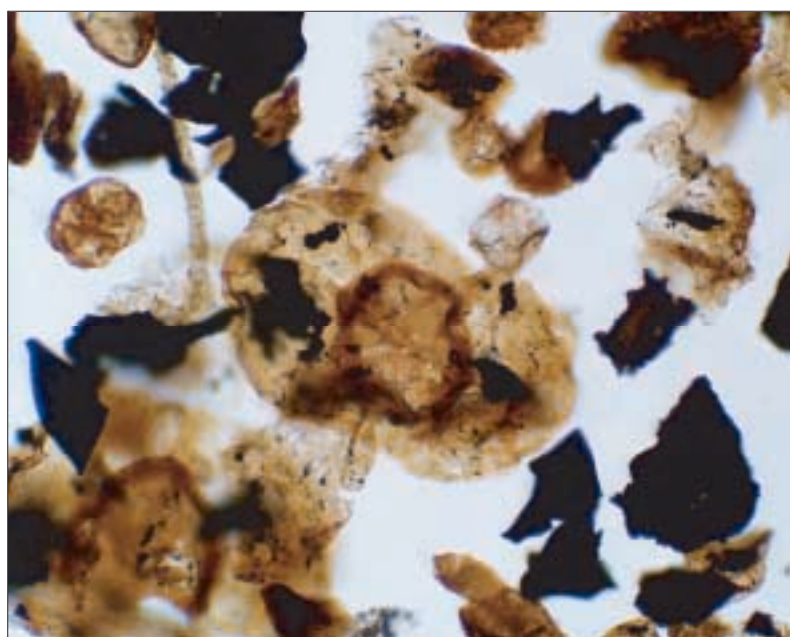
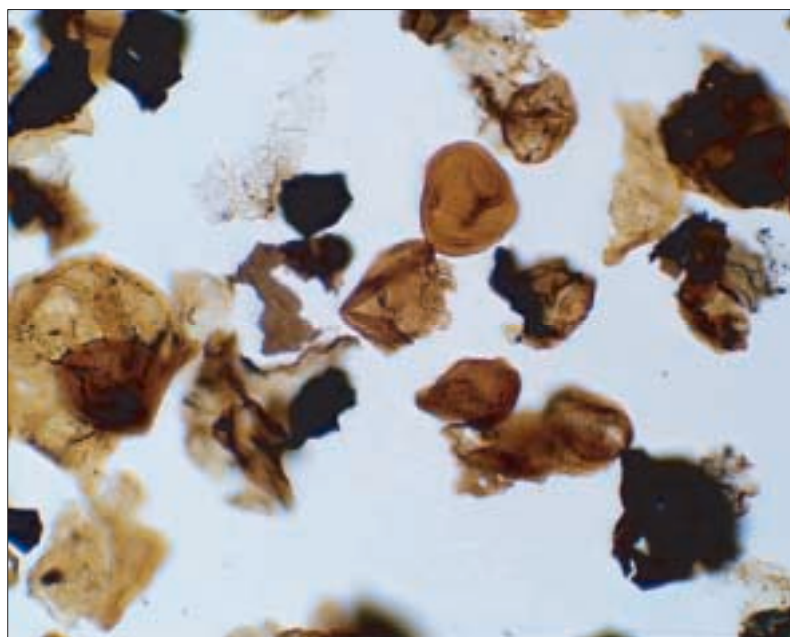






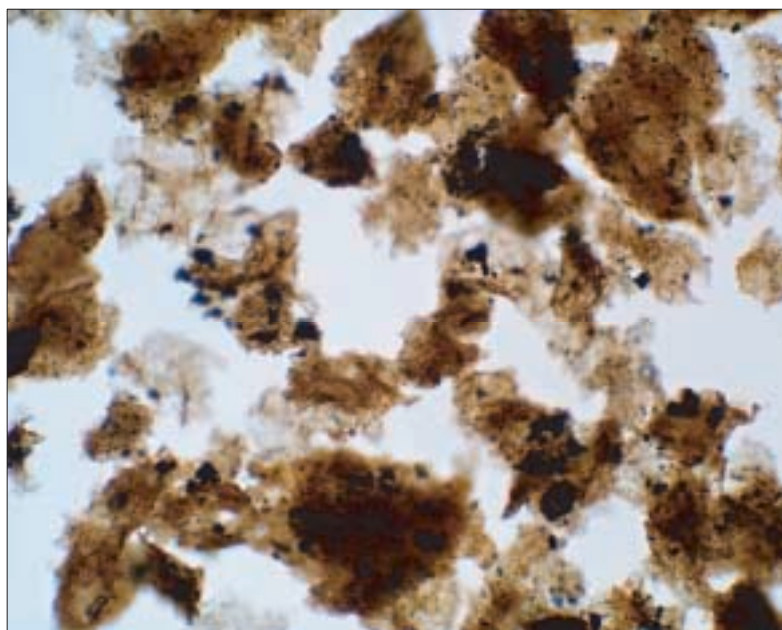
**Characteristic amorphous kerogen  
recovered from the Triassic sample C-10/1**

**Figure 5**



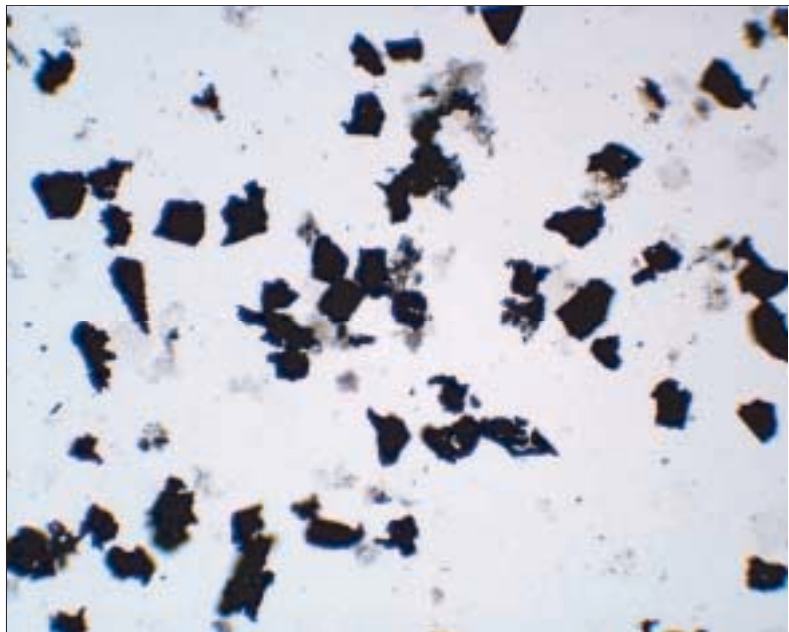
Palynomorph-rich kerogen assemblage recovered from  
Sample 47 (864.35m), Duv-5 Well

Figure 6



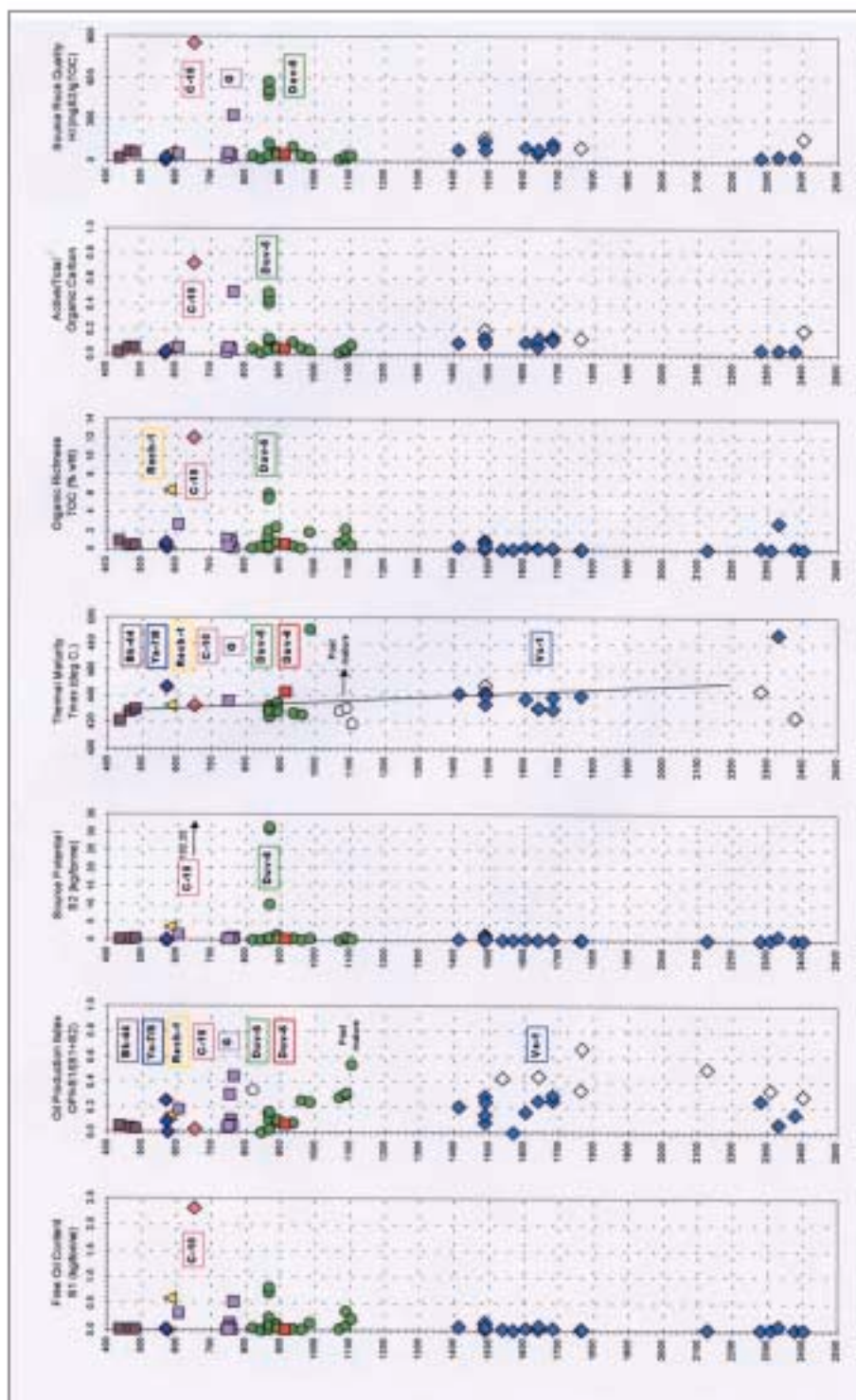
**Kerogen from the most prospective sample in Duv-5 (sample 82, 865.25m) consists of amorphous organic matter (early mature Type II oil-gas prone kerogen)**

**Figure 7**

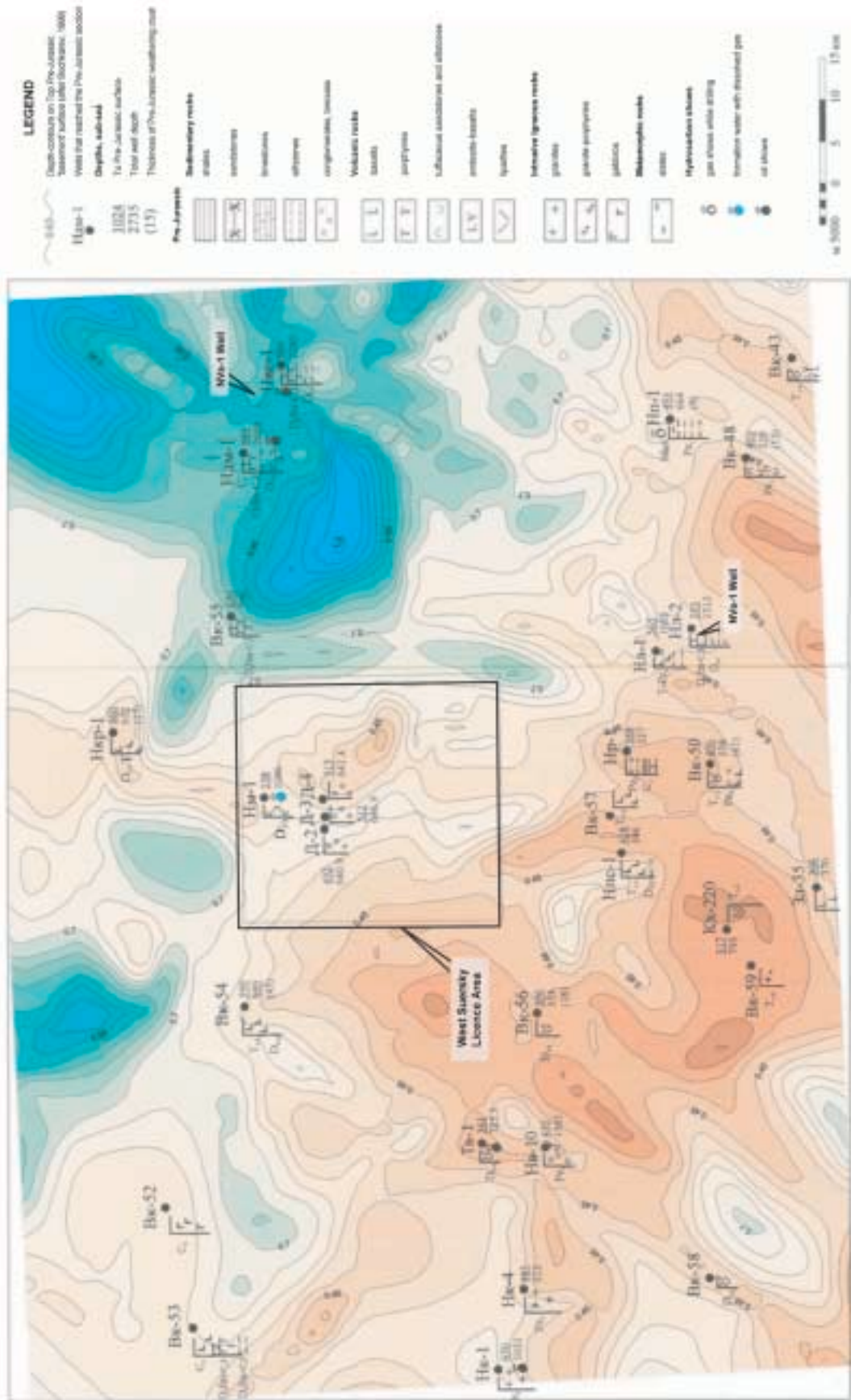


Thermally degraded (post-mature) vitrinitic/inertinitic  
kerogen, isolated from Sample 78 at 1104.45m in Duv-5 well

Figure 8







Depth Map of the Pre-Jurassic Subcrop Surface

Figure 10



## PART 5

### FINANCIAL INFORMATION ON THE GROUP



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The Directors

20 April 2006

Baltic Oil Terminals PLC  
6-8 Underwood Street  
London N1 7JQ

Dear Sirs

#### **Baltic Petroleum Limited**

We report on the financial information set out in paragraphs 1 to 5. This financial information has been prepared for inclusion in the AIM admission document dated 20 April 2006 of Baltic Oil Terminals PLC on the basis of the accounting policies set out in paragraph 5(2). This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

#### ***Responsibilities***

The Directors of Baltic Oil Terminals PLC are responsible for preparing the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the AIM admission document, and to report our opinion to you.

#### ***Basis of opinion***

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

#### ***Opinion***

In our opinion, the financial information gives, for the purposes of the AIM admission document dated 20 April 2006, a true and fair view of the state of affairs of Baltic Petroleum Limited as at the dates stated and of its losses, cash flows and changes in equity for the period then ended in accordance with the basis of preparation set out in note 2.

#### ***Declaration***

We are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Ernst & Young LLP

## Baltic Petroleum Limited

### 1. Consolidated income statement Period from 3 December 2004 — 31 December 2005

	Notes	2005 £'000
<b>Revenues</b>		—
Cost of sales		—
<b>Gross loss</b>		—
Other income		117
Administrative expenses	5	(956)
<b>Operating loss before taxation and finance items</b>		<b>(839)</b>
Finance income	8	48
<b>Loss before taxation</b>		<b>(791)</b>
Tax expense	9	(10)
<b>Loss for the year</b>		<b>(801)</b>
Attributable to:		
Equity shareholders of the parent		(750)
Minority interests		(51)
		<u>(801)</u>
<b>Earnings per share attributable to equity shareholders of the parent:</b>		
Basic and diluted	10	(1,092p)

**2. Consolidated balance sheet**  
**As at 31 December 2005**

	Notes	2005 £'000
<b>Non-current assets</b>		
Intangible exploration assets	11	1,689
Property, plant and equipment	12	90
Goodwill	11	144
VAT reclaimable	13	80
		<u>2,003</u>
<b>Current assets</b>		
Trade and other receivables	14	25
Prepayments and other current assets	15	483
Cash and cash equivalents	16	395
		<u>903</u>
<b>TOTAL ASSETS</b>		<u><b>2,906</b></u>
<b>Equity and liabilities</b>		
Share capital	17	1
Share premium	17	2,639
Retained losses		<u>(750)</u>
<b>Equity attributable to shareholders of the parent</b>		<b>1,890</b>
Minority interests		<u>188</u>
<b>Total equity</b>		<u><b>2,078</b></u>
<b>Non-current liabilities</b>		
Deferred tax liability	9	<u>287</u>
		287
<b>Current liabilities</b>		
Trade and other payables	18	<u>541</u>
		<u>541</u>
<b>Total liabilities</b>		<u><b>828</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>2,906</b></u>

**3. Consolidated cash flow statement**  
**Period from 3 December 2004 — 31 December 2005**

	Notes	2005 £'000
<b>Operating activities</b>		
Group operating loss	19	(1,035)
<i>Adjustments to reconcile group operating loss to net cash outflow from operating activities</i>		
Depreciation of property, plant and equipment		4
Amortisation of intangible assets		4
Increase in trade and other receivables	19	(292)
Increase in trade and other payables	19	108
<b>Net cash flows from operating activities</b>		<b>(1,211)</b>
<b>Cash flows from investing activities</b>		
Interest received		15
Purchase of property, plant and equipment		(94)
Payment to acquire investments (net of cash acquired)		(383)
Loans made		(582)
<b>Net cash flows from investing activities</b>		<b>(1,044)</b>
<b>Cash flows from financing activities</b>		
Proceeds from shares issued		2,640
<b>Net cash flows from financing activities</b>		<b>2,640</b>
Increase in cash and cash equivalents		385
Cash and cash equivalents at beginning of year		—
Effect of exchange rate on cash and cash equivalents		10
<b>Cash and cash equivalents at the end of the year</b>		<b>395</b>

**4. Consolidated statement of changes in equity**  
**Period from 3 December 2004 — 31 December 2005**

	Note	Attributable to equity shareholders of the parent					Total equity £'000
		Share capital £'000	Share premium £'000	Retained losses £'000	Total £'000	Minority interests £'000	
Minority interests		—	—	—	—	239	239
Loss for the period		—	—	(750)	(750)	(51)	(801)
Shares issued during the period	17	1	2,639	—	2,640	—	2,640
<b>At 31 December 2005</b>		<b>1</b>	<b>2,639</b>	<b>(750)</b>	<b>1,890</b>	<b>188</b>	<b>2,078</b>

## **5. Notes to the consolidated financial information**

### **Period from 3 December 2004 — 31 December 2005**

#### **1. Corporate information**

Baltic Petroleum Limited is a UK registered company incorporated on 3 December 2004 for the purpose of building an integrated oil and gas business. This will initially comprise the construction of an oil transshipment terminal in the Russian Baltic Sea port of Kaliningrad and upstream exploration assets in Western Siberia.

The oil terminal is expected to be constructed between the summer of 2006 and the summer of 2008. Light-sweet crude from Russia and Kazakhstan will arrive via rail to the terminal and the company will charge for transshipment from the trains to ships via storage tanks at the terminal. First revenues are expected during 2007, whilst construction is in progress.

The terminal will be held in a Russian subsidiary company, JSC Tetoil, which is proposed to be 100 per cent owned by a UK registered company, Tetoil Limited. Baltic Petroleum has agreed terms under a Memorandum of Understanding with Tetoil Limited to own 58.5 per cent of Tetoil UK Limited. The minority shares will be held by the previous owners. Principal activities during 2005 comprised engineering design and planning for the construction of the terminal.

The exploration acreage held at 31 December 2005 comprises 4 licence areas in the Kurgan region of Western Siberia totalling 645,000 acres. Additional licences bringing the total to around 1,000,000 acres are expected to be acquired during 2006, during which period at least two wells are planned to be drilled.

The exploration acreage is held in a Russian subsidiary, OOO Zauralneftgaz, which in turn is owned by UK subsidiary company, Zauralneftgaz Limited, formed in November 2005 and owned equally with Siberian Energy Group, a NASDAQ bulletin board listed company. Baltic Petroleum, through a shareholder agreement, has operational control of Zauralneftgaz Limited.

Principal activities in the Zauralneftgaz subsidiary in 2005 comprised the reprocessing of seismic data and re-evaluation of geological data, with the aim of assessing the hydrocarbon potential of the area.

#### **2. Accounting policies**

##### **a) Accounting convention and accounting standards**

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with IFRS adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union up to 31 December 2005.

The consolidated financial statements are presented in pounds sterling ("£") and all monetary amounts are rounded to the nearest thousand (£'000) except when otherwise indicated.

The financial statements have been prepared on the going concern basis, which assumes that the company and its subsidiaries will continue in operational existence for the foreseeable future.

##### **b) Basis of consolidation**

The consolidated financial statements reflect the group's financial position as at 31 December 2005 and the group's financial performance for the period from 3 December 2004 (date of incorporation) to 31 December 2005.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. On acquisition of a subsidiary, the purchase consideration is allocated to the assets, liabilities and contingent liabilities on the basis of their fair value at the date of acquisition. The excess of the cost of the acquisition over the fair value of the group's share of identifiable net assets of the subsidiary acquired is recognised as positive goodwill. Negative goodwill arises where the fair value

of the group's share of identifiable net assets of the subsidiary exceeds the cost of the acquisition. Negative goodwill is recognised directly in the income statement. Following initial acquisition positive goodwill is measured at cost less any impairment losses.

The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity.

### **c) Early adoption of standards and interpretations**

The Group has adopted IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

## **3. Summary of significant accounting policies**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

### **a) Foreign currency translation**

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the year. The resulting exchange differences are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

### **b) Oil and gas assets**

The Group's entire capitalised oil and gas assets relate to properties that are in the exploration and evaluation stage. The Group accounts for oil and gas properties under IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Property, plant and equipment acquired as part of a business combination is recorded at fair value at the acquisition date. All subsequent additions are recorded at historical cost of acquisition or construction. The group currently does not have proved oil and gas reserves.

#### *Pre-licence award costs:*

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in the profit and loss account.

#### *Licence acquisition costs*

Oil and gas licence acquisition costs are capitalized within intangible fixed assets and amortized on a straight-line basis over the period of the licence.

#### *Exploration and evaluation*

Geological and geophysical exploration costs are charged against income as incurred. The direct costs associated with an exploration well, exploratory drilling and directly related overheads, are capitalised as an intangible asset pending determination of proven reserves. These costs are excluded from depletion until commerciality is determined or impairment occurs. The cost of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development.



Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with IAS 36 'Impairment of assets'.

### **c) Non oil and gas assets**

#### *Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows:

Office equipment	—	3 years
Computer equipment	—	3 years

#### *Construction in progress*

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category.

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use.

Construction in progress is not depreciated.

### **d) Impairment**

The carrying amounts of fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. Impairment losses are recognised in the income statement.

#### *Calculation of recoverable amount*

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### *Reversals of impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **e) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue excludes any applicable sales taxes.

#### **f) Financial income and expenses**

Financial income and expenses comprise interest expense on borrowings, and interest income on funds invested.

Interest income is recognised as it accrues, calculated in accordance with the effective interest rate method.

#### **g) Income tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future;
- and deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

#### **h) Financial instruments**

##### *Recognition*

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Bad debts are written off when identified.

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less at the date acquired.

#### **i) Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

### **4. Segment information**

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary segment information is reported geographically. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's geographical segments are based on the location of the Group's assets.

**(a) Business segments**

	Exploration & Production £'000	Terminals £'000	Total £'000
<b>Revenue</b>	—	—	—
Segment result	(278)	(108)	(386)
Unallocated expenses			<u>(453)</u>
<b>Group operating loss</b>			(839)
Finance income			<u>48</u>
<b>Group loss before taxation</b>			(791)
Tax expense			<u>(10)</u>
<b>Loss for the year</b>			<u>(801)</u>
<b>Assets and liabilities</b>			
Segment assets	2,045	222	2,267
Unallocated assets			<u>639</u>
<b>Total assets</b>			2,906
Segment liabilities	(617)	(1)	(618)
Unallocated liabilities			<u>(210)</u>
<b>Total liabilities</b>			<u>(828)</u>
<b>Other segment information</b>			
Capital expenditure:			
Tangible fixed assets	—	74	74
Intangible assets	1,833	—	1,833
Unallocated fixed assets			16

**(b) Geographical segments**

	UK £'000	Russian Federation £'000	Total £'000
<b>Results</b>			
Loss for the year	(531)	(270)	<u>(801)</u>
<b>Other segment information</b>			
Segment assets	639	2,267	<u>2,906</u>
Total assets			2,906
Capital expenditure:			
Tangible fixed assets	16	74	90
Intangible fixed assets	—	1,833	1,833

**5. Administrative expenses**

Group operating loss is stated after charging/(crediting):

	2005 £'000
Salaries	87
Retainers for management and directors	395
Depreciation & amortization	8
Foreign currency gain	(196)

## 6. Employee information

### (a) Staff costs

	2005 £'000
Wages and salaries	80
Social security costs	<u>7</u>
	<u>87</u>

The average weekly number of employees during the year was as follows:

	2005 No.
Administrative	<u>4</u>
<b>Total employees</b>	<u><b>4</b></u>

Whilst there are no long term employee benefits at the balance sheet date, it is likely that a package of employee benefits will be put into place in 2006.

### (b) Directors' emoluments

	2005 £'000
Salaries and bonuses	<u>150</u>
	<u><b>150</b></u>

## 7. Auditors' remuneration

Ernst & Young LLP were appointed auditors to the Company and the Group during the year ended 31 December 2005. Fees payable to the auditors during the period ended 31 December 2005 are those payable to member firms of Ernst & Young only.

The auditors' remuneration for services provided to the Group during the year ended 31 December 2005 was £29,000 made up as follows:

	Russia £'000	UK £'000	Total £'000
<b>Year ended 31 December 2005</b>			
<b><i>Ernst &amp; Young:</i></b>			
Audit	—	13	13
Non-audit services	<u>—</u>	<u>16</u>	<u>16</u>
<b>Total remuneration</b>	<u>—</u>	<u><b>29</b></u>	<u><b>29</b></u>

## 8. Financing costs

	2005 £'000
<b>Finance income:</b>	
Other interest receivable	33
Bank interest receivable	<u>15</u>
<b>Total finance income</b>	<u><b>48</b></u>

## 9. Taxation

### (a) Tax on profit on ordinary activities

Tax charged in the income statement:

	2005 £'000
Current income tax:	
UK Corporation tax — current period	10
<b>Tax charge in the income statement</b>	<b>10</b>

### (b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is charged at the small companies' rate of corporation tax in the UK of 19 per cent. The tax expense relates to Caspian Finance Limited, which recorded a profit for the year of £51,000.

	2005 £'000
Profit from continuing operations before taxation	51
<b>Accounting profit before income tax</b>	<b>51</b>
Accounting profit multiplied by the UK small companies' rate of corporation tax of 19 per cent	10
<b>Total tax expense reported in the income statement</b>	<b>10</b>

### (c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2005 £'000
Deferred tax liability:	
Acquisition fair value adjustment	287
<b>Deferred tax liability</b>	<b>287</b>

The deferred tax relates to the acquisition of OOO Zauralneftegaz on 9 November 2005 (see note 20).

The Group has tax losses which arose in the UK of £852,000 that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether there will be sufficient future profits against which they could be offset.

## 10. Earnings per share

### Basic and diluted EPS

Basic EPS is calculated by dividing net profit for the year attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares of 1 pence each outstanding during the year. The Company has no dilutive potential ordinary shares.

The following reflects the income and adjusted share data used in the EPS computation.

	2005 £'000
Net loss attributable to equity shareholders of the Company	(750)
	2005 No.
<b>Number of shares</b>	
Weighted average number of ordinary shares of 1 pence each for EPS calculation	68,703
<b>EPS-basic and diluted</b>	<b>(1,092p)</b>

## 11. Intangible assets

	Exploration assets £'000	Licences £'000	Goodwill £'000	Total £'000
<b>Cost</b>				
Additions through acquisition	1,647	46	144	1,837
Disposals	—	—	—	—
At 31 December 2005	<u>1,647</u>	<u>46</u>	<u>144</u>	<u>1,837</u>
<b>Amortisation</b>				
Amortisation charge	—	4	—	4
Disposals	—	—	—	—
At 31 December 2005	<u>—</u>	<u>4</u>	<u>—</u>	<u>4</u>
<b>Net carrying amount</b>				
At 31 December 2005	<u>1,647</u>	<u>42</u>	<u>144</u>	<u>1,833</u>

The major component of intangible assets comprises exploration assets in respect of the Group's exploration operations.

### Acquisitions through business combinations

The acquisition of intangible assets through business combinations in the period ended 31 December 2005 relates to the acquisition of OOO Zauralneftegaz on 9 November 2005 (see note 20).

## 12. Property, plant, and equipment

	Computer and office equipment £'000	Construction in progress £'000	Total £'000
<b>Cost</b>			
Additions	<u>20</u>	<u>74</u>	<u>94</u>
At 31 December 2005	<u>20</u>	<u>74</u>	<u>94</u>
<b>Depreciation</b>			
Depreciation charge	<u>4</u>	<u>—</u>	<u>4</u>
At 31 December 2005	<u>4</u>	<u>—</u>	<u>4</u>
<b>Net book value</b>			
At 31 December 2005	<u>16</u>	<u>74</u>	<u>90</u>

## 13. VAT reclaimable

The VAT reclaimable includes £80,000 due to OOO Zauralneftegaz to be offset against future VAT rated revenues which are not anticipated in the next financial year.

## 14. Trade and other receivables (current)

	2005 £'000
Amounts due from third parties	<u>25</u>
	<u>25</u>



## 15. Prepayments and other current assets

	2005 £'000
Advances paid for goods and services	361
VAT reclaimable	85
Other	37
Gross value of prepayments and other current assets	<u>483</u>

Other receivables are generally settled within 25-30 days.

## 16. Cash and cash equivalents

	31 December 2005 £'000
Cash at bank	<u>395</u>
	<u>395</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Of this amount, a total of £58,255 has been ringfenced for the payment of the Tetoil option (see note 26).

## 17. Share capital and reserves

### (a) Authorised and allotted share capital

	Number	£'000
<b>Authorised-2005</b>		
Ordinary shares of 1 pence each	111,111	1
At 31 December 2005	<u>111,111</u>	<u>1</u>
<b>Allotted and called up share capital</b>		
As at 3 December 2004	<u>100</u>	<u>—</u>
As at 31 December 2005	<u>95,000</u>	<u>1</u>

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
<b>Ordinary shares of 1 pence each issued and fully paid</b>				
Shares issued to founders	40,000	—	—	—
Shares issued at 21 February 2005	11,000	—	527	527
Shares issued at 14 April 2005	27,500	—	1,320	1,320
Shares issued at 21 November 2005	16,500	1	792	793
	<u>95,000</u>	<u>1</u>	<u>2,639</u>	<u>2,640</u>

### (b) Ordinary shares

#### Rights at general meetings

At general meetings of the Company each member present or by proxy has one vote on a show of hands, and on a poll every member who is present in person or by proxy has one vote per every ordinary share.

## 18. Trade and other payables (current)

	31 December 2005 £'000
Trade payables	389
Salaries and related payables	7
Other payables and accrued expenses	145
	<u>541</u>

### Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 30 day terms.

Other payables are non-interest bearing and have an average term of 30 days.

## 19. Cash flow

- (i) The group operating loss of £1,035,000 was arrived at by adjusting the loss before taxation as follows:

	£'000
Loss before taxation	(791)
Finance income	(48)
Foreign exchange gain	(196)
<b>Group operating loss</b>	<b>(1,035)</b>

- (ii) The movements in working capital balances includes balances at acquisition for OOO Zauralneftegaz of £296,000 (accounts receivable) and £423,000 (accounts payable).

## 20. Business combinations

On 9 November 2005 the group acquired 50 per cent of the ordinary shares of OOO Zauralneftegaz for a purchase consideration of US\$75,000. An option to acquire the interest in OOO Zauralneftegaz was agreed on 28 April 2005 for a purchase consideration of US\$100,000. Baltic Petroleum has control of OOO Zauralneftegaz by virtue of the voting rights structure. Legal costs in relation to the acquisition were £282,000, so the total cost of acquisition was £383,000.

OOO Zauralneftegaz is a private company based in Kurgan, Russian Federation, which is in the business of oil exploration and production. The investment in OOO Zauralneftegaz has been included in the company's balance sheet at its fair value at the date of acquisition.

Book and fair values of the net assets at date of acquisition were as follows:

	Book Values £'000	Fair Values £'000
Intangible assets	495	1,689
VAT reclaimable	80	80
Current assets	216	216
Trade and other payables	(1,220)	(1,220)
Deferred taxation	—	(287)
Net assets	(429)	478
Minority Interest (50%)		(239)
		<b>239</b>
Goodwill arising on acquisition		144
		<b>383</b>
Discharged by:		
Cash consideration		101
Costs associated with the acquisition, settled in cash		282
		<b>383</b>

A deferred tax liability of £287,000 arises in respect of the fair value uplift.

From the date of acquisition, OOO Zauralneftgaz has contributed a loss of £53,000 to the net loss of the Group. If the combination had taken place at the beginning of the year, the contribution to the Group would have been a loss of £1,181,000.

The carrying value of trade receivables and trade payables is the same as the fair value.

## 21. Financial risk management objectives and policies

The Group's principal financial instruments comprise borrowings, cash and cash equivalents and current investments. The Group's accounting policies with regard to financial instruments are detailed in note 3. The Group does not trade in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in IAS 32 'Financial Instruments: Disclosure and Presentation'.

### (a) Derivatives, financial instruments and risk management

The Group does not use derivative instruments and financial instruments to manage its exposure to fluctuations in foreign currency rates, interest rates and commodity prices.

### (b) Foreign currency risk

The analysis of the net monetary assets and liabilities indicates the Group's exposure to currencies other than the functional currency of a company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the income statement. As at 31 December 2005 and 2004, these exposures were as follows:

	£'000
<b>2005:</b>	
US Dollar	
Loans to subsidiary undertaking	1,364
Cash	<u>282</u>
	<u>1,646</u>

## 22. Related party disclosures

### a) Transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

There are no other related subsidiary companies and other related party transactions in the period are detailed as follows:

	2005 £'000
<i>Group</i>	
Loans to OOO Zauralneftgaz	96
	<u>—</u>
<b>Total related party transaction</b>	<b><u>96</u></b>

### b) Compensation of key management personnel (including directors)

Key management personnel of the Group include the 2 directors of the Company who receive remuneration from the Group.

	2005 £'000
Salaries and bonuses	282
Monetary value of taxable benefits in kind	<u>—</u>
	<b><u>282</u></b>

### c) Major company shareholders

	2005 Ordinary Shares
S L Escott	18,000
J C Pockney	11,000
RAB Energy Fund	27,500
RAB Special Situations (Master) Fund	27,500
J M C Gilchrist	11,000

### 23. Subsidiaries

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table. The principal subsidiaries were incorporated by the parent Company themselves during the year.

	Date of incorporation	Principal activity	Country of incorporation	Percentage equity interest at 31 Dec 2005 %
BALTIC Terminals Limited	10/08/2005	Oil services	UK	100
BALTIC Petroleum (E&P) Limited	10/08/2005	Oil E&P	UK	100
Caspian Finance Limited	08/08/2005	Finance Company	UK	100
BALTIC Hydrocarbons Limited	28/10/2005	Oil services	UK	100
Zauralneftegaz Limited	02/08/2005	Oil E&P	UK	50
OOO Zauralneftegaz		Oil E&P	Russian Federation	50

The Company has operational control over Zauralneftegaz Limited and OOO Zauralneftegaz.

### 24. Capital commitments

At 31 December 2005, amounts contracted for but not provided in the financial statements under the OOO Zauralneftegaz work programme amounted to £3,457,416 for the group.

### 25. Exploration and evaluation

	2005 £'000
<b>Liabilities</b>	
Trade creditors	173
<b>Expense</b>	
Geological & geophysical	386

There are no exploration and evaluation assets as all geological and geophysical expenditure is expensed.

### 26. Post balance sheet event

On 18 February 2005, in an Investment Agreement with RAB Special Situations LP and RAB Energy Fund Limited, it was agreed that Simon Escott, James Pockney and Mark Gilchrist would also be granted options to subscribe for shares in the company upon IPO or sale of the company. The option agreements are for a number of shares in the Company that after such subscription equate to up to 10 per cent of the enlarged share capital of the Company. The options will be signed in advance of the IPO.

On 1 March 2006, Baltic Terminals Limited, a 100 per cent English subsidiary of the Company, entered into an investment agreement pursuant to which it acquired a 58.35 per cent interest in Tetoil Limited which in turn will own 100 per cent of JSC Tetoil, which proposes to build and operate a transshipment terminal, mini refinery and topping unit in Kaliningrad. A shareholders agreement in this regard was also signed on 1 March 2006.

In addition Baltic Terminals Limited also entered into acquisition agreements pursuant to which it acquired a 50 per cent share in OOO Polex, which leases land adjacent to Tetoil and operates a ship cleaning business.

On 15 March 2006 Baltic Petroleum Limited raised approximately £2.3 million of pre-IPO funding through the issuance of 8,077 ordinary shares to Utilico Emerging Markets Utilities Limited, Siberian Investment Company plc, RAB Energy Fund Limited and RAB Special Situations (Master) Fund Limited.

On 22 March 2006, a new ultimate parent company, Baltic Oil Terminals Limited, was put in place via a share for share exchange with the shareholders of Baltic Petroleum Limited.

## PART 6

### FINANCIAL INFORMATION ON POLEX

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#### Introduction

As described in the section entitled “History” in Part I of this document, Baltic Terminals entered into the Pollex Agreement on 31 March 2006 pursuant to which it acquired a 50 per cent equity interest in Pollex for approximately \$2.0 million (£1.13 million).

In the two years ended 31 December 2005, Pollex had joined into a partnership with Pollex MP, a non-trading company created for the purpose of the partnership, to conduct the main operating activities. In substance the results for the partnership belong to Pollex only as Pollex MP is a shell company controlled by Pollex. The structure has now been dissolved.

In the section below entitled “Unaudited IFRS reconciliation”, the Company sets out a high level reconciliation to International Financial Reporting Standards (“IFRS”) of the financial statements of Pollex prepared under Russian generally accepted accounting principles (“GAAP”) for the three years ended 31 December 2005, supplemented in the two years ended 31 December 2005 by the financial statements of the partnership with Pollex MP (the “Society in Participation”). Other than as set out in that section, no significant effects were identified as part of the high level analysis undertaken by the Company although a more detailed exercise might identify other potentially significant accounting and disclosure differences.

The English translations of the underlying audited accounts of Pollex for the three years ended 31 December 2005 are set out in the section below entitled “Audited accounts of Pollex under Russian GAAP” and the underlying audited accounts of the partnership with Pollex MP (the “Society in Participation”) for the two years ended 31 December 2005 are set out in the section below entitled “Audited accounts of the Society in Participation under Russian GAAP”.



## Unaudited IFRS reconciliation

The following unaudited IFRS reconciliation sets out the main areas of impact on Porex's financial statements for the three years ended 31 December 2003, 31 December 2004 and 31 December 2005 (i.e. as if Porex had reported under IFRS for these accounting periods) which would result from the application of accounting standards endorsed for use by EU entities required to comply with Regulation EC 1606/2002, instead of accounting standards applicable in Russia.

### A. Year ended 31 December 2005

	Porex under Russian GAAP (Note 1) RUR'000	Society in Participation under Russian GAAP (Note 1) RUR'000	Consoli- dation adjs (Note 4) RUR'000	Reclassify between headings (Note 2) RUR'000	Provide for bad debt (Note 5) RUR'000	IFRS RUR'000	IFRS (Note 3) \$'000
<b>PROFIT AND LOSS ACCOUNT</b>							
<b>Revenue</b>	2,810	27,829		436		31,075	1,100
<b>Cost of sales</b>	(3,915)	(9,932)				(13,847)	(490)
<b>General and administrative expenses</b>	(337)	(2,840)		(479)	(509)	(4,165)	(147)
Interest receivable		30		(30)		—	—
Interest payable						—	—
Other operational income	9,335	14,219	(9,059)	(14,495)		—	—
Other operational expenses	(204)	(14,207)		14,411		—	—
Other income	280	—		(280)		—	—
Other expenses	(407)	—		407		—	—
<b>Finance income, net</b>	—	—		30		30	1
<b>Profit/(loss) for the period before tax and minority interest</b>	7,562	15,099	(9,059)	—	(509)	13,093	464
<b>BALANCE SHEET</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>\$'000</b>
<b>Fixed assets, net</b>	4,714		4,714	263		4,977	173
Construction in progress	263		263	(263)			
<b>Investment</b>	90		(60)			30	1
<b>Stock</b>	419					419	15
<b>Trade AR</b>	2,123	894				3,017	105
<b>Other receivables</b>	18	492	(409)	1,831	(509)	1,423	49
Short term financial investment	2,695	510	(2,695)	(510)		—	—
<b>Cash and cash equivalent</b>	4,587	447				5,034	175
Other current assets	703	453	—	(1,156)	—	—	—
<b>Total assets</b>	15,612	2,796	(3,164)	165	(509)	14,900	518
<b>Borrowings</b>	456	2,695	(2,695)			456	16
<b>Trade accounts payable</b>	607	—	(369)			238	8
<b>Taxes payable</b>	595	1		14		610	21
<b>Other accounts payable</b>	466	—		151		617	21
<b>Dividend payable</b>	1,000	—				1,000	35
<b>Share Capital</b>	10	100	(100)			10	0
<b>Retained Earnings</b>	12,478	—	—	—	(509)	11,969	417
<b>Total equity</b>	12,491	100	(100)	—	(509)	11,982	417
<b>Total liabilities and equity</b>	15,612	2,796	(3,164)	165	(509)	14,900	518

# **Unaudited IFRS reconciliation (continued)**

*B. Year ended 31 December 2004*

<b>PROFIT AND LOSS ACCOUNT</b>	<b>Polex under Russian GAAP (Note 1) RUR'000</b>	<b>Society in Participation under Russian GAAP (Note 1) RUR'000</b>	<b>Consolidation adjs (Note 4) RUR'000</b>	<b>Reclassify between headings (Note 2) RUR'000</b>	<b>IFRS RUR'000</b>	<b>IFRS (Note 3) \$'000</b>
<b>Revenue</b>	<b>1,573</b>	<b>27,463</b>		<b>884</b>	<b>29,920</b>	<b>1,047</b>
<b>Cost of sales</b>	(4,883)	(9,287)		(387)	(14,557)	(509)
<b>General and administrative expenses</b>	(36)	(2,224)		(672)	(2,932)	(103)
Interest receivable	—	44		(44)	—	—
Interest payable	(173)	—		173	—	—
Other operational income	3,670	1,692	(3,163)	(2,199)	—	—
Other operational expenses	(465)	(1,873)		2,338	—	—
Other income	66	—		(66)	—	—
Other expenses	(102)	—		102	—	—
<b>Finance income/(expenses), net</b>	—	—		(129)	(129)	(4)
<b>Profit/(loss) for the period before tax and minority interest</b>	(350)	15,815	(3,163)	—	12,302	431
<b>BALANCE SHEET</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>\$'000</b>
<b>Fixed assets, net</b>	5,873	—			5,873	212
<b>Investment</b>	40	—	(10)		30	1
<b>Stock</b>	249	185			434	16
<b>Trade AR</b>	532	1,298			1,830	66
<b>Other receivables</b>	1,019	101	(919)	2,272	2,473	89
Short term financial investment	97	2,640	(1,846)	(891)	—	—
<b>Cash and cash equivalent</b>	5	4,187			4,192	151
Other current assets	1,372	9	—	(1,381)	—	—
<b>Total assets</b>	<b>9,187</b>	<b>8,420</b>	<b>(2,775)</b>	<b>—</b>	<b>14,832</b>	<b>535</b>
<b>Borrowings</b>	2,368	3,186	(1,846)		3,708	134
<b>Trade accounts payable</b>	241	138	28		407	15
<b>Taxes payable</b>	39	108	12		159	6
<b>Other accounts payable</b>	—	413			413	15
<b>Dividend payable</b>	1,000	4,525	(919)		4,606	166
<b>Share Capital</b>	10	50	(50)		10	0
<b>Retained Earnings</b>	5,529	—	—	—	5,529	199
<b>Total equity</b>	<b>5,539</b>	<b>50</b>	<b>(50)</b>	<b>—</b>	<b>5,539</b>	<b>199</b>
<b>Total liabilities and equity</b>	<b>9,187</b>	<b>8,420</b>	<b>(2,775)</b>	<b>—</b>	<b>14,832</b>	<b>535</b>

# **Unaudited IFRS reconciliation (continued)**

C. Year ended 31 December 2003

	Polex under Russian GAAP (Note 1) RUR'000	Reclassify between headings (Note 2) RUR'000	IFRS RUR'000	IFRS (Note 3) \$'000
<b>PROFIT AND LOSS ACCOUNT</b>				
<i>Revenue</i>	23,109	257	23,366	762
<i>Cost of sales</i>	(13,548)	(657)	(14,205)	(463)
<i>General and administrative expenses</i>	(1,828)	(380)	(2,208)	(72)
Interest receivable	2	(2)	—	—
Interest payable	—	—	—	—
Other operational income	—	—	—	—
Other operational expenses	(99)	99	—	—
Other income	255	(255)	—	—
Other expenses	(1,006)	1,006	—	—
<i>Finance income/(expenses), net</i>	—	(68)	(68)	(2)
<i>Profit for the period before tax and minority interest</i>	6,885	—	6,885	225
<b>BALANCE SHEET</b>				
	<i>RUR'000</i>	<i>RUR'000</i>	<i>RUR'000</i>	<i>\$'000</i>
<i>Fixed assets, net</i>	7,209	—	7,209	245
<i>Investment</i>	30	—	30	1
<i>Stock</i>	1,185	—	1,185	40
<i>Trade accounts receivable</i>	8,993	—	8,993	305
Other accounts receivable	3,021	(3,021)	—	—
Short term financial investment	1,500	(1,500)	—	—
<i>Other receivables</i>	—	4,521	4,521	153
<i>Cash and cash equivalent</i>	282	—	282	10
<i>Total assets</i>	22,220	—	22,220	754
<i>Trade accounts payable</i>	1,542	—	1,542	52
<i>Taxes payable</i>	173	—	173	6
<i>Other accounts payable</i>	384	—	384	13
<i>Borrowings</i>	9,486	—	9,486	322
<i>Dividend payable</i>	1,000	—	1,000	34
<i>Share Capital</i>	10	—	10	0
<i>Retained Earning</i>	9,625	—	9,625	327
<i>Total equity</i>	9,735	—	9,635	327
<i>Total liabilities and equity</i>	22,220	—	22,220	754

*Notes:*

1. The Russian GAAP numbers are extracted from the audited financial statements set out in this part of this Admission Document.
2. The classification and description of certain items within the financial statements differs under IFRS:
  - (i) Results from the sale of foreign currency are included gross in Other operating income and Other operating expenses. Under IFRS the net result is shown in Finance income/expenses line.
  - (ii) Certain items of income and expenses are shown gross within Other income/expense lines under Russian GAAP. Under IFRS the results is shown net.
  - (iii) Certain balance sheet items were reclassified to comply with IFRS presentation.
3. The functional currency of Porex is Russian Roubles. The presentational currency of Porex is US Dollars. The financial statements have been translated from Russian Roubles into US Dollars using the following procedures:
  - Asset and liabilities for each balance sheet presented were translated at the closing rate at the date of that balance sheet;
  - Income and expenses for each income statement were translated at the average rate for the period (average rate approximated the exchange rates at the date of transaction);
  - All resulting exchange differences were recognised as a separate component of equity.

The following rates have been adopted:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Closing rate	29.4545	27.7487	28.7825
Average rate	30.65	28.59	28.26

4. In 2004 and 2005 Porex entered into a partnership agreement with Porex MP, a non trading company created for the purpose of this partnership, to conduct the main operating activities.

The respective share of each participant is presented below:

	<u>2004</u>	<u>2005</u>
	<u>per cent</u>	<u>per cent</u>
Porex	20	60
Porex MP	80	40

In accordance with Russian GAAP the results of the Partnership were distributed to the participants based on their share in the partnership. The share of Porex MP was included in the 'Other operational income line' in 2004 and 2005.

The Partnership arrangement has been dissolved after 31 December 2005 and all of the trade is now included within Porex. On that basis, 100 per cent of the Partnership income has been included within the reconciliation since this reflects the substance of Porex going forward.

To reflect the substance of the transactions, as part of the consolidation adjustment, 100 per cent of revenue, cost of sales and other income/expenses were added to the Income Statement of Porex. Minority interest represent payment made to Porex MP and in substance represent dividends paid. For the purposes of a high level IFRS reconciliation Porex MP was not consolidated.

The other consolidation adjustments relate to the elimination of the investment of Porex in the Partnership and to the elimination of the intercompany balances.

5. The Russian GAAP accounts contain a doubtful debt, which has been provided for within the IFRS reconciliation.

## Audited accounts of Porex under Russian GAAP

### *The Audit Conclusion*

1. We have audited the enclosed Financial statements of "Porex-Service" Ltd. from 1 January 2005 to 31 December 2005. These Financial Statements were prepared by the Executive office in compliance with Accounting regulations "Accounting of organization" PBU 4/99, approved by Order of Finance Ministry of RF #43 of 06.07.99.

The structure of the Financial statements of "Porex-Service" Ltd. are the following:

- Balance sheet (form#1);
  - Profit and Loss Statement (form#2);
  - Explanatory note.
2. The Executive office of "Porex-Service" is responsible for the preparation and submitting of the Financial statements. Our duty is to express our opinion about reliability of all essential figures of these Financial statements and conformity of accounting to the Russian legislation on the ground of the audit.
  3. The audit was done in compliance with the RF Federal law #119-F3 of 07.08.2001 "About audit activity", Federal regulations (standards) of audit activity approved by RF Government Regulation #696 of 2.09.2001. The audit was planned and has been conducted in such a way which would provide us with the reasonable assurance that the Financial statements of "Porex-Service" Ltd. did not have essential distortions. The audit was carried out on a sample basis and was included: the study on the basis of testing of proofs confirming value and explanation of information about financial and economic activity in the Financial statements; evaluation of principles and methods of the accounting, rules of the Financial statements preparation; the definition of main assessed values received by the management of the audited entity; evaluation of the general idea of the Financial statements.

We believe, that the present audit gives sufficient ground for our opinion about reliability of all essential figures in the Financial statements and conformity of accounting to the Russian legislation.

4. In our opinion, the Financial statements of "Porex-Service" Ltd. give a reliable view with respect to all essential figures on financial situation of "Porex-Service" Ltd as of 1 January of 2006 and on the results of financial economic activity for the period from 1 January 2005 to 31 December 2005.

The auditor is Tatyana Leonidovna Zakharova

(Qualification certificate of an auditor #025152 of 25.02.99 has been prolonged for unlimited term from 25 April 2002.)

The auditor Olga Leonidovna Pudovkina

(Qualification certificate of an auditor #025163 of 25.02.99 has been prolonged for unlimited term from 25 April 2002.)

The auditor Ilona Andreevna Kryuchenkova

(Qualification certificate of an auditor # K014303 of 01.04.04)

"ProfAudit" Ltd.

\_\_\_\_\_ 2006

**Audited accounts of Porex under Russian GAAP (continued)***Balance sheet as of 31 December 2005 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

	<b>Code</b>	<b>1 January 2005 kRUR</b>	<b>31 December 2005 kRUR</b>
<b>Assets</b>			
<b>1. Non-current assets</b>	110	—	—
Intangible assets	120	5,873	4,714
Property, plant and equipment	130	—	263
Construction in progress	135	—	—
Investment in material values	140	40	90
Long-term financial investment	145	—	—
Other non-current assets	150	—	—
<b>Total non-current assets</b>	<b>190</b>	<b>5,913</b>	<b>5,067</b>
<b>2. Current assets</b>			
Inventories,	210	249	419
including:			
stores	211	217	393
domestic animals for growing	212	—	—
work in progress	213	—	—
finished goods	214	—	—
ship goods	215	—	—
prepaid expenses	216	32	26
other inventories	217	—	—
VAT receivable	220	—	—
Receivables beyond 12 months	230	—	—
Receivables within 12 months	240	1,551	2,141
including trade account receivable	241	532	2,123
Short-term financial investment	250	97	2,695
Cash and cash equivalents	260	5	4,587
Other current assets	270	1,372	703
<b>Total current assets</b>	<b>290</b>	<b>3,274</b>	<b>10,545</b>
<b>Total assets</b>	<b>300</b>	<b>9,187</b>	<b>15,612</b>



**Audited accounts of Porex under Russian GAAP (continued)**

	<b>Code</b>	<b>1 January 2005 kRUR</b>	<b>31 December 2005 kRUR</b>
<b>Liabilities</b>			
<b>3. Capital and reserves</b>			
Authorised capital stock	410	10	10
Equity	411	—	—
Additional capital	420	—	—
Capital reserves	430	—	—
Including: Reserves formed in compliance with legislation	431	—	—
Reserves formed in compliance with constituent instruments	432	—	—
Retained earnings (loss)	470	5,529	12,478
<b>Total Capital and reserves</b>	<b>490</b>	<b>5,539</b>	<b>12,488</b>
<b>4. Long-term liabilities</b>			
Loans and Credits	510	—	—
Deferred tax liabilities	515	—	—
Other long-term liabilities	520	—	—
<b>Total long-term liabilities</b>	<b>590</b>	<b>—</b>	<b>—</b>
<b>5. Short-term liabilities</b>			
Loans and Credits	610	2,368	456
Payables	620	280	1,668
Including:			
Suppliers and Contractors	621	241	607
Arrears of salaries and wages	622	—	466
Social payment debts	623	—	2
Tax debts	624	39	593
Other creditors	625	—	—
Dividend in arrears	630	1,000	1,000
Prepaid Income	640	—	—
Reserves of prepaid expenses	650	—	—
Other short-term liabilities	660	—	—
<b>Total short-term liabilities</b>	<b>690</b>	<b>3,648</b>	<b>3,124</b>
<b>Total liabilities</b>	<b>700</b>	<b>9,187</b>	<b>15,612</b>
<b>Off Balance account</b>			
Rented Property, plant and equipment	910	—	—
Including leasing	911	—	—
Inventory holding accepted in deposit	920	—	—
Goods on commission	930	—	—
Losses from insolvent debtors	940	—	—
Liability coverage received	950	—	—
Liability coverage paid	960	—	—
Deterioration of housing	970	—	—
Deterioration of outside objects	980	—	—
Intangible assets received	990	—	—

The manager \_\_\_\_\_  
13.03 2006

The chief accountant \_\_\_\_\_

**Audited accounts of Porex under Russian GAAP (continued)**

*Profit and Loss statement for the period from 1 January 2005 to 31 December 2005 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

<b>Parameter</b>	<b><u>Code</u></b>	<b><u>For 2005</u></b>	<b><u>For 2004</u></b>
<b>Operating revenues and costs</b>			
Gross income (minus VAT, excises and other compulsory payments)	010	2,810	1,573
Cost of sales	020	(3,915)	(4,883)
Gross profit	029	(1,105)	(3,310)
Management expenses	040	(337)	(36)
Sales profit (Loss)	<u>050</u>	<u>(1,442)</u>	<u>(3,346)</u>
<b>Other revenues and costs</b>			
Interest receivable	060	—	—
Interest payable	070	—	(173)
Other operating income	090	9,335	3,670
Other operating expenses	100	(204)	(465)
Non-operating income	120	280	66
Non-operating expenses	<u>130</u>	<u>(407)</u>	<u>(102)</u>
<b>Profit before taxation</b>	140	7,562	(350)
Profit tax and similar payments	<u>180</u>	<u>(614)</u>	<u>(746)</u>
<b>Net profit of reporting period</b>	<u>190</u>	<u>6,848</u>	<u>(1,096)</u>

The manager \_\_\_\_\_  
25.01 2006

The chief accountant \_\_\_\_\_

## **Audited accounts of Porex under Russian GAAP (continued)**

### *The Audit Conclusion*

1. We have audited the enclosed Financial statements of "Porex-Service" Ltd. from 1 January 2002 to 31 December 2004. These Financial statements were prepared by the Executive office in compliance with Accounting regulations "Accounting of organization" PBU 4/99, approved by Order of Finance Ministry of RF #43 of 06.07.99.

The structure of the Financial statements of "Porex-Service" Ltd. are the following:

- Balance sheet (form#1) of 2002, 2003, 2004;
  - Profit and Loss Statement (form#2) of 2002, 2003, 2004;
  - Explanatory note for 2004.
2. The Executive office of "Porex-Service" is responsible for the preparation and submitting of the Financial statements. Our duty is to express our opinion about reliability of all essential figures of these Financial statements and conformity of accounting to the Russian legislation on the ground of the audit.
  3. The audit was done in compliance with the RF Federal law #119-F3 of 07.08.2001 "About audit activity", Federal regulations (standards) of audit activity approved by RF Government Regulation #696 of 2.09.2001. The audit was planned and has been conducted in such a way which would provide us with the reasonable assurance that the Financial statements of "Porex-Service" Ltd. didn't have essential distortions. The audit was carried out on sample basis and was included: the study on the basis of testing of proofs confirming value and explanation of information about financial and economic activity in the Financial statements; evaluation of principles and methods of the accounting, rules of the Financial statements preparation; the definition of main assessed values received by the management of the audited entity; evaluation of the general idea of the Financial statements.  
  
We believe, that the present audit gives sufficient ground for our opinion about reliability of all essential figures in the Financial statements and conformity of accounting to the Russian legislation.
  4. In our opinion, the Financial statements of "Porex-Service" Ltd. give reliable view with respect to all essential figures on financial situation of "Porex-Service" Ltd as of 1 January 2003, as of 1 January 2004, as of 1 January 2004.

The auditor is Tatyana Leonidovna Zakharova

(Qualification certificate of an auditor #025152 of 25.02.99 has been prolonged for unlimited term from 25 April 2002.)

The auditor Olga Leonidovna Pudovkina

(Qualification certificate of an auditor #025163 of 25.02.99 has been prolonged for unlimited term from 25 April 2002.)

The auditor Ilona Andreevna Kryuchenkova

(Qualification certificate of an auditor # K014303 of 01.04.04)

"ProfAudit" Ltd.

\_\_\_\_\_ 2006

**Audited accounts of Porex under Russian GAAP (continued)***Balance sheet as of 31 December 2004 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

	<b>Code</b>	<b>1 January 2004 kRUR</b>	<b>31 December 2004 kRUR</b>
<b>Assets</b>			
<b>1. Non-current assets</b>	110	—	—
Intangible assets	120	7,209	5,873
Property, plant and equipment	130	—	—
Construction in progress	135	—	—
Investment in material values	140	30	40
Long-term financial investment	145	—	—
Other non-current assets	150	—	—
<b>Total non-current assets</b>	190	7,239	5,913
<b>2. Current assets</b>			
Inventories,	210	1,185	249
including:			
stores	211	176	217
domestic animals for growing	212	995	—
work in progress	213	—	—
finished goods	214	—	—
ship goods	215	—	—
prepaid expenses	216	14	32
other inventories	217	—	—
VAT receivable	220	—	—
Receivables beyond 12 months	230	—	—
including trade account receivable	231	—	—
Receivables within 12 months	240	12,014	1,551
including trade account receivable	241	8,993	532
Short-term financial investment	250	1,500	97
Cash and cash equivalents	260	282	5
Other current assets	270	—	1,372
<b>Total current assets</b>	290	13,796	3,274
<b>Total assets</b>	300	22,220	9,187

**Audited accounts of Porex under Russian GAAP (continued)**

	<b>Code</b>	<b>1 January 2004 kRUR</b>	<b>31 December 2004 kRUR</b>
<b>Liabilities</b>			
<b>3. Capital and reserves</b>			
Authorised capital stock	410	10	10
Equity	411	—	—
Additional capital	420	—	—
Capital reserves Including: Reserves formed in compliance with legislation	430	—	—
Reserves formed in compliance with constituent instruments	431	—	—
Retained earnings (loss)	432	—	—
	<u>470</u>	<u>9,625</u>	<u>5,529</u>
<b>Total Capital and reserves</b>	<u>490</u>	<u>9,635</u>	<u>5,539</u>
<b>4. Long-term liabilities</b>			
Loans and Credits	510	—	—
Deferred tax liabilities	515	—	—
Other long-term liabilities	520	—	—
<b>Total long-term liabilities</b>	<u>590</u>	<u>—</u>	<u>—</u>
<b>5. Short-term liabilities</b>			
Loans and Credits	610	9,486	2,368
Payables	620	2,099	280
Including:			
Suppliers and Contractors	621	1,542	241
Arrears of salaries and wages	622	369	—
Social payment debts	623	73	—
Tax debts	624	100	39
Other creditors	625	15	—
Dividend in arrears	630	1,000	1,000
Prepaid Income	640	—	—
Reserves of prepaid expenses	650	—	—
Other short-term liabilities	660	—	—
<b>Total short-term liabilities</b>	<u>690</u>	<u>12,585</u>	<u>3,648</u>
<b>Total liabilities</b>	<u>700</u>	<u>22,220</u>	<u>9,187</u>
<b>Off-Balance account</b>			
Rented Property, plant and equipment	910	—	—
Including leasing	911	—	—
Inventory holding accepted in deposit	920	—	—
Goods on commission	930	—	—
Losses from insolvent debtors	940	—	—
Liability coverage received	950	—	—
Liability coverage paid	960	—	—
Deterioration of housing	970	—	—
Deterioration of outside objects	980	—	—
Intangible assets received	<u>990</u>	<u>—</u>	<u>—</u>

The manager \_\_\_\_\_  
20.01. 2006

The chief accountant \_\_\_\_\_

**Audited accounts of Porex under Russian GAAP (continued)**

*Profit and Loss statement for the period from 1 January 2004 to 31 December 2004 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

<b>Parameter</b>	<b><u>Code</u></b>	<b><u>For 2004</u></b>	<b><u>For 2003</u></b>
<b>Operating revenues and costs</b>			
Gross income (minus VAT, excises and other compulsory payments)	010	1,573	23,109
Cost of sales	020	(4,883)	(13,565)
Gross profit	029	(3,310)	9,544
Selling expenses	030	—	—
Management expenses	040	(36)	(1,828)
Sales profit (Loss)	<u>050</u>	<u>(3,346)</u>	<u>7,716</u>
<b>Other revenues and costs</b>			
Interest receivable	060	—	2
Interest payable	070	(173)	—
Revenue in other organizations	080	—	—
Other operating income	090	3,670	—
Other operating expenses	100	(465)	(99)
Non-operating income	120	66	255
Non-operating expenses	<u>130</u>	<u>(102)</u>	<u>(100)</u>
<b>Profit before taxation</b>	140	(350)	6,868
Deferred tax assets	141	—	—
Deferred tax liabilities	142	—	—
Current profit tax	<u>150</u>	<u>(746)</u>	<u>(386)</u>
<b>Net profit of reporting period</b>	<u>190</u>	<u>(1,096)</u>	<u>6,482</u>

The manager \_\_\_\_\_  
25.01 2006

The chief accountant \_\_\_\_\_



**Audited accounts of Porex under Russian GAAP (continued)***Balance sheet as of 31 December 2003 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

	<b>Code</b>	<b>1 January 2003 kRUR</b>	<b>31 December 2003 kRUR</b>
<b>Assets</b>			
<b>1. Non-current assets</b>	110	—	—
Intangible assets	120	1,598	7,209
Property, plant and equipment	130	4,915	—
Construction in progress	135	—	—
Investment in material values	140	—	30
Long-term financial investment	145	—	—
Other non-current assets	150	—	—
<b>Total non-current assets</b>	<b>190</b>	<b>6,514</b>	<b>7,239</b>
<b>2. Current assets</b>			
Inventories,			
including:	210	139	1,185
stores	211	54	176
domestic animals for growing	212	—	995
work in progress	213	—	—
finished goods	214	—	—
ship goods	215	—	—
prepaid expenses	216	85	14
other inventories	217	—	—
VAT receivable	220	—	—
Receivables beyond 12 months	230	—	—
Receivables within 12 months	240	827	12,014
including trade account receivable	241	780	8,993
Short-term financial investment	250	—	1,500
Cash and cash equivalents	260	256	282
Other current assets	270	9	—
<b>Total current assets</b>	<b>290</b>	<b>1,231</b>	<b>14,981</b>
<b>Total assets</b>	<b>300</b>	<b>7,745</b>	<b>22,220</b>

**Audited accounts of Poxex under Russian GAAP (continued)**

	<b>Code</b>	<b>1 January 2003 kRUR</b>	<b>31 December 2003 kRUR</b>
<b>Liabilities</b>			
<b>3. Capital and reserves</b>			
Authorised capital stock	410	10	10
Equity	411	—	—
Additional capital	420	—	—
Capital reserves	430	—	—
Including: Reserves formed in compliance with legislation	431	—	—
Reserves formed in compliance with constituent instruments	432	—	—
Retained earnings (loss)	470	5,127	9,625
<b>Total Capital and reserves</b>	490	5,137	9,635
<b>4. Long-term liabilities</b>			
Loans and Credits	510	—	—
Deferred tax liabilities	515	—	—
Other long-term liabilities	520	—	—
<b>Total long-term liabilities</b>	590	—	—
<b>5. Short-term liabilities</b>			
Loans and Credits	610	—	9,486
Payables			
Including:	620	2,608	2,099
Suppliers and Contractors	621	1,303	1,542
Arrears of salaries and wages	622	201	369
Social payment debts	623	73	73
Tax debts	624	387	100
Other creditors	625	644	15
Dividend in arrears	630	—	1,000
Prepaid Income	640	—	—
Reserves of prepaid expenses	650	—	—
Other short-term liabilities	660	—	—
<b>Total short-term liabilities</b>	690	2,608	12,585
<b>Total liabilities</b>	700	7,745	22,220
<b>Off Balance account</b>			
Rented Property, plant and equipment	910	—	—
Including leasing	911	—	—
Inventory holding accepted in deposit	920	—	—
Goods on commission	930	—	—
Losses from insolvent debtors	940	—	—
Losses from insolvent debtors	950	—	—
Liability coverage paid	960	—	—
Deterioration of housing	970	—	—
Deterioration of outside objects	980	—	—
Intangible assets received	990	—	—

The manager \_\_\_\_\_  
13.03.2004

The chief accountant \_\_\_\_\_

**Audited accounts of Porex under Russian GAAP (continued)**

*Profit and Loss statement for the period from 1 January 2003 to 31 December 2003 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

<b>Parameter</b>	<b><u>Code</u></b>	<b><u>For 2003</u></b>	<b><u>For 2002</u></b>
<b>Operating revenues and costs</b>			
Gross income (minus VAT, excises and other compulsory payments)	010	23,109	8,669
Cost of sales	020	(13,548)	(3,943)
Gross profit	029	9,561	4,726
Management expenses	040	(1,828)	—
Sales profit (Loss)	<u>050</u>	<u>7,733</u>	<u>4,726</u>
<b>Other revenues and costs</b>			
Interest receivable	060	2	3
Other operating income	090	—	1
Other operating expenses	100	(99)	(3)
Non-operating income	120	255	108
Non-operating expenses	<u>130</u>	<u>(1,006)</u>	<u>(19)</u>
<b>Profit before taxation</b>	140	6,885	4,816
Profit tax and similar payments	<u>180</u>	<u>(386)</u>	<u>(720)</u>
<b>Net profit of reporting period</b>	<u>190</u>	<u>6,499</u>	<u>4,096</u>

The manager \_\_\_\_\_  
25.01 2004

The chief accountant \_\_\_\_\_

**Audited accounts of Porex under Russian GAAP (continued)***Balance sheet as of 31 December 2002 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

	<b>Code</b>	<b>1 January 2002 kRUR</b>	<b>31 December 2002 kRUR</b>
<b>Assets</b>			
<b>1. Non-current assets</b>	110	—	—
Intangible assets	120	139	1,598
Property, plant and equipment	130	—	4,915
Construction in progress	135	—	—
Investment in material values	140	—	—
Long-term financial investment	145	—	—
Other non-current assets	150	—	—
<b>Total non-current assets</b>	190	139	6,514
<b>2. Current assets</b>			
Inventories,	210	9	139
including:			
stores	211	3	54
domestic animals for growing	212	—	—
work in progress	213	—	—
finished goods	214	—	—
ship goods	215	—	—
prepaid expenses	216	7	85
other inventories	217	—	—
VAT receivable	220	—	—
Receivables beyond 12 months	230	—	—
Receivables within 12 months	240	190	827
including trade account receivable	241	—	780
Short-term financial investment	250	—	—
Cash and cash equivalents	260	883	256
Other current assets	270	—	9
<b>Total current assets</b>	290	1,082	1,231
<b>Total assets</b>	300	1,220	7,745

**Audited accounts of Pox under Russian GAAP (continued)**

	<b>Code</b>	<b>1 January 2002 kRUR</b>	<b>31 December 2002 kRUR</b>
<b>Liabilities</b>			
<b>3. Capital and reserves</b>			
Authorised capital stock	410	10	10
Equity	411	—	—
Additional capital	420	—	—
Capital reserves	430	—	—
Including:			
Reserves formed in compliance with legislation	431	—	—
Reserves formed in compliance with constituent instruments	432	—	—
Retained earnings (loss)	470	1,031	5,127
<b>Total Capital and reserves</b>	<b>490</b>	<b>1,041</b>	<b>5,137</b>
<b>4. Long-term liabilities</b>			
Loans and Credits	510	—	—
Deferred tax liabilities	515	—	—
Other long-term liabilities	520	—	—
<b>Total long-term liabilities</b>	<b>590</b>	<b>—</b>	<b>—</b>
<b>5. Short-term liabilities</b>			
Loans and Credits	610	—	—
Payables	620	179	2,608
Including:			
Suppliers and Contractors	621	65	1,303
Arrears of salaries and wages	622	12	201
Social payment debts	623	4	73
Tax debts	624	80	387
Other creditors	625	18	644
Dividend in arrears	630	—	—
Prepaid Income	640	—	—
Reserves of prepaid expenses	650	—	—
Other short-term liabilities	660	—	—
<b>Total short-term liabilities</b>	<b>690</b>	<b>179</b>	<b>2,608</b>
<b>Total liabilities</b>	<b>700</b>	<b>1,220</b>	<b>7,745</b>
<b>Off Balance account</b>			
Rented Property, plant and equipment	910	—	—
Including leasing	911	—	—
Inventory holding accepted in deposit	920	—	—
Goods on commission	930	—	—
Losses from insolvent debtors	940	—	—
Liability coverage paid	960	—	—
Deterioration of housing	970	—	—
Deterioration of outside objects	980	—	—
Intangible assets received	990	—	—

The manager \_\_\_\_\_  
13.03 2003

The chief accountant \_\_\_\_\_

**Audited accounts of Porex under Russian GAAP (continued)**

*Profit and Loss statement for the period from 1 January 2002 to 31 December 2002 of "Porex-Service" Ltd.*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

<b>Parameter</b>	<b><u>Code</u></b>	<b><u>For 2002</u></b>	<b><u>For 2001</u></b>
<b>Operating revenues and costs</b>			
Gross income (minus VAT, excises and other compulsory payments)	010	8,669	1,726
Cost of sales	020	(3,943)	(515)
Gross profit	029	4,726	1,211
Sales profit (Loss)	<u>050</u>	<u>4,726</u>	<u>1,211</u>
<b>Other revenues and costs</b>			
Interest receivable	060	3	1
Other operating income	090	1	—
Other operating expenses	100	(3)	—
Non-operating income	120	108	—
Non-operating expenses	<u>130</u>	<u>(19)</u>	<u>(1)</u>
<b>Profit before taxation</b>	140	4,816	1,211
Profit tax and similar payments	<u>180</u>	<u>(720)</u>	<u>(177)</u>
<b>Net profit of reporting period</b>	<u>190</u>	<u>4,096</u>	<u>1,034</u>

The manager \_\_\_\_\_  
25.01 2006

The chief accountant \_\_\_\_\_



## **Audited accounts of the Society in Participation under Russian GAAP**

### *The Audit Conclusion*

1. We have audited the enclosed Balanced sheets of joint activity and Financial statements of joint activity results provided by "Polex-Service" Ltd. for 2004, 2005. These Financial statements were prepared by the Executive office in compliance with Accounting regulations "Information about participation in joint activity" PBU 20/03 and "Accounting of organization" PBU 4/99.
2. The "Polex-Service" Ltd., participant performing accounting and tax accounting, is responsible for the preparation and submitting of the Financial statements. Our duty is to express our opinion about reliability of all essential figures of these Financial statements and conformity of accounting to the Russian legislation on the ground of the audit.
3. The audit was done in compliance with the RF Federal law #119-F3 of 07.08.2001 "About audit activity", Federal regulations (standards) of audit activity approved by RF Government Regulation #696 of 23.09.2002. The audit was planned and has been performed in such a way which would provide us with the reasonable assurance that the Balance sheets on joint activity and the Financial statements of joint activity results (Profit and Loss statements) didn't have essential distortions. The audit was carried out on sample basis and was included: the study on the basis of testing of proofs confirming value and explanation of information about financial and economic activity in the Financial statements; evaluation of principles and methods of the accounting, rules of the Financial statements preparation; the definition of main assessed values received by the management of the participants of joint activity; evaluation of the general idea of the Financial statements.

We believe, that the audit gives sufficient ground for our opinion about reliability of all essential figures in the Financial statements and conformity of accounting to the Russian legislation.

Some remarks, stated in the second part of the audit conclusion, were found during the audit.

4. In our opinion, the Balance sheets on joint activity and the Financial statements of joint activity results provided by "Polex-Service" Ltd. are precise enough with respect to essential figures on financial situation of Society in participation (joint activity) and its results on 2004, 2005, with the exception of circumstances, stated in the second part of the audit conclusion.

The auditor is Tatyana Leonidovna Zakharova

(Qualification certificate of an auditor #025152 of 25.02.99 has been prolonged for unlimited term from 25 of April 2002.)

**Audited accounts of the Society in Participation under Russian GAAP (continued)***Balance sheet as of 31 December 2005 of the Society in participation*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

Address: 2-260, Barnaulskaya str., Kaliningrad

	<b>Code</b>	<b>1 January 2005 kRUR</b>	<b>31 December 2005 kRUR</b>
<b>Assets</b>			
<b>1. Non-current assets</b>	110	—	—
Intangible assets	120	—	—
Property, plant and equipment	130	—	—
Construction in progress	135	—	—
Investment in material values	140	—	—
Long-term financial investment	145	—	—
Other non-current assets	150	—	—
<b>Total non-current assets</b>	190	—	—
<b>2. Current assets</b>			
Inventories,	210	185	—
including:			
stores	211	185	—
domestic animals for growing	212	—	—
work in progress	213	—	—
finished goods	214	—	—
ship goods	215	—	—
prepaid expenses	216	—	—
other inventories	217	—	—
VAT receivable	220	—	—
Receivables beyond 12 months	230	—	—
Receivables within 12 months	240	1,399	1,386
including trade account receivable	241	1,298	894
Short-term financial investment	250	2,640	510
Cash and cash equivalents	260	4,187	447
Other current assets	270	9	453
<b>Total current assets</b>	290	8,420	2,796
<b>Total assets</b>	300	8,420	2,796

**Audited accounts of the Society in Participation under Russian GAAP (continued)**

	<b>Code</b>	<b>1 January 2005 kRUR</b>	<b>31 December 2005 kRUR</b>
<b>Liabilities</b>			
<b>3. Capital and reserves</b>			
Authorised capital stock	410	50	100
Equity	411	—	—
Additional capital	420	—	—
Capital reserves	430	—	—
Including: Reserves formed in compliance with legislation	431	—	—
Reserves formed in compliance with constituent instruments	432	—	—
Retained earnings (loss)	470	—	—
<b>Total Capital and reserves</b>	490	50	100
<b>4. Long-term liabilities</b>			
Loans and Credits	510	—	—
Deferred tax liabilities	515	—	—
Other long-term liabilities	520	—	—
<b>Total long-term liabilities</b>	590	—	—
<b>5. Short-term liabilities</b>			
Loans and Credits	610	3,186	2,695
Payables	620	659	—
Including:			
Suppliers and Contractors	621	138	—
Arrears of salaries and wages	622	413	—
Social payment debts	623	44	1
Tax debts	624	64	—
Other creditors	625	—	—
Dividend in arrears	630	4,525	—
Prepaid Income	640	—	—
Reserves of prepaid expenses	650	—	—
Other short-term liabilities	660	—	—
<b>Total short-term liabilities</b>	690	8,370	2,696
<b>Total liabilities</b>	700	8,420	2,796
<b>Off Balance account</b>			
Rented Property, plant and equipment	910	—	—
Including leasing	911	—	—
Inventory holding accepted in deposit	920	—	—
Goods on commission	930	—	—
Losses from insolvent debtors	940	—	—
Liability coverage received	950	—	—
Liability coverage paid	960	—	—
Deterioration of housing	970	—	—
Deterioration of outside objects	980	—	—
Intangible assets received	990	—	—

The manager \_\_\_\_\_  
31.01. 2006

The chief accountant \_\_\_\_\_

**Audited accounts of the Society in Participation under Russian GAAP (continued)**

*Profit and Loss statement for the period from 01 of January 2005 to 31 of December 2005 of the Society in participation*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

<b>Parameter</b>	<b><u>Code</u></b>	<b><u>For 2005</u></b>	<b><u>For 2004</u></b>
<b>Operating revenues and costs</b>			
Gross income (minus VAT, excises and other compulsory payments)	010	27,829	27,463
Cost of sales	020	(9,932)	(9,287)
Gross profit	029	17,897	18,176
Selling expenses	030	—	—
Management expenses	040	(2,840)	(2,224)
Sales profit (Loss)	<u>050</u>	<u>15,057</u>	<u>15,952</u>
<b>Other revenues and costs</b>			
Interest receivable	060	30	44
Interest payable	070	—	—
Revenue in other organizations	080	—	—
Other operating income	090	14,219	1,692
Other operating expenses	100	(14,207)	(1,873)
Non-operating income	120	—	—
Non-operating expenses	<u>130</u>	<u>—</u>	<u>—</u>
<b>Profit before taxation</b>	140	15,099	15,815
Deferred tax assets	141	—	—
Deferred tax liabilities	142	—	—
Current profit tax	<u>150</u>	<u>—</u>	<u>—</u>
<b>Net profit of reporting period</b>	<u>190</u>	<u>—</u>	<u>—</u>

The manager \_\_\_\_\_

31.01. 2006

The chief accountant \_\_\_\_\_

**Audited accounts of the Society in Participation under Russian GAAP (continued)***Balance sheet as of 31 December 2004 of the Society in participation*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles

Address: 2-260, Barnaulskaya str., Kaliningrad

	<u>Code</u>	<u>1 January 2004 kRUR</u>	<u>31 December 2004 kRUR</u>
<b>Assets</b>			
<b>1. Non-current assets</b>	110	—	—
Intangible assets	120	—	—
Property, plant and equipment	130	—	—
Construction in progress	135	—	—
Investment in material values	140	—	—
Long-term financial investment	145	—	—
Other non-current assets	150	—	—
<b>Total non-current assets</b>	190	—	—
<b>2. Current assets</b>			
Inventories,	210	—	185
including:			
stores	211	—	185
domestic animals for growing	212	—	—
work in progress	213	—	—
finished goods	214	—	—
ship goods	215	—	—
prepaid expenses	216	—	—
other inventories	217	—	—
VAT receivable	220	—	—
Receivables beyond 12 months	230	—	—
Receivables within 12 months	240	—	1,399
including trade account receivable	241	—	1,298
Short-term financial investment	250	—	2,640
Cash and cash equivalents	260	—	4,187
Other current assets	270	—	9
<b>Total current assets</b>	290	—	8,420
<b>Total assets</b>	300	—	8,420

**Audited accounts of the Society in Participation under Russian GAAP (continued)**

	<u>Code</u>	<u>1 January 2004</u> kRUR	<u>31 December 2004</u> kRUR
<b>Liabilities</b>			
<b>3. Capital and reserves</b>			
Authorised capital stock	410	—	50
Equity	411	—	—
Additional capital	420	—	—
Capital reserves	430	—	—
Including: Reserves formed in compliance with legislation	431	—	—
Reserves formed in compliance with constituent instruments	432	—	—
Retained earnings (loss)	470	—	—
<b>Total Capital and reserves</b>	<u>490</u>	<u>—</u>	<u>50</u>
<b>4. Long-term liabilities</b>			
Loans and Credits	510	—	—
Deferred tax liabilities	515	—	—
Other long-term liabilities	520	—	—
<b>Total long-term liabilities</b>	<u>590</u>	<u>—</u>	<u>—</u>
<b>5. Short-term liabilities</b>			
Loans and Credits	610	—	3,186
Payables	620	—	659
Including:			
Suppliers and Contractors	621	—	138
Arrears of salaries and wages	622	—	413
Social payment debts	623	—	44
Tax debts	624	—	64
Other creditors	625	—	—
Dividend in arrears	630	—	4,525
Prepaid Income	640	—	—
Reserves of prepaid expenses	650	—	—
Other short-term liabilities	660	—	—
<b>Total short-term liabilities</b>	<u>690</u>	<u>—</u>	<u>8,370</u>
<b>Total liabilities</b>	<u>700</u>	<u>—</u>	<u>8,420</u>
<b>Off Balance account</b>			
Rented Property, plant and equipment	910	—	—
Including leasing	911	—	—
Inventory holding accepted in deposit	920	—	—
Goods on commission	930	—	—
Losses from insolvent debtors	940	—	—
Liability coverage received	950	—	—
Liability coverage paid	960	—	—
Deterioration of housing	970	—	—
Deterioration of outside objects	980	—	—
Intangible assets received	990	—	—

The manager \_\_\_\_\_  
20.01. 2005

The chief accountant \_\_\_\_\_



**Audited accounts of the Society in Participation under Russian GAAP (continued)**

*Profit and Loss statement for the period from 1 January 2004 to 31 December 2004 of the Society in participation*

Tax ID 3906085030/390701001.

Kind of activity is collecting of ships waste.

Unit is thousands rubles.

<b>Parameter</b>	<b><u>Code</u></b>	<b><u>For 2004</u></b>	<b><u>For 2004</u></b>
<b>Operating revenues and costs</b>			
Gross income (minus VAT, excises and other compulsory payments)	010	27,463	—
Cost of sales	020	(9,287)	—
Gross profit	029	18,176	—
Selling expenses	030	—	—
Management expenses	040	(2,224)	—
Sales profit (loss)	<u>050</u>	<u>15,952</u>	<u>—</u>
<b>Other revenues and costs</b>			
Interest receivable	060	44	—
Interest payable	070	—	—
Revenue in other organizations	080	—	—
Other operating income	090	1,692	—
Other operating expenses	100	(1,873)	—
Non-operating income	120	—	—
Non-operating expenses	<u>130</u>	<u>—</u>	<u>—</u>
<b>Profit before taxation</b>	140	15,815	—
Deferred tax assets	141	—	—
Deferred tax liabilities	142	—	—
Current profit tax	<u>150</u>	<u>—</u>	<u>—</u>
<b>Net profit of reporting period</b>	<u>190</u>	<u>—</u>	<u>—</u>

The manager \_\_\_\_\_

20.01. 2005

The chief accountant \_\_\_\_\_

**PART 7**  
**ADDITIONAL INFORMATION**

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**1. INCORPORATION AND STATUS OF THE COMPANY**

- 1.1** The Company was incorporated and registered in England and Wales under the Act on 22 March 2006 with registered number 05752493 as a private company limited by shares with the name Baltic Oil Terminals Limited. On 13 April 2006, the Company was re-registered as a public limited company. The principal legislation under which the Company operates is the Act.
- 1.2** The registered office of the Company is 6-8 Underwood Street, London N1 7JQ.

**2. SHARE CAPITAL OF THE COMPANY**

- 2.1** The Company was incorporated with an authorised share capital of £300,000 divided into 120,000 ordinary shares of £2.50 each. At the date of this document the authorised share capital of the Company is £300,000 divided into Ordinary Shares, of which 27,019,250 Ordinary Shares have been issued, credited as fully paid. The Ordinary Shares have been created under the Act and are to be issued in British Pounds Sterling.
- 2.2** The following is a summary of the changes which have occurred in the amount of the authorised and issued share capital of the Company since its incorporation:
- 2.2.1** On 6 April 2006, the Company issued 108,077 ordinary shares of £2.50 each to the shareholders of Baltic Petroleum in consideration for the acquisition of the entire issued share capital of Baltic Petroleum pursuant to the terms of the share exchange agreement, details of which are set out in paragraph 12.1.11 of this Part 7; and
- 2.3** On 19 April 2006, by a special resolution it was resolved that, subject to and conditional upon Admission on or before 31 July 2006:
- 2.3.1** to sub-divide each of the issued and authorised but unissued ordinary shares of £2.50 into 250 Ordinary Shares;
- 2.3.2** the authorised share capital of the Company be increased from £300,000 to £630,000 by the creation of an additional 33,000,000 Ordinary Shares;
- 2.3.3** the Directors be and are generally and unconditionally authorised for the purposes of section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £347,000, such authority to expire, unless sooner revoked or varied by the Company in general meeting, at the commencement of the annual general meeting of the Company next held after passing of the resolution, save that the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution, and so that all previous authorities of the Directors pursuant to the said section 80 be and are hereby revoked;
- 2.3.4** the Directors be empowered to allot equity securities (as defined in section 94(1) of the Act) for cash pursuant to the authority referred to in sub-paragraph 2.3.3 above as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:
- (a) the allotment of equity securities pursuant to the Placing up to an aggregate nominal amount of £164,285.71;
  - (b) the allotment of equity securities pursuant to the Performance Shares Plan, the Founder Options and the warrants to subscribe for Ordinary Shares granted to Arden Partners pursuant to the Placing up to an aggregate nominal amount of £38,170.34;
  - (c) the allotment of equity securities in connection with an offer of such securities by way of rights (including without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such securities, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates or any other legal or practical problems under the laws of any territory, or the requirements of any regulatory authority or stock exchange;

- (d) the allotment of further equity securities (other than pursuant to the power referred to in sub-paragraphs (a), (b) and (c) above) up to an aggregate nominal amount of £21,723;

such authority to expire, unless renewed, at the commencement of the annual general meeting of the Company next held after passing of the resolution, although the Company may, before the expiry of such authority, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired; and

- 2.3.5** pursuant to section 9 of the Act, the articles of association of the Company be deleted in their entirety and the regulations contained in the document submitted to the meeting, and for the purpose of identification signed by the Chairman, be approved and adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association of the Company.
- 2.4** Pursuant to the authority given by the resolution referred to in paragraph 2.3 above, 16,428,571 New Ordinary Shares will be allotted at the Placing Price pursuant to the Placing with effect immediately upon Admission.
- 2.5** As at the date of this document, the authorised and issued share capital of the Company is as follows:

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>
£300,000	30,000,000	£270,192.50	27,019,250

- 2.6** The authorised and issued share capital of the Company immediately following Admission will be as follows:

<i>Authorised</i>		<i>Issued and fully paid</i>	
<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>
£630,000.00	63,000,000	£434,478.21	43,447,821

The issued and fully paid share capital of the Company immediately following Admission assuming the exercise of the options and warrants detailed in paragraphs 2.7 to 2.9 below would be £472,648.55 (47,264,855 Ordinary Shares).

- 2.7** The Company has granted to the Founders options over 2,775,000 Ordinary Shares which are exercisable at the Placing Price during the three year period following the date of Admission. Paragraph 12.1.14 below sets out further details of the Founder Options.
- 2.8** The Company has granted options to subscribe for a total of 879,463 Ordinary Shares to the Directors and senior management under the terms of the Performance Shares Plan. Details of the options granted to the Directors and the rules of the Performance Shares Plan are summarised in paragraphs 6.2 and 4 below.
- 2.9** On 20 April 2006, the Company issued to Arden Partners, conditional upon Admission, warrants to subscribe for 162,571 Ordinary Shares at the Placing Price, details of which are set in paragraph 12.1.8 below.
- 2.10** Save as set out in this document, no shares in the capital of the Company are under option or have been agreed, conditionally or unconditionally, to be put under option.
- 2.11** With effect from Admission, all of the Ordinary Shares will be in registered form and, subject to the Ordinary Shares being admitted to and accordingly enabled for settlement in CREST, the Ordinary Shares will be capable of being held in uncertificated form. No temporary documents of title will be issued.
- 2.12** On Admission, the Existing Ordinary Shares will represent 62.19 per cent of the Enlarged Share Capital.

### **3. MEMORANDUM AND ARTICLES OF ASSOCIATION**

**3.1** The memorandum of association of the Company provides that the Company's principal object is to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of its memorandum of association. The liability of the members is limited.

**3.2** The Articles, which will be adopted by the Company conditionally upon Admission contain provisions, inter alia, to the following effect:

#### **3.2.1 *General meetings***

The Board may call an extraordinary general meeting whenever it thinks fit and, on the requisition of members in accordance with the Act, it shall forthwith proceed to convene an extraordinary general meeting for a date not more than 28 days after the date of the notice convening the meeting. If there are not within the United Kingdom sufficient Directors to call a general meeting, any Director or, if there is no Director within the United Kingdom, any member of the Company may call a general meeting.

An annual general meeting and an extraordinary general meeting where such extraordinary general meeting is called for the passing of a special resolution shall be called by at least 21 clear days' notice in writing (which, for the avoidance of doubt, shall be deemed to include notice given by electronic communication, subject to the provisions of the Statutes (as defined in the Articles)). All other extraordinary general meetings shall be called by at least 14 clear days' notice in writing (which, for the avoidance of doubt, shall be deemed to include notice given by electronic communication, subject to the provisions of the Statutes).

#### **3.2.2 *Voting rights***

Subject to any terms as to voting upon which any shares may be issued, or may for the time being be held and any restriction on voting referred to below, every member or duly authorised representative of a corporate shareholder present in person shall have one vote on a show of hands and, on a poll, every member or authorised representative present in person or by proxy shall have one vote for every Ordinary Share of which he is the holder.

A shareholder is not entitled to vote unless all calls or other sums presently payable from him have been paid.

A shareholder is also not entitled to attend or vote at meetings of the Company in respect of any shares held by him in relation to which he or any other person appearing to be interested in such shares has been duly served with a notice under section 212 of the Act and, having failed to comply with such notice within the period specified in such notice (being not less than 28 days from the date of service of such notice), is served with a disenfranchisement notice. Such disenfranchisement will apply until the Company has withdrawn the disenfranchisement notice, and a disenfranchisement notice shall be deemed to have been withdrawn at the end of the period of 7 days (or shorter as the Directors may determine) following receipt by the Company of the information required by the notice.

#### **3.2.3 *Dividends***

Subject to the Act, the Company may by ordinary resolution declare that out of profits available for distribution there be paid dividends to members in accordance with their respective rights and priorities but no dividend shall be declared in excess of the amount recommended by the Board.

Subject to the Act, the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits available for distribution and the position of the Company, and the Board may also pay the fixed dividend payable on any shares of the Company with preferential rights half-yearly or otherwise on fixed dates whenever such profits, in the opinion of the Board, justify that course.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide (no such shares presently being in issue), all dividends shall be apportioned and paid proportionate to the amounts paid or credited as paid up (other than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Any dividend unclaimed after a period of 12 years after having been declared shall be forfeited and shall revert to the Company.

The Board may, if authorised by ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive additional Ordinary Shares, credited as fully paid, instead of cash in respect of any dividend or any part of any dividend.

The Board may withhold dividends payable on shares representing not less than 0.25 per cent by number of the issued shares of any class after there has been a failure to comply with any notice under section 212 of the Act requiring the disclosure of information relating to interests in the shares concerned as referred to in paragraph 3.2.2 above.

#### **3.2.4 *Return of capital***

On a voluntary winding-up of the Company the liquidator may, with the sanction of an extraordinary resolution of the Company and subject to the Act and the Insolvency Act 1986 (as amended), divide amongst the shareholders of the Company in specie the whole or any part of the assets of the Company, or vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, shall determine.

#### **3.2.5 *Transfer of shares***

The Articles provide for shares to be held in CREST accounts, or through another system for holding shares in uncertificated form, such shares being referred to as “Participating Securities”. Subject to such of the restrictions in the Articles as shall be applicable, any member may transfer all or any of his shares. In the case of shares represented by a certificate (“Certificated Shares”) the transfer shall be made by an instrument of transfer in the usual form or in any other form which the Board may approve. A transfer of a Participating Security need not be in writing, but shall comply with such rules as the Board may make in relation to the transfer of such shares, a CREST transfer being acceptable under the current rules.

The instrument of transfer of a Certificated Share shall be executed by or on behalf of the transferor and (in the case of a partly paid share) by or on behalf of the transferee and the transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register of members.

The Board may, in its absolute discretion and without assigning any reason therefore, refuse to register any instrument of transfer of shares, all or any of which are not fully paid.

The Board may also refuse to register a transfer unless:

- (a) in the case of a Certificated Share, the duly stamped instrument of transfer is lodged at the office or at some other place as the Board may appoint accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require;
- (b) in the case of a Certificated Share, the instrument of transfer is in respect of only one class of share; and
- (c) in the case of a transfer to joint holders of a Certificated Share, the transfer is in favour of not more than four such transferees.

In the case of Participating Securities, the Board may refuse to register a transfer if the CREST Regulations allow it to do so, and must do so where such regulations so require.

The Board may also decline to register a transfer of shares if they represent not less than 0.25 per cent by number of their class and there has been a failure to comply with a notice requiring disclosure of interests in the shares (as referred to in paragraph 3.2.2 above) unless the shareholder has not failed to supply the required information, and proves that no person in default of supplying the required information is interested in the shares to be transferred. Such refusal may continue until the failure has been remedied, but the Board shall not decline to register:

- (a) a transfer in connection with a bona fide sale of the whole of the beneficial interest in the share to any person who is unconnected with the shareholder and with any other person appearing to be interested in the share;
- (b) a transfer pursuant to the acceptance of an offer made to all the Company’s shareholders or all the shareholders of a particular class to acquire all or a proportion of the shares or the shares of that particular class; or
- (c) a transfer in consequence of a sale made through a recognised investment exchange or any stock exchange outside the United Kingdom on which the Company’s shares are normally traded.

### **3.2.6 Variation of rights**

Subject to the Act, whenever the capital of the Company is divided into different classes of shares, the rights attached to any class of share may (unless otherwise provided by the terms of issue of shares of that class) be varied or abrogated (whether or not the Company is being wound up) either with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders. The quorum at any such general meeting is two persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class and at an adjourned meeting the quorum is one holder present in person or by proxy, whatever the amount of his shareholding. Any holder of shares of the class in question present in person or by proxy may demand a poll. Every holder of shares of the class shall be entitled, on a poll, to one vote for every share of the class held by him. Except as mentioned above, such rights shall not be varied.

The rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the Articles or the conditions of issue of such shares, be deemed to be varied or abrogated by the creation or issue of new shares ranking *pari passu* therewith or subsequent thereto.

### **3.2.7 Share capital and changes in capital**

Subject to and in accordance with the provisions of the Act and without prejudice to the rights attaching to any existing shares or class of shares, any share may be issued with such preferred, deferred or other special rights or restrictions as the Company shall from time to time determine by ordinary resolution, or if the Company has not so determined, as the Directors may determine.

Subject to the provisions of the Articles and the Act, the power of the Company to offer, allot and issue any unissued shares and any shares lawfully held by the Company or on its behalf shall be exercised by the Board at such time and for such consideration and upon such terms and conditions as the Board shall determine.

The Company may by ordinary resolution increase its share capital, consolidate and divide its share capital into shares of a larger amount and (subject to the provisions of the Act) sub-divide its shares or any of them into shares of a smaller amount (and the resolution may determine that, as between the holders of shares resulting from the sub-division, any of the shares may have any preference or advantage or be subject to any restriction as compared with the others), cancel any shares which, at the date of the passing of the resolution, have not been subscribed for or agreed to be subscribed for by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled.

Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve, any share premium account and/or any other non distributable reserves in any way.

Subject to the Act, the Company may purchase all or any of its own shares of any class (including any redeemable shares).

### **3.2.8 Non-UK shareholders**

Shareholders with addresses outside the United Kingdom are not entitled to receive notices from the Company unless they have given the Company an address within the United Kingdom at which such notices shall be served.

### **3.2.9 Untraced shareholders**

Subject to various notice requirements, the Company may sell any of a shareholder's shares in the Company if, during a period of 12 years, at least three dividends on such shares have become payable and no dividend has been claimed during that period in respect of such shares and the Company has received no indication either of the whereabouts or of the existence of such member.



### **3.2.10 Borrowing powers**

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital and subject to any relevant statutes to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligations of the Company or any third party, provided that the Board shall restrict the borrowings of the Company, and exercise all powers of control exercisable by the Company in relation to its subsidiaries, so as to secure (in relation to its subsidiaries so far as the Board is able) that the aggregate amount for the time being outstanding of all borrowings by the group (excluding any money owed between members of the group) shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to three times the adjusted capital and reserves.

### **3.2.11 Directors**

Save as mentioned below, a Director shall not vote in respect of any matter in which he has, directly or indirectly, any material interest (otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) or a duty which conflicts or may conflict with the interests of the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

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

- (a) the giving of any guarantee, security or indemnity to him or any other person in respect of money lent to, or an obligation incurred by him or any other person at the request of or for the benefit of, the Company or any of its subsidiaries;
- (b) the giving of any guarantee, security or indemnity to a third party in respect of an obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning his being a participant in the underwriting or sub-underwriting of an offer of shares, debentures or other securities by the Company or any of its subsidiaries;
- (d) any proposal concerning any other company in which he is interested, directly or indirectly, and whether as an officer or shareholder or otherwise, provided that he does not hold an interest in 1 per cent or more of any class of the equity share capital of such company or of the voting rights available to members of the relevant company (any such interest being deemed to be a material interest in all circumstances);
- (e) any arrangement for the benefit of employees of the Company or any of its subsidiaries which does not accord to any Director any privilege or benefit not generally awarded to the employees to which such arrangement relates; and
- (f) any proposal concerning any insurance which the Company is empowered to purchase and/or maintain for the benefit of any of the Directors or for persons who include Directors, provided that for that purpose "insurance" means only insurance against liability incurred by a Director in respect of any act or omission by him in the execution of the duties of his office or otherwise in relation thereto or any other insurance which the Company is empowered to purchase and/or maintain for, or for the benefit of any groups of persons consisting of or including Directors.

The Directors shall be paid such remuneration (by way of fees) for their services as may be determined by the Board, save that, unless otherwise approved by ordinary resolution of the Company in general meeting, the aggregate amount of such fees of all Directors shall not exceed £500,000 per annum. The Directors shall also be entitled to be repaid by the Company all hotel expenses and other expenses of travelling to and from board meetings, committee meetings, general meetings or otherwise incurred while engaged in the business of the Company. Any Director who by request of the Board performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine.



The Company may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, to or for the benefit of past directors who held executive office or employment with the Company or any of its subsidiaries or a predecessor in business of any of them or to or for the benefit of persons who are or were family (including a spouse or former spouse) or dependants of any such Directors, and may contribute to any fund and pay premiums for the purchase or provision of any such benefit.

The Directors of the Company may be indemnified against all losses and liabilities which they may sustain in the execution of the duties of their office, except to the extent that such an indemnity is not permitted by sections 309A and 309B of the Act.

The Directors are obliged to retire by rotation and are eligible for re-election at the third annual general meeting after the general meeting at which they were elected. Any non-executive Director who has held office for nine years or more is subject to re-election at each subsequent annual general meeting. Any Director appointed by the Board holds office only until the next annual general meeting, when he is eligible for re-election.

There is no age limit for Directors and section 293 of the Act does not apply to the Company.

Unless and until otherwise determined by ordinary resolution of the Company, the Directors (other than alternate Directors) shall not be less than 2 nor more than 12 in number.

#### **4. PERFORMANCE SHARES PLAN**

**4.1** The Company adopted, conditional on Admission, a performance shares plan (the “Scheme”) on 19 April 2006. The purpose of the Scheme is to incentivise directors, employees and consultants of the Company and its subsidiaries by granting nil-cost options or share awards in such other form as the remuneration committee (“Remuneration Committee”) of the board of directors may determine. The Remuneration Committee has discretion to determine the identity of participants, the number of shares awarded and the performance conditions relating to the Scheme.

#### **4.2 Summary of the Performance Shares Plan**

The main features of the Scheme are summarised below:

##### **4.2.1 Eligibility**

All directors, employees and consultants of the Company and its subsidiaries are eligible to be nominated for participation in the Scheme. Benefits under the Scheme are not pensionable. There are limits on the aggregate value of awards which may be granted to participants having regard to guidelines of the Association of British Insurers from time to time. The individual limit for awards granted under the Scheme in any calendar year is 200 per cent of an individual’s annual basic salary, in the case of an employee, or remuneration, in the case of a consultant.

##### **4.2.2 Grant of awards**

Awards may be granted in the 42 day period following the day on which the Company announces its results for the immediately preceding financial year or half year and within 42 days of Admission. Awards may be granted outside these periods only in exceptional circumstances.

##### **4.2.3 Performance condition**

The Remuneration Committee may impose objective conditions in respect of awards under the Scheme relating to the achievement of targets by the Company or any company in the Group and/or by the participant.

It is intended that, initially, a performance condition will be set which relates to the performance of the Tetoil transshipment terminal in December 2007.

##### **4.2.4 Exercise Price**

Where options are granted, they will either be granted at nil cost to the participant, or if they are subscription options at par value.

#### **4.2.5 Delivery of awards**

Subject to the satisfaction of performance conditions imposed at the date of allocation, awards will normally only vest on or after the third anniversary of their grant. The Remuneration Committee may, if it so decides, provide for vesting at an earlier date. Options, where granted under the Scheme, must be exercised within one year of vesting.

Awards may, at the discretion of the Remuneration Committee and to the extent that it considers appropriate in view of the performance at that time against the Performance Condition, become deliverable before the expiration of three years in certain circumstances including: (1) the participant's death; (2) cessation of employment by reason of injury, disability, redundancy or retirement; (3) reconstruction or takeover of the Company; (3) or for any other reason with the approval of the Remuneration Committee.

If a participant ceases employment other than in specified circumstances, the award will lapse unless and to the extent that the Remuneration Committee otherwise determines.

#### **4.2.6 Amendments**

The Company may alter the Scheme (subject where required to the approval of the Company in General Meeting) provided that no alteration is made which would adversely affect the subsisting rights of a participant.

#### **4.2.7 Scheme Limits**

The Company may not grant any award under the Scheme if to do so would involve a commitment by the Company under the Scheme and any discretionary executive share scheme to issue new Ordinary Shares which in aggregate exceed 5 per cent of the issued ordinary share capital of the Company in any rolling ten year period, or to issue new Ordinary Shares under the Scheme and all employee share schemes of the Company which exceed 10 per cent of the issued ordinary share capital of the Company in any rolling ten year period.

#### **4.2.8 Expiry of the Scheme**

The Scheme will expire on the tenth anniversary of its approval by the Company or such earlier time as determined by a resolution of the Company's board of directors or an ordinary resolution of the Company in general meeting

### **5. INFORMATION ON THE DIRECTORS**

#### **5.1 The names and functions of the Directors are as follows:**

<b>Name</b>	<b>Function</b>
Philip John Dayer	Non-Executive Chairman
Simon Leigh Escott	Chief Executive
Robert Wilde	Finance Director and company secretary

The business address of each of the Directors is Charles House, 18b Charles Street, London W1J 5DU.

- 5.2** The Directors hold or have held the following directorships or have been partners in the following partnerships within the five years prior to the date of this document:

<b>Director</b>	<b>Current directorships/partnerships</b>	<b>Past directorships/partnerships</b>
Philip Dayer	Baltic Oil Terminals PLC County Contact Centres (UK) Limited County Contact Centres PLC Dana Petroleum PLC	None
Simon Escott	Baltic Oil Terminals PLC Baltic Petroleum Limited Baltic Terminals Limited Baltic Petroleum (E&P) Limited Zauralneftegaz Limited Caspian Finance Limited Baltic Hydrocarbons Limited Tetoil Limited	None
Robert Wilde	Baltic Oil Terminals PLC Baltic Petroleum Limited Baltic Terminals Limited Baltic Petroleum (E&P) Limited Zauralneftegaz Limited Caspian Finance Limited Baltic Hydrocarbons Limited Tetoil Limited Wilde4 Limited	Novera Energy Generation No.1 Limited Ambient Energy Limited Gengas Limited Novera Energy Operating Services Limited Mynydd Clogau Windfarm Limited Aveley Methane Limited Novera Wind Energy Limited Cornwall Biomass Power Limited Suffolk Biomass Power Limited North Wiltshire Biomass Power Limited Prysan Windfarm Limited Cefn Croes Windfarm Limited Novera Energy Services UK Limited Ambient Biomass Limited Corston Windfarm Limited Ambient Hydro Limited Csepli Aramtermelő Rt. Powergen Energia Kft.

- 5.3** Save as set out in paragraph 5.2 above, none of the Directors has any business interests or activities outside the Company which are significant with respect to the Company.
- 5.4** None of the Directors:
- 5.4.1** has any unspent convictions in relation to indictable offences;
- 5.4.2** has been made bankrupt or has made an individual voluntary arrangement with creditors or suffered the appointment of a receiver over any of his assets;
- 5.4.3** has been a director of any company which, whilst he was such a director or within 12 months after his ceasing to be such a director, was put into receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with the company's creditors generally or with any class of creditors of any company or had an administrator or an administrative or other receiver appointed;
- 5.4.4** has been a partner in any partnership which, whilst he was a partner, or within 12 months of his ceasing to be a partner, was put into compulsory liquidation or had an administrator or an administrative or other receiver appointed or entered into any partnership voluntary arrangement;
- 5.4.5** has had an administrative or other receiver appointed in respect of any asset belonging either to him or to a partnership of which he was a partner at the time of such appointment or within the 12 months preceding such appointment; or
- 5.4.6** has received any public criticisms by statutory or regulatory authorities (including recognised professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## 6. DIRECTORS' AND OTHER INTERESTS

- 6.1** At the date of this document, the interests (all of which are or will be beneficial unless otherwise stated) of each Director (including any interest known to that Director or which could with reasonable diligence be ascertained by him of any person connected with a Director within the meaning of section 346 of the Act (a "Connected Person")) in the share capital of the Company at the date of this document and as they will be immediately following Admission are as follows:

Director	Number of Ordinary Shares currently held	Percentage of issued share capital currently held	Number of Ordinary Shares to be held immediately following Admission	Percentage of Enlarged Share Capital to be held immediately following Admission
Philip Dayer	0	0	121,428	0.28
Simon Escott	4,500,000	16.65	4,500,000	10.36
Robert Wilde	0	0	50,000	0.12

- 6.2** The Directors, on Admission, will be interested in unissued Ordinary Shares under share options held by them under the Founder Options and the Performance Share Plans, all of which options were granted for nil consideration, as follows:

	Number of Ordinary Shares under option	Exercise price per Ordinary Share (£)	Exercise period
Simon Escott	416,250	1.40	27 April 2006 to 26 April 2009
	416,250	1.40	27 April 2007 to 26 April 2009
	416,250	1.40	27 April 2008 to 26 April 2009
	178,571	0.01	1 January 2009 to 31 December 2009
Robert Wilde	116,071	0.01	1 January 2009 to 31 December 2009

- 6.3** Save as disclosed in paragraphs 6.1 and 6.2 above, no Director, nor any Connected Person, has at the date of this document, or will have immediately following Admission, any interest, whether beneficial or non-beneficial, in the share or loan capital of the Company or any of its subsidiaries or any related financial product referenced to the Ordinary Shares.

- 6.4** In addition to the interests of Directors disclosed in paragraphs 6.1 and 6.2 above, the Company is aware of the following Shareholders of the Company who are at the date of this document, or will be immediately following Admission, interested, directly or indirectly, in 3 per cent or more of the issued share capital of the Company:

Shareholder	Number of Ordinary Shares currently held	Percentage of issued share capital currently held	Number of Ordinary Shares to be held immediately following Admission	Percentage of Enlarged Share Capital to be held immediately following Admission
RAB Energy Fund Limited	7,319,500	27.09	4,319,500	9.94
RAB Special Situations (Master) Fund Limited	7,319,500	27.09	4,319,500	9.94
James Pockney	2,750,000	10.18	2,750,000	6.33
Mark Gilchrist	2,750,000	10.18	2,750,000	6.33
Caldwell Associates Limited	1,250,000	4.63	1,250,000	2.88
Utilico Emerging Markets Utilities Limited	869,500	3.22	1,071,428	4.47

- 6.5** The shareholders listed in paragraph 6.4 above do not have different voting rights to any other holders of Ordinary Shares.
- 6.6** The Company is not aware of any person or entity who, directly or indirectly, jointly or severally, will or could exercise control over the Company immediately following Admission and there are no arrangements the operation of which could result in a change of control of the Company.
- 6.7** No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and was effected during the current or immediately preceding financial year or was effected during any earlier financial year which remains outstanding and unperformed in any respect.

- 6.8 There are no loans or guarantees granted or provided by the Company and/or any of its subsidiaries to or for the benefit of any of the Directors which are now outstanding.
7. **SERVICE AGREEMENTS, LETTERS OF APPOINTMENT AND REMUNERATION OF THE DIRECTORS**
- 7.1 The following are particulars of agreements entered into with the Company for the provision of services of the executive Directors:
- 7.1.1 The Company entered into a consultancy agreement on 19 April 2006 with Trans Atlantic Energy Limited ("TAE"), a Gibraltar company, for the provision of the services of Simon Escott as Chief Executive Officer of the Company. The agreement is for an initial period of three years from the date of Admission (unless terminated earlier by the Company on twelve months' notice for consistent poor performance or by TAE on 12 months' notice by reason of Mr. Escott's illness or similar frustrating factor) and can be terminated thereafter by either party giving twelve months' written notice to the other. Under the agreement TAE will be paid a fee of between £143,000 and £178,000 depending on the level of service provided under the agreement. TAE will also be entitled to reimbursement of all expenses of Mr. Escott incurred in connection with the provision of his services under the agreement, including accommodation and the cost of a car and a driver when in Russia. The agreement provides that Mr. Escott is entitled to 30 days holiday per annum. TAE and Simon Escott will be subject to certain restrictive covenants during and after the term of the agreement. In addition, the Company has entered into a letter of appointment with Simon Escott in respect of his services as a director of the Company pursuant to which he will receive a fee of between £30,000 and £65,000 depending upon the level of duties performed by him in respect of such appointment (provided that the total amount of payments made by the Company in any one year under the consultancy agreement with TAE and to Mr. Escott in respect of his role as a director shall not exceed £208,000). The letter of appointment also provides that Mr. Escott shall be entitled to the use of a flat in London which is leased by the Company until 31 July 2006, when the Company intends to terminate such lease, and the reimbursement of expenses incurred in connection with the performance of his duties. The appointment is contingent on satisfactory performance and re-election at annual general meetings of the Company. Subject to meeting performance criteria established by the remuneration committee of the board of directors of the Company, Mr. Escott shall, under the Performance Shares Plan, be granted nil-cost options over such number of Ordinary Shares which is equal to £250,000 divided by the Placing Price.
- 7.1.2 The Company entered into a service agreement with Robert Wilde on 19 April 2006 employing him as Finance Director. The agreement, which is conditional upon Admission, is terminable by either the Director or the Company giving not less than six months' written notice to the other. Pursuant to the service agreement Mr. Wilde will be entitled to an annual salary of £130,000 per annum (with a guaranteed increase to £145,000 per annum with effect from 1 January 2007). The service agreement also makes provision for Mr. Wilde to take 30 days holiday per annum, a contribution to his personal pension scheme equal to 10 per cent of his basic salary, a car allowance equal to 7.5 per cent of his basic salary, life insurance and private medical insurance. Mr. Wilde will be subject to certain restrictive covenants during and after the term of the agreement. In addition, the Company has agreed, conditional on Admission, to pay Robert Wilde the sum of £112,000 in cash in respect of services performed for the Company in the period prior to Admission. Subject to meeting performance criteria established by the remuneration committee of the board of directors of the Company, Mr. Wilde shall, under the Performance Shares Plan, be granted nil-cost options over such number of Ordinary Shares which is equal to £162,500 divided by the Placing Price.
- 7.2 The Company has entered into a letter of appointment dated 19 April 2006 with Philip Dayer confirming his appointment as a non-executive Chairman of the Company. The appointment is conditional upon Admission and terminable by either party giving not less than six months' written notice to the other. Pursuant to the appointment Mr. Dayer will be entitled to an annual fee of £60,000, and £3,000 per day if he is required to work more than twenty days in a year. Mr. Dayer will be subject to certain restrictive covenants during and after the term of the agreement. In addition, the Company has agreed, conditional on Admission, to pay Philip Dayer a sum of £170,000 (plus VAT) in cash in respect of services performed for the Company in the period prior to Admission.

## 8. EMPLOYEES

As at 19 April 2006, being the latest practicable time before publication of this document, the Group had 16 employees.

## 9. SUBSIDIARIES

The Company is a holding company and has the following subsidiaries:

Name	Country of Incorporation	Percentage held
Baltic Petroleum Limited	England & Wales	100
Baltic Terminals Limited	England & Wales	100
Tetoil Limited	England & Wales	51
Caspian Finance Limited	England & Wales	100
Baltic Petroleum (E&P) Limited	England & Wales	100
Baltic Hydrocarbons Limited	England & Wales	100
Zauralneftgaz Limited	England & Wales	50
OOO Zauralneftgaz	Russia	100
OJSC Tetoil	Russia	58.35

## 10. PLACE OF BUSINESS

- 10.1 The Company's place of business is at Charles House, 18b Charles Street, London W1J 5DU, telephone number +44 20 7667 6371.

## 11. UNITED KINGDOM TAXATION

The following statements are intended only as a general guide to current UK tax legislation and current published practice of HMRC, both of which are subject to change, possibly with retrospective effect. They relate (except where stated otherwise) only to Shareholders who are resident or ordinarily resident in the UK for UK tax purposes, who are beneficial owners of Ordinary Shares and who hold their Ordinary Shares as an investment. The statements may not apply to certain Shareholders in the Company, such as dealers in securities, insurance companies, collective investment schemes or Shareholders who are not absolute beneficial owners of their shares. **Any person who is in any doubt as to his or her tax position, or who is resident or otherwise subject to taxation in any jurisdiction other than the UK, should consult his or her professional advisers immediately.**

### 11.1 Tax on dividend income

Under UK tax legislation, the Company is not required to withhold tax at source from dividend payments it makes. Accordingly any such dividends will be paid free from any such withholding. This will be the case whether the Shareholder to whom the dividend is paid is resident in the UK or outside the UK for UK tax purposes.

#### 11.1.1 Resident Shareholders

An individual Shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company will generally be entitled to a tax credit which such Shareholder may set off against his total income tax liability on the dividend. The tax credit is currently equal to ten per cent of the aggregate of the dividend and the tax credit (the "gross dividend"), which is also equal to one-ninth of the cash dividend received. A UK resident individual Shareholder who is liable to income tax at the starting, lower or basic rate will be subject to tax on the dividend at the rate of ten per cent of the gross dividend, so that the tax credit will satisfy in full any Shareholder's liability to income tax on the dividend. A UK resident individual Shareholder who is liable to income tax at the higher rate will be liable to tax on the gross dividend at the rate of 32.5 per cent. After taking into account the 10 per cent tax credit, such an individual will have to account for additional income tax equal to 22.5 per cent of the gross dividend (which is also equal to 25 per cent of the cash dividend received). The tax credits referred to above will not be payable in the event that they exceed the Shareholder's tax liability for the relevant year.

The same procedures should apply for UK resident trustees.

Shareholders who are not liable to UK income tax or corporation tax on dividends, including pension funds and charities, will not generally be entitled to reclaim the tax credit attaching to dividends paid by the Company.



Subject to certain exceptions for traders in securities, a Shareholder resident for tax purposes in the UK and within the charge to corporation tax will not generally be liable for corporation tax on receipt of a dividend from the Company. Such Shareholders will not be able to reclaim any tax credit attaching to the dividend payment.

#### **11.1.2 Non-resident Shareholders**

A Shareholder who is not resident in the UK for UK tax purposes will not be liable to UK income tax or corporation tax on any dividends received from the Company provided that the Ordinary Shares on which such dividends are paid are not used by, or held by or for, any branch, agency or permanent establishment through which the Shareholder carries on any trade, profession or vocation in the UK.

A Shareholder who is an individual and a national of any state of the European Economic Area, a Commonwealth citizen, a resident of the Isle of Man or the Channel Islands, or falls into certain other categories, and who otherwise has a liability to UK income tax, should be entitled to claim a tax credit in respect of a dividend from the Company as if such individual were resident for tax purposes in the UK. Such tax credit may be set off against the Shareholder's total UK income tax liability.

Subject to the preceding paragraph, the rights of a Shareholder who is not resident in the UK for tax purposes to a tax credit and to claim payment of any part of the tax credit will depend upon the existence and terms of any double taxation convention between the UK and the country in which that person is resident. Such persons should consult their own advisers in order to establish whether they are entitled to claim payment of any part of such tax credit and, if so, the procedure for doing so.

#### **11.2 Tax on chargeable gains**

Shareholders who are resident (or, in the case of individuals, ordinarily resident) in the UK for tax purposes and who dispose of their Ordinary Shares at a gain may, depending on their circumstances, be liable to UK tax on chargeable gains, subject to the availability of any exemptions and reliefs. Any such gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Ordinary Shares.

Individual Shareholders may, depending on the number of years for which they have held their Ordinary Shares, be entitled to exempt a proportion of any gain by virtue of the operation of a relief known as "taper relief". Corporate Shareholders will be entitled to the benefit of "indexation allowance".

Shareholders who are not resident (or in the case of individuals, ordinarily resident) for tax purposes in the UK (and who are not temporarily resident outside the UK as explained below) will not be liable to capital gains tax on the disposal of Ordinary Shares unless such shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or, in the case of a corporate Shareholder, through a permanent establishment.

An individual Shareholder who is temporarily resident outside the UK (i.e. for a period of less than five years) may under anti-avoidance legislation, still be liable to UK tax upon returning to the UK on any capital gain realised during that Shareholder's period of residence outside the UK (subject to any available exemptions or reliefs).

#### **11.3 Inheritance Tax ("IHT")**

For the purposes of IHT, Ordinary Shares will be considered to be situated in the UK. Accordingly, both UK domiciled and UK non-domiciled individuals will be liable to IHT on chargeable transfers of Ordinary Shares. Broadly, a chargeable transfer will occur either in the case of the death of an individual holder of Ordinary Shares or in the case of a lifetime transfer of Ordinary Shares by such a holder by way of gift or at an undervalue. In each case, however, there are various exemptions and reliefs which may apply.

In particular, Ordinary Shares which have been held for at least two years will normally qualify for the relief known as "business property relief" at the rate of 100 per cent (i.e. they will be effectively exempt from IHT).

#### **11.4 Stamp duty and stamp duty reserve tax (“SDRT”)**

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT or to persons connected with depositary arrangements or clearance services, who may be liable at a higher rate.

The allocation and issue of the New Ordinary Shares will not give rise to a liability to stamp duty or SDRT.

Any subsequent transfer on sale of Ordinary Shares in certificated form will usually be subject to stamp duty at a rate of 0.5 per cent of the amount or value of the consideration (rounded up, if necessary, to the nearest £5). A charge to SDRT at the rate of 0.5 per cent will also arise on an unconditional agreement to transfer such shares, although the liability will be cancelled and any SDRT already paid will be repaid if, within six years of the SDRT liability arising, a transfer is executed pursuant to the agreement and stamp duty is paid on that transfer.

A transfer of Ordinary Shares into CREST will not generally give rise to a charge to stamp duty or SDRT unless the transfer is made for consideration, in which case SDRT will arise, usually at the rate of 0.5 per cent of the value of that consideration.

A transfer of shares (effected on a paperless basis) through CREST will generally be subject to SDRT at the rate of 0.5 per cent of the value of the consideration given.

### **12. MATERIAL CONTRACTS AND RELATED PARTY TRANSACTIONS**

#### **12.1 Material contracts**

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Company or its subsidiaries within the two years immediately preceding the date of publication of this document and which are, or may be, material to the Company or its subsidiaries or have been entered into by the Company or its subsidiaries at any time and contain a provision under which the Company or its subsidiaries have any obligation or entitlement which is, or may be, material to the Company or its subsidiaries at the date of this document:

##### **12.1.1 RAB Investment Agreement**

An agreement dated 18 February 2005 made between (1) Baltic Petroleum, (2) RAB Special Situations LP and RAB Energy Fund Limited (together, “RAB Capital”) and (3) the Founders pursuant to which RAB Capital agreed to subscribe for 55,000 ordinary shares of £1 each in Baltic Petroleum for total proceeds of US\$5,000,000. Under the agreement, Baltic Petroleum gave certain undertakings to RAB Capital relating to, inter alia, the application of the subscription monies, provision of information and the obtaining of consent from RAB Capital with respect to certain required matters and corporate actions as specified in the agreement. Baltic Petroleum and the Founders also gave various representations and warranties to RAB Capital under the agreement.

The interests and obligations of RAB Special Situations LP under the agreement were novated to RAB Special Situations (Master) Fund Limited pursuant to a deed of novation dated 31 May 2005.

The interests and obligations of Baltic Petroleum under the agreement were novated to the Company pursuant to a deed of novation dated 31 March 2006.

The parties to the agreement have entered into a deed of termination dated 31 March 2006 pursuant to which the agreement will terminate with effect from, and conditional upon, Admission.

##### **12.1.2 Tetoil agreements**

###### **(a) Tetoil investment agreement**

An agreement dated 25 November 2005 between Baltic Terminals, Alexander Sergeevich Dronov, Alexei Alexeevich Palchevskiy and Pollex, pursuant to which Baltic Terminals agreed to acquire 51 per cent of the issued share capital in Tetoil (Russia) via a newly established special interest vehicle, Tetoil. This agreement is superseded by the terms of the Tetoil shareholders’ agreement as described at sub-paragraph (b) below.

###### **(b) Tetoil Agreement**

An agreement dated 1 March 2006 between Baltic Terminals, Alexander Sergeevich Dronov, Alexei Alexeevich Palchevskiy and Pollex (“AD”) pursuant to which AD agreed to contribute upon

the fulfilment of certain conditions precedent the entire shareholding of Tetoil (Russia) to Tetoil in return for a 49 per cent interest in Tetoil. The agreement also provides that, following the fulfilment of certain conditions subsequent before 30 July 2006, Baltic Terminals and AD shall procure that Tetoil (Russia) and Caspian Finance Limited ("Caspian Finance"), a wholly owned member of the Group, enter into the first and second loan agreements as described at sub-paragraph (c) below. One of the conditions subsequent to the agreement is the transfer of a further 7.35 per cent of Porex's interest in the issued share capital of Tetoil to Baltic Terminals for par value upon Baltic Terminals acquiring a 50 per cent interest in Porex, taking Baltic Terminal's interest in the issued share capital of Tetoil to 58.35 per cent.

The agreement sets out the terms on which the shareholders will manage their interests in Tetoil. Baltic Terminals is entitled to appoint three directors to the board of Tetoil, one of whom is to be appointed chairman of the directors and has a casting vote. AD is also entitled to appoint three directors. Certain matters, including but not limited to the approval of budgets and business plans, are specifically reserved to the board of directors for resolution. Certain matters are reserved for the prior unanimous approval of the shareholders, including but not limited to material changes to the nature of Tetoil's business. The shareholders in Tetoil also agree, subject to compliance by Tetoil with the terms of its budget, to declare and distribute to the shareholders 90 per cent of Tetoil's distributable profits for each financial year.

The agreement provides that Caspian Finance and Tetoil (Russia) will enter into a loan agreement pursuant to which, on the fulfilment of conditions precedent, Caspian Finance will provide Tetoil (Russia) with a loan facility of up to US\$1,800,000. The term of the agreement is until 31 December 2008. The loan may only be used for certain specified purposes. The interest rate on the loan is six per cent per annum.

The agreement provides that Caspian Finance will enter into a further agreement to provide Tetoil (Russia) with a loan facility of up to US\$18,000,000, subject to the satisfaction of certain conditions subsequent. The term of the agreement is for three years from the date of the agreement. The loan may only be used for the advancement of the Work Programme (as defined in the Second Loan Agreement). The interest rate on the loan is six per cent per annum. Tetoil is to enter into a debenture, guarantee and indemnity as security for Tetoil (Russia)'s obligations under the loan.

### **12.1.3 Porex agreements**

#### *(a) Porex acquisition agreement*

An agreement dated 29 November 2005 between Baltic Terminals and Alexei Alexeevich Palchevskiy ("AAP") pursuant to which the parties agreed in principle that Baltic Terminals would acquire a 50 per cent interest in Porex and Baltic Terminals would pay AAP US\$1,999,000 upon completion of certain conditions subsequent, including agreement as to the terms of a shareholders' agreement and the completion by Baltic Terminals of satisfactory due diligence. This agreement is superseded by the Porex Agreement as described at sub-paragraph (b) below.

#### *(b) Porex Agreement*

Three short form share purchase agreements between Baltic Terminals and Nikolaevna Sebova, Ivanovna Belyaeva and Alexei Alexeevich Palchevskiy, respectively, pursuant to which Baltic Terminals acquired in aggregate 50 per cent of the issued share capital of Porex for the sum of US\$1,999,000.

#### *(c) Porex access agreement*

An agreement dated 21 February 2006 between Tetoil (Russia) and Porex pursuant to which Porex has granted to Tetoil certain access rights to the land plot and jetty leased by Porex (Russia) in consideration for a monthly fee of US\$1,000.

### **12.1.4 Zauralneftegaz agreements**

#### *(a) Zauralneftegaz joint venture shareholders' agreement*

An agreement dated 14 October 2005 between Baltic Petroleum (E&P) Limited ("BP(EP)"), SEG and Zauralneftegaz pursuant to which the parties agreed to establish Zauralneftegaz as a joint venture company to explore for, develop, produce and sell oil and gas assets in the Russian Federation. SEG agreed to contribute all of its participatory interests in Zauralneftegaz (Russia)

to Zauralneftgaz in consideration for the issue of 50 per cent of the ordinary shares in Zauralneftgaz. BP(EP) agreed to procure the provision of certain loans by Caspian Finance to Zauralneftgaz (Russia) and subscribed for 50 per cent of the ordinary shares in Zauralneftgaz in consideration for the payment of US\$75,000. The agreement reserves certain matters to be decided by Zauralneftgaz at board level and grants BP(EP) effective control of the board of Zauralneftgaz. Under the agreement, Zauralneftgaz (Russia) will, prior to the production and drilling of any oil and gas reserves by Zauralneftgaz (Russia), enter into an operating agreement with BP(EP) on terms to be agreed pursuant to which BP(EP) is to be engaged to provide production and drilling related services to Zauralneftgaz (Russia). The agreement provides for BP(EP) to be paid a monthly management fee of US\$35,000 and SEG to be paid a monthly management fee of US\$25,000. Under the agreement, BP(EP) has agreed to procure that Caspian Finance provide loans to Zauralneftgaz to enable it to pay these management fees. Under the agreement, SEG has given certain representations and warranties in relation to the business of Zauralneftgaz (Russia).

(b) *Zauralneftgaz loan agreements*

An agreement (the "Loan Agreement") dated 28 April 2005 between Zauralneftgaz (Russia) and Baltic Petroleum pursuant to which Baltic Petroleum provided Zauralneftgaz (Russia) with a loan facility of US\$1,267,680. The interest rate on the loan was 12 per cent per annum.

On 16 August 2005, Zauralneftgaz (Russia) and Baltic Petroleum entered into a deed of amendment (the "Deed of Amendment") pursuant to which Baltic Petroleum agreed to make available to Zauralneftgaz (Russia) a further loan of US\$173,468 on the terms of the Loan Agreement.

On 9 November 2005, Caspian Finance, Zauralneftgaz (Russia) and Baltic Petroleum entered into a deed of novation, pursuant to which Baltic Petroleum novated and transferred to Caspian Finance all of its rights and obligations under the Loan Agreement, as amended.

On 9 November 2005, Caspian Finance and Zauralneftgaz (Russia) entered into an agreement for the purposes of amending the Loan Agreement, as amended and novated, pursuant to which Caspian Finance made available to Zauralneftgaz (Russia) a loan facility of US\$5,134,667, additional to that made available under the Loan Agreement, representing a total facility of US\$6,874,325 (an advance equal to US\$1,739,658, representing the principal, accrued interest and costs outstanding under the Loan Agreement, was treated as having been previously drawn down as at 9 November 2005). Under the agreement, the loan may be used only to make certain payments specified in the agreement or otherwise used in accordance with the agreed work programme. The facility is available until 9 November 2011, on which date all advances, interest and costs and expenses must be repaid. Under the agreement, the interest rate is accrued on all outstanding amounts under the facility at 14 per cent per annum for the first 2 years, 13 per cent per annum during the third year and, thereafter, 12 per cent per annum. The default interest rate on sums not paid to Caspian Finance at the due date is 6 per cent per annum. The loan is guaranteed by Zauralneftgaz, which granted Caspian Finance a debenture over all its assets on 9 November 2005.

(c) *Bashneftegeophysika agreement*

An agreement dated 9 February 2004 between Zauralneftgaz (Russia) and OAO Bashneftegeophysika for the provision of certain seismic surveys for the payment of US\$718,649.

(d) *Business Standard agreement*

An agreement dated 16 April 2005 between Zauralneftgaz (Russia) and OOO Business Standard (as amended on 16 August 2005 and 6 September 2005) pursuant to which Business Standard provided engineering and geological services for the payment of US\$790,000.

### **12.1.5 Arden Partners engagement letter**

An engagement letter dated 25 January 2006 between Arden Partners and the Company pursuant to which the Company engaged Arden Partners to act as sole financial adviser, Nominated Adviser and broker to the Company in connection with the Placing and Admission. Under the agreement, the Company has agreed to pay to Arden Partners an advisory fee of £150,000 and a commission equal to 4 per cent of the value of Placing Shares at the Placing Price, together with a warrant to subscribe for shares in the Company at the issue price with a value equal to 1 per cent of the value of shares placed.

### **12.1.6 Nominated adviser agreement**

An agreement dated 20 April 2006 between Arden Partners and the Company pursuant to which Arden Partners has agreed to act as nominated adviser and broker to the Company following Admission. Under the agreement, the Company has agreed to pay Arden Partners a retainer of £50,000 per annum for its services and give customary undertakings and indemnities in favour of Arden Partners. The agreement may be terminated by either party giving one month's written notice to the other.

### **12.1.7 Placing Agreement**

An agreement dated 20 April 2006 between the Directors, Mark Gilchrist and James Pockney, the Company and Arden Partners pursuant to which Arden Partners has agreed to use all reasonable endeavors to procure placees to subscribe for 16,428,571 New Ordinary Shares at the Placing Price on behalf of the Company, failing which, itself to subscribe for the Placing Shares at the Placing Price. Under the terms of the Placing Agreement, a commission of 4 per cent of the Placing Price multiplied by the number of New Ordinary Shares is payable to Arden Partners. The agreement is conditional on, *inter alia*, Admission becoming effective on or before 27 April 2006 or such later time as the Company and Arden Partners agree being, in any event, not later than 31 July 2006. Under the agreement, the Company, the Directors and Mark Gilchrist and James Pockney have given certain representations, warranties and undertakings, *inter alia*, as to the accuracy of this document and the Company and the executive Directors have given certain indemnities that are customary in an agreement of this kind. The agreement may be terminated by Arden Partners if certain conditions are not satisfied or in certain other circumstances, including force majeure.

### **12.1.8 Arden Partners warrant instrument**

A deed dated 20 April 2006 made by the Company pursuant to which the Company has, conditional on Admission, granted warrants to subscribe for 162,571 Ordinary Shares at the Placing Price to Arden Partners.

### **12.1.9 Lock-in Agreements**

- (a) An agreement dated 20 April 2006 between the Directors, the Company and Arden Partners pursuant to which the Directors and the Company have agreed with Arden Partners and the Company that they will not (save in certain specific circumstances) dispose of, or agree to dispose of, any Ordinary Shares or interests in Ordinary Shares, for a period ending on the date one year following Admission, or, if later, the date of the preliminary announcement of the Company's consolidated audited accounts for the financial ending 31 December 2006 is published. In addition, the Directors have agreed except in limited circumstances, not to dispose of their Ordinary Shares other than through Arden Partners for a period of one year thereafter.
- (b) An agreement dated 20 April 2006 made between RAB Capital, the Company and Arden Partners pursuant to which RAB Capital have agreed with Arden Partners and the Company that they will not (save in certain specified circumstances) dispose of, or agree to dispose of, any Ordinary Shares or interests in Ordinary Shares, for a period ending on the date which is nine months following the date of Admission. Such restrictions cease to have effect if, during such period, the closing volume weighted average price of the shares on AIM exceed 200p for five consecutive dealing days, in which case orderly marketing restrictions will apply for the remainder of such period which provide that RAB Capital may not dispose of any such shares other than through Arden Partners.



#### **12.1.10 Orderly Marketing Agreements**

- (a) An agreement dated 20 April 2006 between RAB Capital, the Company and Arden Partners pursuant to which RAB Capital has agreed with Arden Partners that it will not (save in certain specific circumstances) dispose of any of its Ordinary Shares other than through Arden Partners for a period of nine months following Admission.
- (b) An agreement dated 20 April 2006 between Mark Gilchrist, James Pockney, the Company and Arden Partners pursuant to which Mark Gilchrist and James Pockney have agreed with Arden Partners that they will not, save in certain specific circumstances, dispose of any of their Ordinary Shares other than through Arden Partners for a period of nine months following Admission.
- (c) An agreement dated 20 April 2006 between Caldwell Associates Limited, the Company and Arden Partners pursuant to which Caldwell Associates Limited has agreed with Arden Partners that he will not (save in certain specific circumstances) dispose of any of his Ordinary Shares other than through Arden Partners for a period of nine months following Admission.

#### **12.1.11 Share exchange agreement**

An agreement dated 31 March 2006 between the Company and the shareholders of Baltic Petroleum pursuant to which such shareholders agreed to transfer to the Company the entire issued share capital of Baltic Petroleum in consideration for the allotment of 108,077 ordinary shares of £2.50 each in the capital of the Company.

#### **12.1.12 Share subscriptions agreements**

- (a) A letter agreement dated 9 March 2006 between Baltic Petroleum and RAB Energy Fund Limited pursuant to which RAB Energy Fund Limited agreed to subscribe the sum of £511,175 in consideration for the allotment by Baltic Petroleum of 1,778 ordinary shares of 1p each.
- (b) A letter agreement dated 9 March 2006 between Baltic Petroleum and RAB Special Situations (Master) Fund Limited pursuant to which RAB Special Situations (Master) Fund Limited agreed to subscribe the sum of £511,175 in consideration for the allotment by Baltic Petroleum of 1,778 ordinary shares of 1p each.
- (c) A letter agreement dated 9 March 2006 between Baltic Petroleum and Utilico Emerging Markets Utilities Limited pursuant to which Utilico Emerging Markets Utilities Limited agreed to subscribe the sum of £999,925 in consideration for the allotment by Baltic Petroleum of 3,478 ordinary shares of 1p each.
- (d) A letter agreement dated 9 March 2006 between Baltic Petroleum and Siberian Investment Company plc pursuant to which Siberian Investment Company plc agreed to subscribe the sum of £299,862.50 in consideration for the allotment by Baltic Petroleum of 1,043 ordinary shares of 1p each.
- (e) A letter of subscription pursuant to which Robert Wilde has agreed, conditional on Admission, to subscribe the sum of £70,000.00 for 50,000 Ordinary Shares at the Placing Price.
- (f) A letter of subscription pursuant to which Philip Dayer has agreed, conditional on Admission, to subscribe the sum of £169,999.20 for 121,428 Ordinary Shares at the Placing Price.

#### **12.1.13 Consultancy agreements**

- (a) A consultancy agreement dated 19 April 2006 between the Company and J.C. Pockney & Co. Limited ("JCP Co") for the provision of the services of James Pockney. Under the agreement, the Company will pay to JCP Co the sum of £60,000 in respect of services performed for the Company in the period prior to Admission and, thereafter, £2,000 per day in respect of a minimum of 15 days in the period from Admission until the end of 2006 and 25 days in 2007. Under the agreement, the Company has agreed to make a contribution of £2,800 per month towards the costs of office space for use by James Pockney during the term of the agreement. JCP Co and James Pockney will be subject to certain restrictive covenants during and after the term of the agreement.



- (b) A consultancy agreement dated 19 April 2006 between the Company and Gilchrist Solicitors ("G&Co") for the provision of the services of Mark Gilchrist. Under the agreement, the Company will pay to G&Co the sum of £60,000 in respect of services performed for the Company in the period prior to Admission and, thereafter, £2,000 per day in respect of a minimum of 15 days in the period from Admission until the end of 2006 and 25 days in 2007. Under the agreement, the Company has agreed to make a contribution of £2,800 per month towards the costs of office space for Mark Gilchrist during the term of the agreement. G&Co and Mark Gilchrist will be subject to certain restrictive covenants during and after the term of the agreement.

#### **12.1.14 Founder Options**

- (a) An agreement dated 19 April 2006 between the Company and Simon Escott pursuant to which the Company has, conditional on Admission, granted to Simon Escott options, exercisable at the Placing Price, to subscribe for 1,248,750 new Ordinary Shares. The options become exercisable in three equal tranches on the date of Admission and on the first and second anniversary thereof respectively, and, subject to becoming exercisable, may be exercised at any time during the three year period following the date of Admission.
- (b) An agreement dated 20 April 2006 between the Company and Mark Gilchrist pursuant to which the Company has, conditional on Admission, granted to Mark Gilchrist options, exercisable at the Placing Price, to subscribe for 763,125 new Ordinary Shares. The options become exercisable in three equal tranches on the date of Admission and on the first and second anniversary thereof respectively, and, subject to becoming exercisable, may be exercised at any time during the three year period following the date of Admission.
- (c) An agreement dated 20 April 2006 between the Company and James Pockney pursuant to which the Company has, conditional on Admission, granted to James Pockney options, exercisable at the Placing Price, to subscribe for 763,125 new Ordinary Shares. The options become exercisable in three equal tranches on the date of Admission and on the first and second anniversary thereof respectively, and, subject to becoming exercisable, may be exercised at any time during the three year period following the date of Admission.

#### **12.1.15 Lease**

A one year residential tenancy agreement dated 24 June 2005 between Mrs. Joanna Power and Baltic Petroleum for the lease by Baltic Petroleum of a property located at 59 Walton Street, London for a monthly rent of £3,467. The lease has an option to extend at the expiry of the term for a further year from 27 November 2006 and has a break clause pursuant to which it may be terminated on 31 July 2006 on written notice given by Baltic Petroleum prior to 31 May 2006.

### **12.2 Related party transactions**

As at the date of this document, save as disclosed below and in paragraph 12.1 above, neither the Company nor any of its subsidiaries has entered into any related party transactions in the past three years:

- 12.2.1** In the period from 1 January 2005 until the date of this document, the sum of £112,500 was paid to Trans Atlantic Energy Limited in respect of consultancy services provided to the Group by Simon Escott.
- 12.2.2** In the period from 1 January 2005 until the date of this document, the sum of £75,000 (plus VAT) was paid to Gilchrist Solicitors, a firm in which Mark Gilchrist is the senior partner, for the provision of legal services to the Group by Mark Gilchrist. In addition, during this period the Company has paid to Gilchrist Solicitors the sum of £29,000 (plus VAT) in relation to disbursement costs for 65 per cent of Gilchrist Solicitors' office costs.
- 12.2.3** In the period from 1 January 2005 until the date of this document, the sum of £75,000 was paid to J.C. Pockney & Co. Limited in respect of consultancy services provided to the Group by James Pockney.

- 12.2.4** The Company paid rent of £1,200 per month and £3,467 per month during the periods from May 2005 to November 2005 and November 2005 to the date of this document, respectively, in respect of flats made available for use by Simon Escott when in London engaged in business for the Group.

### **13. WORKING CAPITAL**

Having made due and careful enquiry, the Directors are of the opinion that, taking into account the net proceeds of the Placing, the Company will have sufficient working capital available for its present requirements, that is, for at least the twelve months following the date of Admission.

### **14. LITIGATION AND ARBITRATION**

Neither the Company nor its subsidiaries is or has been involved in any legal or arbitration proceedings which may have, or have had during the last 12 months preceding the date of this document, a significant effect on the Company's financial position or profitability, nor are there any such proceedings pending or threatened against the Company or its subsidiaries of which the Company is aware.

### **15. OVERSEAS JURISDICTIONS**

- 15.1** The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended (the "Securities Act"), or under any applicable securities laws of Australia, the Republic of Ireland, South Africa, Canada or Japan. Accordingly, subject to certain exceptions, the Ordinary Shares may not be offered or sold or delivered, directly or indirectly, in or into the United States, Australia, the Republic of Ireland, South Africa, Canada or Japan or to, or for the account or benefit of, any person in, or any national, citizen or resident of, the United States, Australia, the Republic of Ireland, South Africa, Canada or Japan. This document is supplied to you for information only and must not be mailed or otherwise distributed or reproduced (in whole or part) or sent to or into the United States, Australia, the Republic of Ireland, South Africa, Canada or Japan (including their territories, possessions and all areas subject to their jurisdiction) or any other country outside the United Kingdom where its distribution would require compliance by the Company with any governmental or regulatory procedure or any similar formalities. This document does not constitute an offer for, or the solicitation of an offer to subscribe for, or buy, any Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

#### **15.2 Notice to persons resident in France**

Pursuant to Articles 211-2, 211-3 and 211-4 of the General Regulation of the French *Autorité des marchés financiers* (the "AMF"), placees are informed that:

- (a) the transaction does not require a prospectus to be submitted to the AMF for approval (*visa*);
- (b) the individuals or entities listed in Article L. 411-2-II-4° of the French *Code Monétaire et Financier* (qualified investors and/or limited number of other investors), can subscribe for New Ordinary Shares only for their own account under the terms and conditions set forth in Articles D 411-1, D 411-2, D 734-1, D 744-1, D 754-1 and D 764-1 of the French *Code Monétaire et Financier*;
- (c) the New Ordinary Shares may not be offered, marketed, distributed, sold, resold or otherwise transferred, either directly or indirectly, to the public in France, except as set forth in Articles L. 411-1, L 411-2, L 412-1 and L 621-8 to L 621-8-3 of the French *Code Monétaire et Financier*.

#### **Avertissement à l'attention des investisseurs français**

Au titre des articles 211-2, 211-3 et 211-4 du Règlement Général de l'AMF, il est rappelé aux investisseurs que:

- (a) opération ne donne pas lieu à un prospectus soumis au visa de l'AMF;
- (b) les personnes ou entités mentionnées au 4° du II de l'article L. 411-2 du code monétaire et financier ne peuvent participer à cette opération que pour compte propre dans les conditions fixées par les articles D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 et D. 764-1 du code monétaire et financier;

- (c) la diffusion, directe ou indirecte, dans le public des instruments financiers ainsi acquis ne peut être réalisée que dans les conditions prévues aux articles L. 411-1, L. 411-2, L. 412-1 et L. 621-8 à L. 621-8-3 du Code Monétaire et Financier.

### **15.3 Notice to persons resident in Switzerland**

This document does not constitute an issue prospectus pursuant to art 652a of the Swiss Code of Obligations. The Ordinary Shares will not be listed on the SWX Swiss Exchange. Accordingly, the Ordinary Shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe for the Ordinary Shares with a view to distribution. The document may only be used by those persons to whom it has been distributed in connection with the Placing described herein and may neither directly nor indirectly be distributed or made available to other persons without express consent of the Company.

## **16. GENERAL**

- 16.1** The gross proceeds of the Placing are expected to be approximately £23.00 million. The estimated total costs and expenses relating to Admission and the Placing, which are payable by the Company, are approximately £1.97 million (excluding any applicable value added tax). The net cash proceeds to the Company from the Placing are expected to be approximately £21.03 million.
- 16.2** Arden Partners has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name in the form and context in which it is included.
- 16.3** The financial information set out in this document relating to the Company does not constitute statutory accounts within the meaning of section 240 of the Companies Act. Ernst & Young LLP of 1 More London Place, London SE1 2AF has given an unqualified audit report on the statutory accounts of the Company for the year ended 31 December 2005 within the meaning of section 235 of the Companies Act. This report did not contain any statements under sub-section 237(2) or (3) of the Companies Act. Statutory accounts of the Company for the year ended 31 December 2005 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Companies Act.
- 16.4** Ernst & Young LLP has given and not withdrawn its written consent to the inclusion in this document of its accountant's report set out in Part 5 and to its name and the references to them in the form and context in which they are included.
- 16.5** TH Management has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and its report in Part 3 of this document and the references to such report and its name in the form and context in which they appear. This report was prepared at the request of the Company. TH Management has no material interest in the Group.
- 16.6** ECL has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and its report in Part 4 of this document and the references to such report and its name in the form and context in which they appear. This report was prepared at the request of the Company. ECL has no material interest in the Group.
- 16.7** There are no arrangements in place under which future dividends are to be waived or agreed to be waived.
- 16.8** The Placing Price is payable in full in cash on acceptance.
- 16.9** Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made or refused nor are there intended to be any other arrangements for dealings in the Ordinary Shares.
- 16.10** Save as disclosed in this document, the Directors are not aware of any exceptional factors which have influenced the Company's activities.
- 16.11** The Directors are not aware of any patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Company's business.
- 16.12** Save in respect of the equity subscriptions referred to in paragraphs 12.1.12 (a) to (d) above, there has been no significant change in the trading or financial position of the Company since 31 December 2005 being the date to which the financial information contained in Part 5 of this document was prepared.

**16.13** Other than (i) £104,000 (including VAT) paid to Trans Atlantic Energy Limited in respect of services provided by Peter Gee, (ii) \$80,000 (£45,002) paid to Cottage Creek Limited in respect of services provided by Ingemar Lundmark, (iii) \$50,000 (£28,126) paid to Allchem Agencies SA in respect of services provided by Stefan Priestley and (iv) £5,842 paid in respect of Stefan Priestley's accommodation in London, and save as disclosed in paragraphs 7 and 12 of this Part 7, no person (excluding the Company's professional advisers to the extent disclosed elsewhere in this document and trade suppliers) in the 12 months preceding the Company's application for Admission has received, directly or indirectly, from the Company or has entered into any contractual arrangements to receive, directly or indirectly, from the Company on or after Admission any of the following:

- (i) fees totalling £10,000 or more;
- (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- (iii) any other benefit with a value of £10,000 or more at the date of Admission.

**16.14** The Placing Shares have not been issued or sold, nor are they available, in whole or in part, to the public in conjunction with the application for Admission.

**17. DOCUMENT AVAILABLE FOR INSPECTION**

Copies of this document will be available free of charge at the offices of Covington & Burling, 265 Strand, London WC2R 1BH, during business hours on any weekday (excluding Saturdays, Sundays and public holidays) from the date of this document until the date following one month after the date of Admission.

Dated: 20 April 2006

## PART 8

### GLOSSARY OF TERMS

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Amorphous kerogen	a state of matter in which there is no orderly arrangement of atoms
Areal views	geological map showing the horizontal area
Basic engineering	conceptual engineering to demonstrate project feasibility
Biostratigraphical age dating	organism age dating
Blending unit	a unit which blends different products
Borehole rock samples	rock samples taken from drilled holes
Carbonate and shale section	calcium and fine sedimentary section
Carboniferous age	a period falling within the Palaeozoic age, from 340 to 280 million years ago
Correlation refraction method	calculation of parallel periods
Cretaceous age	final Mesozoic era, from 135 to 65 million years ago
Crude	a form of oil that is extracted directly from the ground that has not been refined
Detailed engineering	full engineering, construction drawings, bills of material, designs and plans
Devonian age	a period falling within the Palaeozoic age, from 400 to 345 million years ago
Diesel	fuel which, like gasoline, is refined from oil. It is heavier and oilier than gasoline, and has a higher energy density. It is generally cheaper, too, because it has required less refining than gasoline
Erosional surface	land surface shaped by water
Gasoil	a clean distillate fuel oil
Gasoline	liquid fuel composed of a mixture of small, light hydrocarbons and produced by refining crude oil
Gas seismotomography	measurement process using gas spectrum
Geochemical analysis	the investigatory technique which involves taking soil samples at regular intervals from the surface of a site, and measuring their phosphate content and other chemical properties
Geological data	information about the earth
Geophysical data	physics of the earth
Graben	fine sedimentary rock
Gravity data	data used to investigate a young transform margin

Hydrocarbon	organic chemical compound of hydrogen and carbon, called petroleum
Hydrocarbon source rock	rock rich in organic matter which, if heated sufficiently, will generate oil or gas
Igneous rocks	rock formed by the solidification of molten material
Intermediate engineering	preparation of detailed design criteria and early bills of material
Jurassic age	second period of Mesozoic era, from 190 to 135 million years ago
Late-Palaeozoic Hercynian Orogeny	rock formation from 300 to 200 million years ago
Lithological composition	analysis of rock types
Lower Palaeozoic	a combining form, denoting great age in regard of time
Magnetic data	airborne magnetic fields
Mazut	heavy fuel oil
Oil-prone, organic-rich shales	rich organic carbon
Organic carbon content	derived from living organisms
Palaeontological dating	science that deals with the life of past periods
Palaeozoic age	a period from 570 to 248 million years ago
Palynological age dating	study of fossilised seeds and pollen for age dating
Palynomorph-rich kerogen	seed and waxy, organic substance
Permian age	a period falling within the Palaeozoic age, from 280 to 248 million years ago
Recent age	the latter of the two geological epochs
Refined products	biophysical or chemical alteration of crude oil
Sedimentary section	physical characteristic of detritus sediment
Seismic data	data that is acquired by reflecting sound from underground strata and is processed to yield a picture of the sub-surface geology of an area
Shallow sedimentary section	deposits pertaining to or containing sediment
Stratigraphic test well	rock strata well
Thermal history	the history of the extent to which rock has been exposed to heat
Thermally immature	ground at early stage of maturation
Thermal metamorphism	chemical reconstitution controlled by temperature increase



Topping unit	mini-refinery that draws crude off the line and produces turbine fuel to power the station
Transform margin	point at which structural feeders, such as a ridge develops
Triassic age	first of the Mesozoic Ages. From 248 to 206 million years ago
Ufa	capital city of Bashkir State
Upstream	covers the exploration, production and transport prior to refining
Vertical maturation profiles	shows how the source rocks get more overcooked
Vitrinitic/inertinitic kerogen	group name comprising collinite and telinite

