

Registered in England and Wales number 06573154

**Frontier Resources International Plc**

**Group Annual Report and Financial Statements  
Year Ended 31 December 2013**

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# Frontier Resources International Plc

Annual Report and Financial Statements for the Year Ended 31 December 2013

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# Frontier Resources International Plc

## Officers and Advisors

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<b>Directors:</b>	Richard J "Ric" Piper (Non-Executive Chairman) Michael J "Jack" Keyes (Chief Executive Officer) John O'Donovan (Non-Executive Director) Barbara Spurrier (Executive Director)	
<b>Company secretary and registered office:</b>	Barbara Spurrier c/o Cambridge Financial Partners LLP 11 Staple Court Staple Inn Buildings London WC1V 7QH	
<b>Nominated advisor:</b>	Beaumont Cornish Limited 2 <sup>nd</sup> Floor, Bowman House 29 Wilson Street London EC2M 2SJ	
<b>Brokers:</b>	Beaufort Securities Limited 131 Finsbury Pavement London EC2A 1NT	WH Ireland Limited 11 St James's Square Manchester M2 6WH
<b>Financial PR:</b>	Yellow Jersey PR Limited 33 Stockwell Green London SW9 9HZ	
<b>Bankers:</b>	Barclays Bank plc Barclays Corporate 1 Churchill Place London E14 5HP	
<b>Auditors:</b>	UHY Hacker Young LLP Quadrant House 4 Thomas More Street London E1W 1YW	
<b>Solicitors:</b>	Marriott Harrison LLP 11 Staple Inn Court London WC1V 7QH	
<b>Registrars:</b>	Neville Registrars Neville House 18 Laurel Lane Halesowen B63 3DA	
<b>Independent Petroleum Engineers:</b>	SLR Consulting Ireland 7 Dundrum Business Park Windy Arbour Dublin 14, Ireland	Moyes & Co Inc 8235 Douglas Ave, Suite 1221, Dallas, Texas, 75225 United States
<b>Company Number</b>	06573154	

# Frontier Resources International Plc

## Officers and Advisors

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The Directors and senior management team are as follows

### Directors

*Richard J "Ric" Piper, Non-Executive Chairman*

Mr Piper qualified as a Chartered Accountant in 1977

Mr Piper has held senior finance roles in ICI, Citicorp and Logica. As Group Finance Director of engineering and design consultancy WS Atkins from 1993 to 2002, he was closely involved in its admission to the Main List in 1996. Since 2003 Mr Piper has been involved at board level and has advised on the growth and development of a number of public companies, including various admissions to AIM. From 2005 to 2008 he was Chairman of Granby Oil & Gas plc, from its admission to AIM until its sale. Mr Piper is a member of the Financial Reporting Review Panel which seeks to ensure that the provision of financial information by public and large private companies complies with relevant accounting requirements.

*Michael J "Jack" Keyes, Chief Executive Officer*

Mr Keyes has over 30 years' experience in the international oil industry specialising in exploration operations, project management and corporate management.

Mr Keyes was formerly with Petty-Ray Geophysical Company working on seismic operations in East and North Africa. In 1978, he joined Gulf Oil Corporation and worked on various exploration projects in Europe, the Middle East, North and West Africa, Southeast Asia and South America. On leaving Gulf Oil he joined Western Atlas International as project manager within the international exploration group. In 1988, he founded FRIL, and co-founded Circle Oil Plc, a company traded on the AIM market in London since 2005.

Mr Keyes completed his formal education at the University of Tulsa, Oklahoma with a Master's Degree in Exploration Geophysics.

*Barbara Spurrier, Finance Director and Company Secretary*

Mrs Spurrier is a qualified certified accountant (FCCA)

Mrs Spurrier has more than 25 years' experience in financial and accounting roles. She has experience as CFO and Company Secretary of ISDX quoted companies and as part time Finance Director for two AIM traded companies in the technology sector. She has held several non-executive director positions.

*John O'Donovan, Non-Executive Director*

Mr O'Donovan is a solicitor and a member of the Incorporated Law Society of Ireland. He obtained a BCL Degree from University College Dublin in 1972 and subsequently enrolled in the Incorporated Law Society of Ireland and was admitted as a solicitor in 1975.

Mr O'Donovan, following qualification joined Orpen Franks, a leading Irish law firm specialising in corporate law, mergers and acquisitions, banking and commercial property development. Mr O'Donovan was appointed a partner in 1980 practicing primarily in the area of commercial conveyancing and set up and headed the firm's commercial conveyancing department. In 1990 he was appointed managing partner of the firm a position which he held until 2009. As well as fulfilling the role of managing partner during this period he continued to practice as a working solicitor in the commercial conveyancing/commercial departments of the firm a role which he continues to carry out following his retirement as managing partner in 2009. Mr O'Donovan is non-executive director of a number of companies including Horwath Bastow Charleton Wealth Management, a wealth management company regulated by the Central Bank of Ireland.

# Frontier Resources International Plc

## Officers and Advisors

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### Senior management

#### *Tim Wright, Exploration Manager*

Mr Wright has over 20 years of experience in worldwide exploration operations and project management

From 1989 to 1999, Mr Wright worked in senior exploration roles with AMOCO Production Company on projects in the North Sea, Russian Federation, Kazakhstan and Azerbaijan. In 2000, he joined Occidental Oil and Gas Company in Houston, Texas and worked as a senior geophysical advisor working on new venture projects in Africa. He joined El Paso Corporation in 2005, working on various exploration and development projects offshore Brazil.

Mr Wright holds a Master's Degree in Exploration Geophysics from the University of Leeds.

# Frontier Resources International Plc

## Chairman's Statement

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2013 has been an encouraging year for establishing the foundations of the refocused business with assets in Oman and Southern Africa. Further information on Frontier's performance is set out in the Strategic Report.

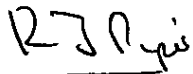
The Company listed on the London Stock Exchange's AIM Market ("AIM") in July 2013 and secured funding to initiate operations in Oman. The Group continues to evaluate its prospects in Oman, Namibia and Zambia and has hired a full time exploration manager to support the Chief Executive Officer in managing the activity for all assets.

The Board and I would like to thank Andrew Grosse, who stepped down as a Non-Executive Director in March 2014, for his contribution to the Company.

As reported to shareholders at the time of admission to AIM in July 2013 when setting out its plans, Frontier Group needs substantial financial resources to develop its assets. The Directors always expected to raise further funding in mid-2014 and accordingly the Company on 26 June 2014 conditionally issued to institutional and other investors 40,000,000 new ordinary shares at a placing price of 1.5p per Placing Share to raise £600,000 (\$1,000,000) before expenses subject to admission. The net proceeds of the Placing will provide additional working capital for the Company to progress these farm-out discussions and enable additional technical analysis on Block 38, in particular the reprocessing and interpretation of a minimum of 400 kilometers of legacy 2D seismic data over the area where the Company has identified potential presence of an Ara formation intra-salt play on the Block and to commence planning of the 3D seismic programme.

The Company anticipates funding its further exploration activity and general working capital from the proceeds of a farm-out of one or more of its interests in the second half of this year. As previously reported, the Group has already commenced discussions with industry partners to farm out an interest in its assets. Further details on going concern are set out in the Directors' report and note 3 to the financial statements and the auditors' report includes an 'emphasis of matter' in connection with the Group's current going concern position.

On behalf of the Board, I would like to thank our shareholders and our employees for their continued support.



**Ric Piper**  
Chairman

27 June 2014

# Frontier Resources International Plc

## Strategic Report

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### Financial highlights and business review

Frontier is an exploration company with exploration acreage in Oman, Namibia and Zambia. The Company is focused on Southern Africa and the Middle East where it has technical knowledge and expertise.

The Group's loss for the year after taxation was \$1,833,000 (2012: \$901,000). The basic and diluted loss per share was 1.94 cents (2012: 1.18 cents). Of the \$1,138,000 increased loss, some \$300,000 is due to listing costs and \$500,000 is due to the settlement adjustment for the Equity Swap Agreement with YA Global Master SPV Ltd. The Group also employed a full time exploration manager effective July 2013.

The Group net assets at the end of the year were \$2,176,000 (2012: \$665,000). Net cash used in operations was \$2,512,000 for the year (2012: \$1,276,000). Cash invested in exploration was \$835,000 for the year (2012: \$127,000).

During 2013, the Company raised \$476,000 (£305,000) by private placement prior to the listing on the Alternative Investment Market ("AIM"). The Initial Public Offer ("IPO") raised \$2,430,000 (£1,618,000) net of costs. Note 19 to the financial statements provides further details.

At the year end the Group had cash balances of \$366,000 (2012: \$16,000).

An overview of the Company's oil and gas assets is provided below.

#### *Oman*

Frontier's 100% owned Block 38, located in the Dhofar Region of southwest Oman, covers an area of approximately 17,425 square kilometers. A six year Exploration and Production Sharing Agreement (EPSA) was signed on 25 November 2012. Frontier is the operator. The Oman EPSA is a six-year agreement comprising two three-year phases. The approval from the Oman Government for the second three-year phase is subject to Frontier's completion of the first three-year work programme which includes:

- i Gathering and evaluating all available geological, geophysical and potential field data covering the block,
- ii Reprocessing and interpreting a minimum of 500km from the existing 2D seismic dataset using latest technology,
- iii Evaluating the use of the Controlled Source Electromagnetic method as a cost effective complement to seismic techniques,
- iv Acquiring, processing and interpreting a minimum of 500km<sup>2</sup> of wide azimuth 3D seismic data and integrating the data, and
- v Drilling one well if a drillable prospect is identified.

The Oman EPSA includes an indicative total cost of \$20 million on exploration activities in the first three-year phase. During the Period the Company evaluated the available geological, geophysical and potential field data. Following Admission to AIM, the Company started the reprocessing of older seismic data and plans to acquire aero-gravity and magnetic data. This information will then be used to design a 3D seismic survey, the results of which will lead to the drilling of a well if a suitable structure is identified. The Company will need to raise further funding in due course to implement the next stage of exploration in Oman which would comprise 3D seismic and drilling.

From the declaration of commerciality, which under the Oman EPSA means the date on which the Government of Oman approves a field development plan for the commercial discovery of crude oil or natural gas and as appropriate a gas sales agreement becomes effective, an Oman Government company will be entitled to a 25% participating interest in the Oman EPSA.

The Company selected BGP Inc., the U.S. subsidiary of the China National Petroleum Corporation, as the contractor to utilise its proprietary software package to provide high quality data processing services by re-processing selected 2D seismic data from the vintage seismic data sets on the concession. These data sets were originally acquired by previous operators on the Block that included Phillips Petroleum, BP, Petroleum

# Frontier Resources International Plc

## Strategic Report

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Development Oman and Sinopec Frontier also expects to benefit from any new developments that result from work done at BGP's recently established state-of-the art research and development center in Houston, Texas

The results of the re-processing will be integrated into the overall seismic dataset on Block 38 to come up with an interpretation that will help guide Frontier to optimise the location of a future 3D seismic survey

The Company has in first half 2014 completed the initial interpretation of available legacy 2D seismic data, both original and those data re-processed during 2013 by BGP in Houston These reprocessed data have enabled the Company to identify geologic horizons and potentially attractive exploration targets previously unseen on the original seismic

These targets, or their stratigraphic equivalents, include formations within Precambrian - Cambrian units, many of which contain hydrocarbons at the analog Khazzan - Makarem Field in central Oman currently under development by BP as presented at the Gas Arabia Summit in December 2011

In addition to the above formations there is also the potential presence of an Ara formation intra- salt play on the Block as seen after recent reprocessing of a test line Based on this encouraging information, Frontier has decided to reprocess up to an additional 400 kilometers of legacy 2D seismic data over the area where this lead was identified

There is a plan to acquire new seismic data to mature the identified leads to prospect level and accordingly the Company is hi-grading the portfolio to determine the optimal location for a 3D seismic survey

### *Namibia*

Frontier's Blocks, located in the Owambo Basin in northern Namibia, cover an area of approximately 18,933 square kilometres A two year exploration licence was granted on 20th January 2012 and extended in January 2014 for an additional two years to end January 2016 Frontier is the operator with a 90% working interest The National Petroleum Corporation of Namibia ("NAMCOR"), the Namibian National Oil Company, has a 10% carried interest in the licence

In 2013, the Company engaged Exploration Technologies Inc ("ETI") of Houston, Texas to utilize ETI's proprietary sampling system to conduct a soil gas survey across the concession, Blocks 1717 and 1817 ("the Blocks") The survey was completed early in 2014

ETI utilised custom designed metal probes to collect soil gas samples and shipped these to their Houston laboratory to analyse for C1-C4 hydrocarbon gases (Methane, Ethane, Propane, Butane) contained within the soil gas samples The samples are collected using a Global Positioning System (GPS) instruments delineated regional grid along existing roads, tracks, paths and any terrain that was accessible via a field vehicle and/or walking The objective is to allow the detailed mapping of the magnitude, distribution and composition of naturally occurring light hydrocarbon seepage over the study area

Surface geochemical prospecting has been used in the past in the western region of the Owambo basin and appears to be a viable tool for determining the potential for the presence of source rock in the eastern area of the Owambo basin where Frontier's concession is located The geochemical data acquired during the survey will be integrated with existing geologic and geophysical data to improve understanding of the hydrocarbon potential of the Blocks and to help focus on the most prospective areas for additional exploration operations

Based upon the results of this initial survey and the fact that the samples were acquired only along widely spaced roads and tracks, Frontier has in February 2014 obtained a two year extension to the licence period so that additional sampling may take place during 2014 This new soil gas data will be used to further assist in delineating potential oil-prone areas that will be high-graded for 2D seismic acquisition and the integration of pertinent geologic data

# Frontier Resources International Plc

## Strategic Report

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### *Zambia*

Frontier's Block 34 ("the Block") located in the Kafue Trough in southwestern Zambia, covers an area of approximately 6,427 square kilometers. A four year exploration licence was granted on 25 March 2011. Frontier is the operator with a 100% working interest while Metprosol, a local Zambian company, has a 10% carried interest in the licence.

In 2013, the Company completed land gravity survey and its modelling on the Block. Two profiles with a combined length of 210 kilometers were acquired during late June and early July 2013 by Symons Geophysical Company of Windhoek, Namibia with supervision by Frontier's local representative. These were subsequently modelled and interpreted by Earthfield Technology, specialists in gravity and magnetic data acquisition, modelling and interpretation, based in Houston, Texas. The modelling was undertaken to provide information on the depth to basement and the corresponding estimate of the potential sediment thickness on the Block in addition to providing a geological explanation for the various gravity responses (highs and lows) seen on the raw data.

Results of the modelling confirmed that an observed gravity low is most likely associated with a sediment accumulation much thicker than originally interpreted from the older regional gravity data over the area. This sedimentary section is estimated to be of similar thickness to the section seen in the rifts that are currently being successfully explored for hydrocarbons along the East African Rift System in Kenya, Uganda and most recently Ethiopia.

One of the more distinguishing characteristics on the two profiles is a prominent gravity high response seen towards the centre of the Block. This feature has been interpreted as an intra-rift basement high. At the southern end of the Block significant breaks in the gravity data indicate the presence of rift bounding faults.

The results and interpretation of the gravity profiles combined with the results of source rock analysis on a core sample from shallow well GS 61 located on the Block has greatly improved the Company's understanding of the potential prospectivity of this Block. Frontier is now actively planning the next phase of the exploration program which may include the acquisition of additional gravity and/or magnetic data and soil gas analysis over the entire Block.

### **Principal risks and uncertainties**

Principal risks and uncertainties are described below.

#### *Going concern*

Having made appropriate enquiries and examining those areas which could give rise to financial exposure, the directors are satisfied the Company will have sufficient financial resources to meet its future commitments and planned work programmes and to pay its liabilities for at least 12 months from the approval of the financial statements. The required working capital will be raised from a number of potential funding options including placing of shares, a strategic investor coming on-board or farm-outs of one or more of its interests during the current year. As a consequence, the directors believe that the Group will be able to manage its business risks successfully.

The directors therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further discussion on going concern is included in the Directors' report and in note 3 to the financial statements. The auditors' report includes an 'emphasis of matter' in connection with the Group's current going concern position.

#### *Reserve estimates*

There are numerous uncertainties inherent in estimating reserves and assumptions that, whilst valid at the time of estimation, may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the

# Frontier Resources International Plc

## Strategic Report

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economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping calculations and provisions for close down, restoration and environmental clean up costs. The Group utilises the expertise of third party consultants to report on its reserves estimates to increase the reliability of its estimations.

### *Exploration and new projects*

The Group may seek to identify new operations through active exploration and acquisition programmes. There is no guarantee, however, that such expenditure will be recouped or that existing oil/condensate and gas reserves will be replaced. Failure to do so could have a material and adverse impact on the Group's financial results and prospects.

### *Exploration risks*

Exploration for oil and gas is speculative and involves significant degrees of risks. Risks that prospect areas will be acquired, that they will lead to the discovery of oil or gas and financial and other resources will be secured to exploit the opportunities are uncertain.

### **Key performance indicators**

At this stage in the Group's development, the key performance indicators that the directors monitor on a regular basis are management of liquid resources (cash flows and bank balances) and also general administrative expenses, which are tightly controlled.

The Group's key non-financial performance indicators are specific to exploration and include the probability of geological success, the probability of commerciality or completion and the probability of economic success. The Group monitors its own and contractor's activities to avoid any health, safety and environmental incidents.

The share price movement during the period from the listing on AIM on 5 July 2013 to 31 December 2013 ranged from a high of 7 000p to a low of 4 175p. The share price at close on 31 December 2013 was 4 175p.

### **Future outlook**

The Group has commenced its work programme in Oman and continues with its work programmes in Zambia and Namibia. Since the year end the Group has approached industry partners with the intention of farming out an interest in each of Namibia and Zambia.

As part of this potential farm-out process the Group has established an online virtual data-room to facilitate data review by interested parties. The Group has started a similar farming in discussions for its interests in Oman Block 38.

Events after the reporting period are described in Note 26 to the financial statements.

# Frontier Resources International Plc

## Strategic Report

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### Cautionary statement

This Strategic Report contains certain forward looking statements that are subject to usual risk factors and uncertainties associated with the oil and gas exploration business. While the Directors believe the expectations reflected herein to be reasonable in light of the information available up to the time of their approval of this report, the actual outcome may be materially different owing to factors beyond the Group's control or otherwise within the Group's control but, for example, owing to a change of plan or strategy. Accordingly no reliance may be placed on the forward-looking statements.

On behalf of the Board



**Michael J Keyes**  
Chief Executive Officer

27 June 2014

# Frontier Resources International Plc

## Corporate Governance Statement

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It is the Board's policy to support the principle of good corporate governance and the code of best practice as set out in the Financial Reporting Council's UK Governance Code ('the Code') which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Company is not required to comply with the Code, however, it is recommended best practice to do so. The Board acknowledges the importance of the Code and to apply the principles outlined in the Code for corporate governance insofar as it is practical and appropriate for the Company's size.

The Group is controlled by a Board currently consisting of two executive directors and two non-executive directors. There is a clear division of responsibilities between the chairman and the chief executive officer and the Board considers the non-executive director who is chairman to be independent of management.

The directors evaluate the balance of skills, knowledge and experience on the Board when defining the role and capabilities required for new appointments.

The Board is responsible for the Group's corporate strategy, monitoring financial performance, approving capital expenditure, treasury and risk management policies. The Board meets regularly with Board meetings occurring as required (some meetings were conducted by conference call). A schedule is circulated to the directors preceding a Board meeting that consists of an agenda, matters for approval and management accounts. Formal minutes of Board meetings are produced and circulated for comment and formally approved.

Since admission to AIM in July 2013, the Board is supported by a remuneration committee, an audit committee and a nomination committee as suggested by the Code.

The Code requires the Board to review the need for an internal audit function from time to time. The Company does not consider that an internal audit function is appropriate given the current size of the business and structure of its operations.

The Board is responsible for the Group's system of internal control and reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute insurance against material misstatement or loss. The system of internal financial control comprises of controls established to provide reasonable assurance of

- i) The safeguarding of assets against unauthorised use or disposal and,
- ii) The reliability of financial information used within the business and for publication and the maintenance of proper accounting records.

In addition the key procedures on the internal financial control of the Group are as follows

- i) The Board reviews and approves budgets and monitors performance against those budgets on a monthly basis with any variance being fully investigated and,
- ii) The Group has clearly defined reporting and authorisation procedures relating to the key financial areas.

The Annual General Meeting is the principal forum for dialogue with shareholders, the Company also has a dedicated electronic communication line specifically for shareholders' enquiries.

# Frontier Resources International Plc

## Directors' Report

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The directors of Frontier Resources International Plc ("Frontier" or "the Company") are pleased to present their report together with the audited financial statements for the year ended 31 December 2013

### Principal activity

The principal activity of the Group is that of oil and gas exploration

### Results and dividends

The Group's loss for the year after taxation was \$1,833,000 (2012 \$901,000) This results in Group retained losses carried forward of \$5,098,000 (2012 \$3,265,000)

The directors do not recommend payment of any dividend (2012 nil)

### Political and charitable contributions

The Group made no charitable or political contributions during the year (2012 nil)

### Financial instruments

Details of the use of financial instruments by the Group are in note 22 to the financial statements

### Going concern

The accounts have been prepared on a going concern basis The Group made a loss of \$1.8 million during the year ended 31 December 2013 and continues to be loss making At the year end the Group had cash balances of \$366,000 and net assets of \$2,176,000

In common with many companies in the oil and gas exploration and development stages, the Group raises its cash for exploration and development programmes in discrete tranches to finance its work programme commitments

The operations of the Group are currently being financed from funds which the Company raised from private and public placing of its shares The Group is not yet revenue generating so is therefore still reliant on the continuing support from its existing and future shareholders

As reported to shareholders at the time of admission to AIM in July 2013, the Group needs substantial financial resources to develop its assets The directors always expected to raise further funding in mid-2014 and accordingly the Company has on 26 June 2014 conditionally issued to institutional and other investors 40,000,000 new ordinary shares at a placing price of 1.5p per Placing Share to raise £600,000 (\$1,000,000) before expenses subject to admission

The placing proceeds will not provide enough working capital to fund the Group's planned activities for the next 12 months from the date of approval of these financial statements The Company therefore anticipates funding its further exploration activity and general working capital from the proceeds of the intended farm-out of one or more of its interests in the second half of this year The Group has since the year-end approached industry partners with the intention of a farm-out of its interests in Zambia and Namibia and intends to start similar farm-out discussions for its interests in Oman Block 38

The Group has prepared cash flow projections reflecting the requirements of the Group's operations and exploration plans, the expected funds to be raised and the potential proceeds of any farm-ins during 2014-15 The detailed assessment indicates that the Group should be able to continue to meet its liabilities as they fall due and meet its minimum spend commitments on its licenses for a period of not less than 12 months from the date of the approval of these financial statements

Whilst the directors are confident that they are taking all the necessary steps to ensure that the funding will be available, there can be no guarantee or certainty that the funds required will become available within the foreseeable future If future funding was not to become available in an appropriate timescale, the directors would need to consider alternative strategies and an impairment review may be required in respect of the carrying value of the Group's assets

# Frontier Resources International Plc

## Directors' Report

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Material uncertainties therefore exist that may cast doubt on the Group's and Company's ability to continue as a going concern and its ability to meet its commitments and discharge its liabilities in the normal course of business and to continue to develop its license areas

Nevertheless after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that funding will be available and that the Group will have sufficient cash to fund its planned activities and to continue its operations for the foreseeable future, and at least for one year from the date of approval of these financial statements

The financial statements have, therefore, been prepared on the going concern basis. The financial statements do not contain any adjustments relating to the recoverability and classification of recorded assets that might be necessary should the Company and Group not be able to continue as a going concern

The auditors' report includes an 'emphasis of matter' in connection with the Group's current going concern position

### Subsequent events

The Group has been granted in February 2014, by the Minister of Mines and Energy in Namibia, a two year extension to its exploration licence covering onshore Blocks 1717 and 1718 in the Owambo Basin. The original licence, awarded in January 2012, is now valid until 20 January 2016

The Company has on 26 June 2014 conditionally issued to institutional and other investors 40,000,000 new ordinary shares at a placing price of 1.5p per Placing Share to raise £600,000 (\$1,000,000) before expenses subject to admission

### AIM Market ("AIM") listing

On 5 July 2013, Frontier was admitted to AIM with Tradable Instrument Display Mnemonic "FRI". The Company joined AIM in order to take advantage of AIM's profile, broad investor base, liquidity and the access it provides to institutional investors

### Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 19. The Company has one class of ordinary share which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights

Details of share based payments are set out in Note 8 to the financial statements

No person has any special rights of control over the Company's share capital and all issued shares are fully paid

### Share option scheme

In order to provide incentive for the management and key employees of the Group the directors have set up a share option scheme. Details of the scheme are set out in note 8

### Information to shareholders – website

The Company maintains a website ([www.friplc.com](http://www.friplc.com)) to facilitate the provision of information to both current and potential investors

# Frontier Resources International Plc

## Directors' Report

### Directors

The directors who held office during the year and subsequently were as follows

	Date appointed	Date resigned
Ric Piper	1 December 2012	
Jack Keyes	29 September 2008	
John O'Donovan	22 April 2008	
Andrew Grosse	1 September 2012	10 March 2014
Robert G Bonnar	7 January 2013	11 June 2013
Barbara Spurrier	6 March 2013	

With regard to the appointment and replacement of Directors, the Company is governed by its articles of association, the Companies Act and related legislation. The articles themselves may be amended by special resolution of the shareholders

### Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report

### Directors' interests

The directors who held office at 31 December 2013 and 31 December 2012 had the following interests in the ordinary shares of the Company

	31 December 2013			31 December 2012		
	Ordinary shares of		Share options of	Ordinary shares of		Share options of
	£0.01	%	£0.01	£0.01		£0.01
Ric Piper	383,333	0.3	1,500,000	-	-	-
Jack Keyes	23,693,671	21.5	750,000	23,593,671	31.2	750,000
John O'Donovan	1,600,100	1.5	3,000,000	1,500,000	2.0	3,000,000
Andrew Grosse	5,102,499	4.6	750,000	5,049,166	6.7	750,000
Barbara Spurrier	48,833	-	2,000,000	-	-	250,000

Further information on Options held by directors is provided in Note 7 to the Financial Statements

### Directors' remuneration

Salary, fees and benefits paid to the Executive and Non-Executive who held office in the year ended 31 December 2013 are set out below

	Salary & fees	Share-based payments	Benefits in Kind	Year ended 31 December 2013	Year ended 31 December 2012
	\$'000	\$'000	\$'000	\$'000	\$'000
Ric Piper	36	29	-	65	2
Jack Keyes	181	3	17	201	161
Joseph Warren	-	-	-	-	6
John O'Donovan	15	14	-	29	58
Graeme Thomson	-	-	-	-	24
Andrew Grosse	16	8	-	24	5
Robert Bonnar	7	-	-	7	-
Barbara Spurrier	29	33	-	62	-
<b>Total</b>	<b>284</b>	<b>87</b>	<b>17</b>	<b>388</b>	<b>256</b>

## Frontier Resources International Plc

### Directors' Report

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Jack Keyes receives private health cover benefit At 31 December 2013, the total amount of \$17,000 has not been paid

The Directors have voluntarily agreed to defer part of their emolument from the date of the AIM admission on 5 July 2013 until 1 October 2014 or, if earlier, the date on which the Company raises further significant funding The part deferred is CEO 62.5%, other Directors 33.0% The total amount so deferred at 31 December 2013 is \$217,000

On behalf of the Board



**Michael J Keyes**  
Chief Executive Officer

27 June 2014

## Frontier Resources International Plc

### Statement of Directors' Responsibilities

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The directors are responsible for preparing the financial statements in accordance with the Companies Act 2006 and for being satisfied that the financial statements give a true and fair view. The directors are also responsible for preparing the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. In preparing those financial statements, the directors are required to

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

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

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

#### Website publication

The directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the Group's website ([www.fr1plc.com](http://www.fr1plc.com)) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

#### Statement of disclosure to the auditors

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

UHY Hacker Young have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



**Michael J Keyes**  
Chief Executive Officer

27 June 2014

## Frontier Resources International Plc

### Independent Auditor's Report

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#### Independent auditor's report to the members of Frontier Resources International Plc

We have audited the Group and Parent Company financial statements of Frontier Resources International plc for the year ended 31 December 2013 (the "financial statements"), which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows, together with the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

#### Respective responsibilities of directors and auditors

As explained more fully under 'Statement of Directors' Responsibilities' on page 15 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the Group's affairs.

Our responsibility is to audit the financial statements in accordance with relevant law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB) Ethical Standards for auditors.

#### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

#### Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union,
- the Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a loss of US\$1.8 million during the year ended 31 December 2013 and is still incurring losses. Along with similar sized exploration and mining companies, the Company raises finance for its exploration and appraisal activities in discrete tranches.

As discussed in note 3 the Company will need to raise further funds and/or enter into farm-out arrangements over its exploration license areas in order to meet its budgeted operating and exploration costs for the next 12 months from the date of approval of these financial statements.

## Frontier Resources International Plc

### Independent Auditor's Report

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These conditions, along with other matters disclosed in note 3 indicate the existence of a material uncertainty which may cast doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result (such as impairment of assets) if the Group and Company were unable to continue as a going concern.

#### Opinion on other matter prescribed by the Companies Act 2006

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

#### Matters on which we are required to report by exception

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

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



Colin Wright (Senior Statutory Auditor)  
For and on behalf of UHY Hacker Young LLP  
Chartered Accountants  
Statutory Auditor

Quadrant House  
4 Thomas More Square  
London E1W 1YW

27 June 2014

## Frontier Resources International Plc

### Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
<b>Revenue</b>		<b>11</b>	-
<b>Cost of sales</b>		<b>(5)</b>	-
<b>Gross profit</b>		<b>6</b>	-
Administrative expenses		(849)	(786)
Share-based payments	8	(189)	(73)
AIM admission expense	5	(300)	-
Equity Swap Agreement cost	5	(498)	-
<b>Operating loss</b>	5	<b>(1,830)</b>	(859)
Finance costs	9	(3)	(1)
<b>Loss before tax</b>		<b>(1,833)</b>	(860)
Taxation credit	10	-	-
<b>Loss for the year from continuing operations</b>		<b>(1,833)</b>	(860)
Loss for the year from discontinued operations	16	-	(41)
<b>Loss for the year</b>		<b>(1,833)</b>	(901)
Exchange differences arising on translation of foreign operations		215	26
<b>Total comprehensive loss for the year</b>		<b>(1,618)</b>	(875)
<b>Loss per share (cents)</b>			
Basic and diluted – continuing operations		(1.94c)	(1 18c)
Basic and diluted – discontinued operations		-	(0 06c)
<b>Basic and diluted – total</b>	11	<b>(1.94c)</b>	(1 24c)


The loss for the current and prior years and the total comprehensive loss for the current and prior years are wholly attributable to equity holders of the Parent Company, Frontier Resources International plc

Frontier Resources International Plc

Consolidated statement of financial position

	Notes	31 December 2013 \$'000	31 December 2012 \$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	3	1
Exploration and evaluation assets	13	2,176	1,135
		<b>2,179</b>	<b>1,136</b>
<b>Current assets</b>			
Trade and other receivables	14	308	26
Restricted cash		-	750
Cash and cash equivalents		366	16
		<b>674</b>	<b>792</b>
<b>TOTAL ASSETS</b>		<b>2,853</b>	<b>1,928</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to holders of the parent</b>			
Share capital	19	1,731	1,205
Share premium	19	4,861	2,447
Share-based payment reserve		460	271
Foreign exchange reserve		222	7
Retained losses		(5,098)	(3,265)
<b>TOTAL EQUITY</b>		<b>2,176</b>	<b>665</b>
<b>Current liabilities</b>			
Trade and other payables	15	677	1,263
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,853</b>	<b>1,928</b>

These financial statements were approved and authorised for issue by the board of directors on 27 June 2014 and were signed on its behalf by

  
 Michael J Keyes  
 Director

Company Registration Number. 06573154

Frontier Resources International Plc

Company statement of financial position

	Notes	31 December 2013 \$'000	31 December 2012 \$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	12	2,264	2,222
<b>Current assets</b>			
Trade and other receivables	14	292	24
Cash and cash equivalents		323	23
		615	47
<b>TOTAL ASSETS</b>		<b>2,879</b>	<b>2,269</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to holders of the parent</b>			
Share capital	19	1,731	1,205
Share premium	19	4,861	2,447
Share-based payment reserve		460	271
Retained losses		(4,728)	(2,845)
		2,324	1,078
<b>Current liabilities</b>			
Trade and other payables	15	555	1,191
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,879</b>	<b>2,269</b>

These financial statements were approved and authorised for issue by the board of directors on 27 June 2014 and were signed on its behalf by



Michael J Keyes  
Director

Company Registration Number: 06573154

## Frontier Resources International Plc

### Consolidated statement of changes in equity

	Share Capital \$'000	Share Premium \$'000	Retained Losses \$'000	Share- based Payment Reserve \$'000	Foreign Exchange Reserve \$'000	Total Equity \$'000
<b>As at 1 January 2012</b>	<b>1,115</b>	<b>1,833</b>	<b>(2,364)</b>	<b>198</b>	<b>(19)</b>	<b>763</b>
Loss for the year from continuing operations	-	-	(860)	-	-	(860)
Loss for the year from discontinued operations	-	-	(41)	-	-	(41)
Other comprehensive loss	-	-	-	-	26	26
Issue of share capital	90	614	-	-	-	704
Issue of share options	-	-	-	73	-	73
<b>As at 31 December 2012</b>	<b>1,205</b>	<b>2,447</b>	<b>(3,265)</b>	<b>271</b>	<b>7</b>	<b>665</b>
<b>As at 1 January 2013</b>	<b>1,205</b>	<b>2,447</b>	<b>(3,265)</b>	<b>271</b>	<b>7</b>	<b>665</b>
Loss for the year	-	-	(1,833)	-	-	(1,833)
Other comprehensive income	-	-	-	-	215	215
Issue of share capital	73	404	-	-	-	477
Exercise of share options	3	10	-	-	-	13
Issue of shares on IPO	450	2,252	-	-	-	2,702
IPO costs recognised in equity	-	(252)	-	-	-	(252)
Issue of share options	-	-	-	189	-	189
<b>As at 31 December 2013</b>	<b>1,731</b>	<b>4,861</b>	<b>(5,098)</b>	<b>460</b>	<b>222</b>	<b>2,176</b>

The following describes the nature and purpose of each reserve within owners' equity

Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Retained losses	Cumulative net losses recognised in the financial statements
Share-based payment reserve	Amounts recognised for the fair value of share options granted
Foreign exchange reserve	Exchange differences on translating foreign operations

## Frontier Resources International Plc

### Company statement of changes in equity

	Share Capital \$'000	Share Premium \$'000	Retained Losses \$'000	Share-based Payment Reserve \$'000	Total \$'000
<b>As at 1 January 2012</b>	<b>1,115</b>	<b>1,833</b>	<b>(1,644)</b>	<b>198</b>	<b>1,502</b>
Loss for the year	-	-	(1,201)	-	(1,201)
Issue of share capital	90	614	-	-	704
Issue of share options	-	-	-	73	73
<b>As at 31 December 2012</b>	<b>1,205</b>	<b>2,447</b>	<b>(2,845)</b>	<b>271</b>	<b>1,078</b>
<b>As at 1 January 2013</b>	<b>1,205</b>	<b>2,447</b>	<b>(2,845)</b>	<b>271</b>	<b>1,078</b>
Loss for the year	-	-	(1,883)	-	(1,883)
Issue of share capital	73	404	-	-	477
Exercise of share options	3	10	-	-	13
Issue of shares on IPO	450	2,252	-	-	2,702
IPO costs recognised in equity	-	(252)	-	-	(252)
Issue of share options	-	-	-	189	189
<b>As at 31 December 2013</b>	<b>1,731</b>	<b>4,861</b>	<b>(4,728)</b>	<b>460</b>	<b>2,324</b>

The following describes the nature and purpose of each reserve within owners' equity

Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Retained losses	Cumulative net losses recognised in the financial statements
Share-based payment reserve	Amounts recognised for the fair value of share options granted

## Frontier Resources International Plc

### Consolidated statement of cash flows

	Notes	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Net cash used in continuing operations	20	(1,009)	(1,238)
Net cash used in discontinued operations	16	-	(38)
<b>Net cash used in operations</b>		<b>(1,009)</b>	<b>(1,276)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment	13	(3)	-
Expenditures for exploration and evaluation	13	(1,791)	(127)
Distribution from associate	13	-	27
Cash flow from sale of discontinued assets		-	360
<b>Net cash (used in)/from investing activities</b>		<b>(1,794)</b>	<b>260</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	19	2,940	704
Interest paid	9	(3)	(1)
<b>Net cash from financing activities</b>		<b>2,937</b>	<b>703</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>134</b>	<b>(313)</b>
<b>Cash and cash equivalents beginning of year</b>		<b>16</b>	<b>331</b>
Effect of foreign exchange rate changes		216	(2)
<b>Cash and cash equivalents at end of year</b>		<b>366</b>	<b>16</b>

## Frontier Resources International Plc

### Company statement of cash flows

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	Notes	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
<b>Net cash (used in)/from operating activities</b>	20	<b>(1,982)</b>	556
<b>Cash flows from investing activities</b>			
Funds paid to subsidiary		(658)	(1,520)
<b>Net cash used in investing activities</b>		<b>(658)</b>	(1,520)
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		2,940	704
<b>Net cash from financing activities</b>		<b>2,940</b>	704
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>300</b>	(260)
<b>Cash and cash equivalents beginning of year</b>		<b>23</b>	283
<b>Cash and cash equivalents at end of year</b>		<b>323</b>	23

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# Frontier Resources International Plc

## Notes to the financial statements for the year ended 31 December 2013

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### 1 General information

Frontier Resources International Plc is incorporated in the United Kingdom. The address of the registered office is given in the officers and advisors section. The nature of the Company's operations and its principal activities are set out in the Directors' report.

The functional currency of the Company is Sterling (£). The presentational currency of the Company is the US Dollar (\$) because that is the main currency of the industry in which the Group operates (being the oil and gas industry).

### 2 Adoption of new and revised International Financial Reporting Standards

The following new standards and amendments are mandatory for the first time for the Group for the financial year beginning 1 January 2013. The implementation of these standards did not have a material effect on the Group.

Standard	Description	Effective date
IFRS 13	Fair value measurement	1 January 2013
IAS 19 (Amendment 2011)	Employee benefits	1 January 2013
IFRS 7 (Amendment 2011)	Disclosures – offsetting financial assets and financial liabilities	1 January 2013

The following standards, amendments and interpretations are not yet effective and have not been early adopted. The Group does not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the periods of initial application.

Standard	Description	Effective date
IAS 32 (Amendment 2011)	Offsetting financial assets and financial liabilities	1 January 2014
IFRS 11	Joint arrangements	1 January 2014
IFRS 10	Consolidated financial statements	1 January 2014
IFRS 12	Disclosure of interest in other entities	1 January 2014
IAS 27 (Amendment 2011)	Separate financial statements	1 January 2014
IAS 28 (Amendment 2011)	Investments in associates and joint ventures	1 January 2014
IFRS 9	Financial Instruments – classification and measurement of financial assets	1 January 2015

### 3 Significant accounting policies

#### Basis of preparation

These financial statements of the Group and Company are prepared on a going concern basis, under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union, including IFRS 6 'Exploration for and Evaluation of Mineral Resources' and in accordance with the Companies Act 2006. The Parent Company's financial statements have also been prepared in accordance with IFRS and the Companies Act 2006.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which

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## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

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form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### **Basis of consolidation**

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities, and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

#### **Parent Company income statement**

The Company has taken advantage of Section 408 of the Companies Act 2006 in not presenting its own income statement. The Company's loss for the year was \$1,883,000 (2012: \$1,201,000) and is included within the consolidated statement of comprehensive income.

#### **Going concern**

The accounts have been prepared on a going concern basis. The Group made a loss of \$1.8 million during the year ended 31 December 2013 and continues to be loss making. At the year end the Group had cash balances of \$366,000 and net assets of \$2,176,000.

In common with many companies in the oil and gas exploration and development stages, the Group raises its cash for exploration and development programmes in discrete tranches to finance its work programme commitments.

The operations of the Group are currently being financed from funds which the Company raised from private and public placing of its shares. The Group is not yet revenue generating so is therefore still reliant on the continuing support from its existing and future shareholders.

As reported to shareholders at the time of admission to AIM in July 2013, the Group needs substantial financial resources to develop its assets. The directors always expected to raise further funding in mid-2014 and accordingly the Company has on 26 June 2014 conditionally issued to institutional and other investors 40,000,000 new ordinary shares at a placing price of 1.5p per Placing Share to raise £600,000 (\$1,000,000) before expenses subject to admission.

The placing proceeds will not provide enough working capital to fund the Group's planned activities for the next 12 months from the date of approval of these financial statements. The Company therefore anticipates funding its further exploration activity and general working capital from the proceeds of the intended farm-out of one or more of its interests in the second half of this year. The Group has since the year-end approached industry partners with the intention of a farm-out of its interests in Zambia and Namibia and intends to start similar farm-out discussions for its interests in Oman Block 38.

The Group has prepared cash flow projections reflecting the requirements of the Group's operations and exploration plans, the expected funds to be raised and the potential proceeds of any farm-ins during 2014-15. The detailed assessment indicates that the Group should be able to continue to meet its liabilities as they fall due and meet its minimum spend commitments on its licenses for a period of not less than 12 months from the date of the approval of these financial statements.

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## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

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Whilst the directors are confident that they are taking all the necessary steps to ensure that the funding will be available, there can be no guarantee or certainty that the funds required will become available within the foreseeable future. If future funding was not to become available in an appropriate timescale, the directors would need to consider alternative strategies and an impairment review may be required in respect of the carrying value of the Group's assets.

Material uncertainties therefore exist that may cast doubt on the Group's and Company's ability to continue as a going concern and its ability to meet its commitments and discharge its liabilities in the normal course of business and to continue to develop its license areas.

Nevertheless after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that funding will be available and that the Group will have sufficient cash to fund its planned activities and to continue its operations for the foreseeable future, and at least for one year from the date of approval of these financial statements.

The financial statements have, therefore, been prepared on the going concern basis. The financial statements do not contain any adjustments relating to the recoverability and classification of recorded assets that might be necessary should the Company and Group not be able to continue as a going concern.

The auditors' report includes an 'emphasis of matter' in connection with the Group's current going concern position.

#### ***Assets and liabilities held for sale***

Where the Company has commenced the sale of a business, any non-current assets related thereto are classified separately as held for sale in the statement of financial position. This condition is only met when the sale is highly probable, assets are available for immediate sale in current condition, and the management is committed to the sale which should be completed within one year of the classification. Liabilities directly associated with the assets classified as held for sale and expected to be included as part of the sale transactions are correspondingly also classified separately. The net assets and liabilities of a disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

#### **Investments in subsidiaries**

In its separate financial statements, the Company's investment in its subsidiaries is carried at cost less provision for any impairments.

#### **Taxation**

Income tax expense represents the sum of the current tax and deferred tax charge for the year. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's and Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end.

Deferred income taxes are provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using tax rates that have been enacted or substantially enacted and are expected to apply when the related deferred income tax asset is realised or the related deferred income tax liability is settled.

The principal temporary differences arise from depreciation or amortisation charged on assets and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised.

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## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

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to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised

#### Foreign currencies

##### *Functional and presentational currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency") which is considered by the directors to be the Pounds Sterling (£). The financial statements have been presented in US Dollars. The effective exchange rate at 31 December 2013 was £1 = US\$1.65 (2012 £1 = US\$1.62).

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Transactions in the accounts of individual Group companies are recorded at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the year end. All differences are taken to the statement of comprehensive income.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, which involves assessing whether the fulfilment of the arrangement depends on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

The classification of leases as financing or operating leases requires the Company to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards or ownership of these assets and accordingly whether the lease requires an asset and liability to be recognized on the balance sheet.

The Company leases assets, all which have been determined to be operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Financing charges are reflected in the income statement.

Rent paid on operating leases is charged to the statement of comprehensive income on a straight line basis over the term of the lease.

#### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### Revenue recognition

The Company recognizes revenue for petroleum and natural gas assets at the fair value of the consideration received or receivable when the significant risks and rewards of ownership are transferred to the buyer and it can be reliably measured and only at such time as a project becomes commercially viable and development approval is received. Prior to this stage, any production is considered test production and related revenue is capitalized net of applicable costs.

#### Financial instruments

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

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## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

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#### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise balances on bank accounts, cash in transit and cash floats held in the business. Interest bearing bank loans are recorded at the proceeds received, net of issue costs. Finance charges are accounted for on an accruals basis and charged to the statement of comprehensive income when payable.

#### *Impairment of financial assets*

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

#### *Payables, financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

#### *Equity instruments*

An equity instrument is any instrument with a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments (ordinary shares) are recorded at the proceeds received, net of direct issue costs.

#### *Payables*

Payables are recognised at fair values and classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

#### *Financial liabilities*

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

#### *De-recognition of financial liabilities*

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

#### **Property, plant and equipment**

Equipment and proven oil and gas assets are stated at cost less accumulated depreciation and accumulated impairment. Equipment is depreciated on a straight line basis over its expected useful life. The expected useful lives of equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Proven oil and gas assets are accounted for using the successful efforts method. For evaluated properties with economic values exceeding the exploration and development costs incurred after the grant of the licence, these costs, which may include geological and geophysical costs, costs of drilling exploration and development wells, costs of field production facilities, including commissioning and infrastructure costs, are capitalised. These expenditures are combined into asset groups reflecting the anticipated useful lives of individual assets and subsequently are depreciated over the expected economic lives of those asset groups. The expenditure within the asset group with a useful life equal to the producing life of the field is depleted on a unit-of-production basis.

***Impairment reviews of property, plant and equipment***

The carrying amounts of the Group's and Company's assets are reviewed at each year end and, if there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use for example, the discounted future cash flows from the estimated recoverable oil and gas reserves for proven oil and gas assets. Any impairment loss arising from the review is charged to the statement of comprehensive income under costs of sale whenever the carrying amount of the asset exceeds its recoverable amount.

A previously recognised impaired loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income and the depreciation charge adjusted prospectively.

***Decommissioning costs***

Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is made. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also created and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

***Exploration and evaluation assets***

Costs associated with exploration and evaluation are capitalised on a project-by-project basis, where a project may be a collection of geographically and geologically similar licenses. Costs capitalised include appropriate technical and directly attributable administrative expenses but not general overheads. Costs capitalised are reviewed at each reporting date to confirm that there is no indication of impairment and that drilling is still underway or is planned. If no future exploration or development activity is planned in the licence area the exploration and evaluation assets are impaired.

***Impairment reviews of exploration and evaluation assets***

The capitalised expenditures for each project are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review included confirming that exploration drilling is still underway or firmly planned or that it has been determined, or work is under way to determine, that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned, the remaining balance of capitalised expenditures for the project is written off as impairment in the consolidated statement of comprehensive income. When production commences the accumulated costs for the project are transferred from intangible exploration and evaluation assets to Proven oil and gas assets in property, plant & equipment.

***Restricted cash***

Restricted cash includes cash set aside for a specific use or future event and is not available for general operating purposes and does not form part of cash and cash equivalents.

***Ordinary shares***

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

# Frontier Resources International Plc

## Notes to the financial statements for the year ended 31 December 2013

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### Share-based payments

The Company made share-based payments to certain directors and advisers by way of issue of share options. The fair value of these payments is calculated either using the Black Scholes option pricing model or by reference to the fair value of any fees or remuneration settled by way of granting of options. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

### Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period.

There are no matters requiring significant judgement (apart from those involving estimations, which are dealt with below) other than the application of the going concern basis as disclosed separately.

Although estimates are based on management's best knowledge of current events and actions, the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Carrying value of investment in subsidiaries

In the separate financial statements of the Company, the investment in subsidiaries is periodically reviewed for impairments by management. These reviews require the use of judgements and estimates of whether there are any indications that the carrying values are recoverable.

## 4 Operating segments

In the opinion of the directors, the operations of the Group comprise one operating segment, being oil and gas exploration. The Group has exploration and evaluation licenses in Oman, Namibia and Zambia. These financial statements reflect all the activities of this single operating segment. Segments are determined by reference to the Group's internal organisation and reporting to the directors which bases its structure on products and geographical areas.

Group non-current assets are distributed as follows:

	31 December 2013	31 December 2012
	\$'000	\$'000
USA	3	1
Rest of world	2,176	1,135
<b>Total</b>	<b>2,179</b>	<b>1,136</b>

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## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

#### 5 Operating loss

The Group's operating loss has been arrived at after charging

	Year ended 31 December 2013	Year ended 31 December 2012
	\$'000	\$'000
Equity Swap Agreement cost (see a below)	498	-
AIM admission expense (see b below)	300	-
Operating lease rentals	27	194
Audit fees	28	25
Fees payable to Company's auditor for other services		
- Corporate finance services	50	41

- a The Equity Swap Agreement was entered into by the Company on 19 June 2013 with YA Global Master SPV Ltd. See note 19 for additional details. The parties had agreed to terminate the agreement early on 27 January 2014 and therefore, the difference of \$498,000 between the carrying value of the receivable and the settlement amount has been charged to the Statement of Comprehensive Income.
- b The \$300,000 AIM admission expense covers fees for advisors and direct costs such as preparation and circulation of the listing related documents.

#### 6 Employees

The average number of employees (including directors) in the Group and their remuneration was as follows

		Year ended 31 December 2013	Year ended 31 December 2012
Number of employees	No	7	4
Wages, salaries and fees	\$'000	425	202

Directors' remuneration comprises

	Year ended 31 December 2013	Year ended 31 December 2012
	\$'000	\$'000
Executive director salaries	210	150
Non-executive directors' fees	74	44
Social security contributions	16	-
Directors' share-based payments	87	62
<b>Total</b>	<b>387</b>	<b>256</b>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. These are considered to be the directors of the Company and so key management remuneration is as disclosed above.

The Group does not operate a pension plan for directors or employees.

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

#### 7 Directors' share options

None of the share option grants have ever been exercised. Details of outstanding share options as at 31 December 2013 are as follows.

	As at 1 January 2013	Granted/ (Lapsed) in 2013	Exerc -ised	As at 31 December 2013	Exercise Price (pence)	Date of Grant	Earliest Exercise Date	Expiry Date
M J Keyes	250,000	-	-	250,000	5.5	14/10/10	14/10/11	14/10/20
M J Keyes	250,000	-	-	250,000	5.5	14/10/10	14/10/12	14/10/20
M J Keyes	250,000	-	-	250,000	5.5	14/10/10	14/10/13	14/10/20
J O'Donovan	1,000,000	-	-	1,000,000	5.5	14/10/10	14/10/11	14/10/20
J O'Donovan	1,000,000	-	-	1,000,000	5.5	14/10/10	14/10/12	14/10/20
J O'Donovan	1,000,000	-	-	1,000,000	5.5	14/10/10	14/10/13	14/10/20
A Grosse	250,000	-	-	250,000	7.5	07/07/12	07/07/13	07/07/22
A Grosse	250,000	-	-	250,000	7.5	07/07/12	07/07/14	07/07/22
A Grosse	250,000	-	-	250,000	7.5	07/07/12	07/07/15	07/07/22
R Piper	-	500,000	-	500,000	6.0	05/7/13	05/7/14	05/07/23
R Piper	-	500,000	-	500,000	6.0	05/7/13	05/7/15	05/07/23
R Piper	-	500,000	-	500,000	6.0	05/7/13	05/7/16	05/07/23
B Spurrier	250,000	-	-	250,000	5.5	15/10/10	15/10/12	15/10/22
B Spurrier	-	583,333	-	583,333	6.0	05/7/13	05/7/14	05/07/23
B Spurrier	-	583,333	-	583,333	6.0	05/7/13	05/7/15	05/07/23
B Spurrier	-	583,334	-	583,334	6.0	05/7/13	05/7/16	05/07/23

#### 8 Share options and share-based payments

The Company grants share options at its discretion to directors, management and advisors. Share options are granted with vesting periods of between one and three years from the date of grant. Should the options remain unexercised after a period of ten years from the date of grant the options will expire. Options are exercisable at a price equal to the Company's quoted market price on the date of grant.

Details for the share options granted, exercised, lapsed and outstanding at the year end are as follows:

	As at 31 December 2013		As at 31 December 2012	
	Number of share options	* WAEP (pence)	Number of share options	* WAEP (pence)
Outstanding at beginning of year	7,750,000	5.3	7,500,000	5.6
Granted during the year	4,250,000	6.0	750,000	7.5
Forfeited/lapsed during the year	(650,000)	5.5	(500,000)	6.5
Exercised during the year	(180,770)	5.9	-	-
Outstanding at end of the year	11,169,230	5.8	7,750,000	5.7
Exercisable at end of the year	6,419,230	5.6	5,550,000	5.3

\* WAEP is Weighted Average Exercise Price

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

#### *Fair value of share options*

Options were priced using an option pricing model including the quoted market value of the share price and assumptions for share price volatility and dividends. Both remained constant from the date of listing in January 2009 to 31 December 2013. Expected volatility for the past grants have been based on the Frontier Resources International plc share price over the 12 month period.

It is assumed that all options will be exercised.

		Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Grant date share price (pence)	Pence	6.0	7.5
Exercise price (pence)	Pence	6.0	7.5
Expected volatility		6%	44%
Option life		10 years	10 years
Charge for share based payments	\$'000	189	73
Weighted average fair value of share options grant	Pence	9.0	9.1
Quoted share price at time of grant	Pence	6.0	5.3
	Cents	9.1	8.4
Quoted share price - high	Pence	9.50	9.25
Quoted share price - low	Pence	4.125	5.125

#### Unexercised warrants

Issue date	Exercise price	Number	Exercisable	Expiry date
05/07/2013	6.0p	1,100,555	Any time before expiry	05/07/2018
05/07/2013	6.0p	1,440,000	Any time before expiry	05/07/2018
05/07/2013	6.0p	416,666	Any time before expiry	05/07/2016

#### 9 Finance costs

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Unwinding of discount of provision for decommissioning	-	1
Bank charges	3	-
	3	1

#### 10 Taxation

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
<b>Corporation tax</b>		
Current corporation tax	-	-
<b>Deferred tax</b>		
Deferred tax credit – discontinued operations (note 16 & 18)	-	-
Corporation tax is calculated at following rates	23%	24%

# Frontier Resources International Plc

## Notes to the financial statements for the year ended 31 December 2013

Corporation tax is calculated at above stated rates on the estimated taxable profit for the year. The Group's effective tax rate differs from the theoretical amount that would arise using the UK domestic corporation tax rate applicable to losses of the consolidated companies as follows

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Loss before tax on ordinary activities	(1,833)	(901)
Corporation tax calculated at rate applicable for year	(422)	(216)
Effect of overseas and other taxes at different rates	1	10
Expenses not deductible for tax purposes	61	-
Effect of unused tax losses carried forward	360	206
Effect of deferred tax movements	-	17
<b>Taxation credit recognised in income statement in discontinued operations (note 16)</b>	-	-
Effective percentage tax rate for year	0%	0%

The Group has incurred tax losses for the year and therefore a corporation tax charge does not arise

The potential benefit of these taxation losses calculated at the rates of tax prevailing in the countries in which the losses were incurred has not been recognised as a deferred tax at the year end dates as the recovery of this benefit is dependent on the future profitability of Group entities, the timing of which cannot be reasonably foreseen

Tax losses may be carried forward with no time limit. The amount of cumulative tax losses and the potential deferred tax asset are summarised below

	Group		Company	
	31 December 2013 \$'000	31 December 2012 \$'000	31 December 2013 \$'000	31 December 2012 \$'000
Cumulative tax losses	4,230	2,103	2,960	1,025
Unrecognised deferred tax asset related to the losses	911	504	592	236

### 11 Loss per share

The basic loss per share has been calculated using the loss for the year and the weighted average number of ordinary shares outstanding during the year, as follows

	Year ended 31 December 2013	Year ended 31 December 2012
Basic		
Loss attributable to shareholders of the Company (\$'000)	(1,833)	(901)
Weighted average number of ordinary shares	94,563,612	72,525,904
<b>Basic loss per share (cents)</b>	<b>(1.94c)</b>	<b>(1.24c)</b>

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

Weighted average number of ordinary shares allowing for the exercise of options	<b>100,347,362</b>	78,075,904
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The Company issued share options in 2012 and 2013. The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basic loss per share, thus being anti-dilutive.

#### 12 Investments in subsidiary undertakings

The Company operates each of its regional oil and gas assets through special purpose 100% owned subsidiary undertakings that are funded by equity and intercompany funding arrangements with the Company.

The principal activity of each subsidiary is that of oil and gas exploration. Frontier Resources International Inc, following the disposal of its oil and gas assets in 2012, provides technical and management services.

The subsidiaries are as follows:

	Equity interest	Place of business	Date & country of incorporation	
Frontier Resources International Inc	100%	U S A	24 Feb 1989	U S A
Frontier Resources Oman Ltd	100%	Oman	9 May 2011	U K
Frontier Resources Namibia Ltd	100%	Namibia	2 August 2011	U K
Frontier Resources Zambia Ltd	100%	Zambia	7 November 2011	U K

The Company's investments in subsidiary undertakings is as follows:

Company	31 December 2013	31 December 2012
<b>Cost</b>		
At 1 January	3,426	1,906
Amounts advanced to subsidiaries	658	1,520
<b>At 31 December</b>	<b>4,084</b>	<b>3,426</b>
<b>Provisions</b>		
At 1 January	(1,204)	(604)
Impairment (see below)	(616)	(600)
<b>At 31 December</b>	<b>(1,820)</b>	<b>(1,204)</b>
<b>Carrying value</b>	<b>2,264</b>	<b>2,222</b>

The directors have assessed the carrying value of the investment in Frontier Resources International Inc in the accounts of the Company following the disposal of its assets and have impaired it in 2013 by \$616,000 (2012 \$600,000). The amounts due from the subsidiaries have no fixed repayment terms but are repaying in more than one year.

# Frontier Resources International Plc

Notes to the financial statements for the year ended 31 December 2013

## 13 Non-current assets

### a) Property, plant and equipment

Group	Computer Equipment \$'000	Proven Oil and Gas Assets \$'000	Total \$'000
<b>Cost</b>			
At 1 January 2012	6	688	694
Disposal in 2012	-	(688)	(688)
At 31 December 2012	6	-	6
Additions in 2013	3	-	3
<b>At 31 December 2013</b>	<b>9</b>	<b>-</b>	<b>9</b>
<b>Impairment</b>			
At 1 January 2012	-	(140)	(140)
Impairment loss in 2012	-	(93)	(93)
Disposal	-	233	233
At 31 December 2012	-	-	-
Impairment loss in 2013	-	-	-
Disposal	-	-	-
<b>At 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Depreciation and depletion</b>			
At 1 January 2012	(4)	(273)	(277)
Charge for 2012	(1)	(37)	(38)
Disposal	-	310	310
At 31 December 2012	(5)	-	(5)
Charge for 2013	(1)	-	(1)
Disposal	-	-	-
<b>At 31 December 2013</b>	<b>(6)</b>	<b>-</b>	<b>(6)</b>
<b>Carrying value</b>			
At 31 December 2012	1	-	1
<b>At 31 December 2013</b>	<b>3</b>	<b>-</b>	<b>3</b>

The impairment charge in 2012 relates to provisions against the Group's carrying value of its US producing oil and gas assets and the prior year

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

#### 13 Non-current assets (continued)

##### b) Exploration and evaluation assets

Group	Total \$'000
<b>Cost</b>	
At 1 January 2012	258
Additions in 2012	877
At 31 December 2012	1,135
Additions in 2013	1,041
<b>At 31 December 2013</b>	<b>2,176</b>
<b>Carrying value</b>	
At 31 December 2012	1,135
<b>At 31 December 2013</b>	<b>2,176</b>

The amount of capitalised exploration and evaluation expenditure at 31 December 2013 was \$2,176,000 of which \$1,163,000 related to the Group's Oman licence, \$812,000 related to the Group's Namibian licence and \$201,000 related to the Group's Zambian licence

The directors have assessed the value of those intangible assets, and in their opinion, based on a review of the expiry dates of licences, expected available funds and the intention to continue exploration and evaluation, no impairment is necessary

The Namibia licence that was granted for an initial two year period from 20 January 2012 for blocks, 1717 and 1817 in the Owambo Basin covering approximately 18,000 square kilometres has been extended in January 2014, by the Minister of Mines and Energy in Namibia, for a further two years to 20 January 2016

The Zambia licence was awarded, jointly with local partner, Metprosol, in March 2011 for a four year period and covers Block 34 in the Kafue Trough 150 kilometres southwest of the capital Lusaka for an area of approximately 5,888 square kilometres Frontier is the operator with a 90% working interest while Metprosol, a local Zambian company, has a 10% carried interest in the licence

The Exploration and Production Sharing Agreement (EPSA) was signed in October 2012 with the Government of the Sultanate of Oman for a 100% interest in Block 38 The EPSA is a six year agreement comprising two three year phases The Block covers an area of 17,425 square kilometers and is located in the Dhofar region of southwest Oman in the southern part of the Rub Al Khali Basin The Block has only three wells drilled and is considered prospective for oil and gas given the production from the nearby Block 6 which is operated by Petroleum Development Oman

## Frontier Resources International Plc

Notes to the financial statements for the year ended 31 December 2013

### 13 Non-current assets (continued)

#### c) Investment in associate

Group	Year ended	Year ended
	31 December	31 December
	2013	2012
	\$'000	\$'000
At 1 January	-	200
Additions	-	-
Distributions received	-	(27)
Share of associate's profit	-	104
Disposal in 2012	-	(277)
At 31 December	-	-

The Company's subsidiary, Frontier Resources International Inc ("FRII"), acquired on 20 March 2009 the 49.5% interest in the capital of Bison Investments II Limited ("Bison"), a Texas Limited Partnership which holds a portfolio of producing oil and gas properties in Texas, USA. FRII and Gardner Energy Corporation, a related party, each have a 50% interest in Repetrol LLC, the General Partner of Bison, which has exclusive management powers over the business and affairs of Bison and holds a 1% interest in Bison. The investment was disposed of with the sale of the US assets effective 31 July 2012.

Summarised financial information for the associate in 2012 is set out below

	Year ended	Year ended
	31 December	31 December
	2013	2012
	\$'000	\$'000
<b>Aggregated amounts relating to associate</b>		
Total assets	-	-
Total liabilities	-	-
Net assets of associate	-	-
<b>Groups share of associate's net assets</b>	-	-
<b>Profit and loss</b>		
Total revenue for year	-	114
Profit for the year	-	208
<b>Group's share of associate's profit (note 16)</b>	-	104

# Frontier Resources International Plc

## Notes to the financial statements for the year ended 31 December 2013

### 14 Trade and other receivables

	Group		Company	
	31 December 2013 \$'000	31 December 2012 \$'000	31 December 2013 \$'000	31 December 2012 \$'000
Trade receivables	-	-	-	-
Equity Swap Loan (see below)	257	-	257	-
Prepayments	34	17	20	15
Other receivables	17	9	15	9
	<b>308</b>	<b>26</b>	<b>292</b>	<b>24</b>
Average credit period granted on sales in days	n/a	n/a	n/a	n/a

All amounts are due within three months. No amounts are past due.

On 19 June 2013 the Company entered into an Equity Swap Agreement with YA Global Master SPV Ltd. The terms of the Equity Swap Agreement as disclosed in note 19. As at 31 December 2013, the Company in recognition of the parties' agreement to terminate this arrangement early on 27 January 2014, has adjusted the carrying amount of the receivable to the settlement amount and has charged to the Statement of Comprehensive Income an impairment of \$497,795 as disclosed in note 5.

### 15 Trade and other payables

	Group		Company	
	31 December 2013 \$'000	31 December 2012 \$'000	31 December 2013 \$'000	31 December 2012 \$'000
Trade payables	95	191	83	190
Director's current account	223	206	153	135
Licence fee payable	-	756	-	756
Accruals	359	110	319	110
	<b>677</b>	<b>1,263</b>	<b>555</b>	<b>1,191</b>
Average credit period taken on purchases in days	80	80		

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs and are payable within 3 months.

The Director's current account relates to Michael J Keyes and represents in part the distribution of net current assets of FRIL immediately prior to its acquisition. As part of the share purchase of FRIL, the Company agreed to collect the net current assets prior to acquisition on behalf of the vendor, Michael J Keyes, a director of the Company. The director's current account is non-interest bearing and, although repayable on demand, the director has confirmed the amount will not be called before 30 June 2014.

In 2012 the Licence fee payable was due in respect of the Oman licence. An amount of \$750,000 was held as restricted cash as at 31 December 2012. In January 2013, the licence fees were settled.

Included in Accruals at 31 December 2013 is an amount of \$217,000 (2012 Nil) representing the deferral of Directors remuneration. The Directors voluntarily agreed to defer part of their emolument from the date of

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

the AIM admission on 5 July 2013 until 1 October 2014 or, if earlier, the date on which the Company raises further significant funding. The part deferred is CEO 62.5%, other Directors 33.0%.

The Directors consider that the carrying amount of trade payables approximates their fair value.

#### 16 Discontinued operations

In the prior year, the Company completed the sale process for its US oil properties that was effective 31 July 2012 and therefore it reclassified both non-current assets and liabilities as held for sale. The consolidated statement of financial position for the year 2012 shows these assets and liabilities for the discontinued operations separately.

Non-current assets are classified separately as held for sale in the statement of financial position when their carrying amount will be recovered through a sale rather than continuing use. This condition is only met when the sale is highly probable, assets are available for immediate sale in current condition, and the management is committed to the sale which should be completed within one year of the classification. Liabilities directly associated with the assets classified as held for sale and expected to be included as part of the sale transactions are correspondingly also classified separately. Property, plant and equipment once classified as held for sale are not subject to depreciation or amortisation. The net assets and liabilities of a disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The profit or loss and net cash flow from assets held for sale is analysed below.

<b>Loss for discontinued operations</b>	Notes	<b>2013</b> <b>\$'000</b>	<b>2012</b> <b>\$'000</b>
Revenue	4	-	53
Cost of sales			
Impairment of oil and gas assets		-	(93)
Depletion of oil and gas assets		-	(37)
Other cost of sales		-	(54)
Total cost of sales		-	(184)
Gross loss		-	(131)
Other income		-	4
Administrative expenses		-	(18)
Operating loss		-	(145)
Share of associate's loss	13	-	104
Loss before tax		-	(41)
Taxation credit	10 & 18	-	-
<b>Loss for the year</b>		<b>-</b>	<b>(41)</b>

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

Cash flows of discontinued operations	2013 \$'000	2012 \$'000
Loss for the year	-	(41)
Adjustments for		
Depreciation of plant and equipment	-	2
Depletion of oil and gas assets	-	37
Impairment loss of oil and gas assets	-	93
Share of associate's (profit)	-	(104)
Increase in trade and other receivables	-	-
Increase in trade and other payables	-	6
Decrease of provisions	-	(44)
Taxation credits taken to income	-	-
Profit on disposal of fixed assets	-	13
<b>Net cash used in discontinued operations</b>	<b>-</b>	<b>(38)</b>

#### 17 Provision for decommissioning

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
At 1 January	-	44
Change of estimates	-	-
Unwinding of discount and effect of changes in discount rate	-	1
Disposal of US oil & gas assets	-	(45)
<b>At 31 December</b>	<b>-</b>	<b>-</b>

The provision for decommissioning represents the present value of the asset retirement obligations associated with the Group's future abandonment of oil and gas properties. The provision for decommissioning is estimated after taking into account of inflation, years to abandonment and an appropriate discount rate. The timing of the economic outflows relating to this provision is uncertain but is not due within one year of the year end.

Actual decommissioning costs will ultimately depend upon future market prices for the decommissioning work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain. The actual amounts paid for decommissioning may ultimately vary significantly from the provision at the year ends requiring potentially material adjustments to the carrying value of the obligations.

The provision for decommissioning has been classified separately with liabilities held for sale on the statement of financial position (note 16) for 2010 and 2011. In 2012 the balance was disposed together with the US assets effective 31 July 2012.

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

#### 18 Deferred tax liability

Deferred tax is calculated in full on the fair value uplift on business combinations at the prevailing tax rate that relates to the acquired business assets of 34% (the US tax rate) The movement on the deferred tax account is as shown below

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
At 1 January	-	75
Deferred tax credited to the income statement	-	-
Eliminated on disposal	-	(75)
<b>At 31 December – discontinued operations (note 16)</b>	<b>-</b>	<b>-</b>

Deferred tax liabilities were recognised in respect of business combinations entered into by the Group The release of deferred tax to the income statement represents the deferred tax effect of the impairment of fair value of the tangible fixed assets acquired with the subsidiary The deferred tax liabilities held for sale have been classified separately on the statement of financial position (note 16)

Deferred tax assets in respect of unutilised tax losses have not been recognised at the year end since their recovery is uncertain during the foreseeable future based on the projected future profits

Tax losses may be carried forward with no time limit

#### 19 Share capital

##### *Issued share capital*

The issued share capital was as follows

Company	Ordinary Shares Number	Share Capital \$'000	Share Premium \$'000
At 1 January 2012	69,653,199	1,115	1,833
Issue of share capital	5,585,140	90	614
At 31 December 2012	75,238,339	1,205	2,447
Issue of share capital during the year	4,636,396	73	404
Issue of new shares on IPO – July 2013	30,000,000	450	2,000
Exercise of options	180,770	3	10
<b>At 31 December 2013</b>	<b>110,055,505</b>	<b>1,731</b>	<b>4,861</b>

The Company has one class of ordinary shares which carry no right to fixed income Details of the Group's share options in issue are shown in note 8

During the year to 31 December 2013 the following share transactions are reflected in the table above

- A capitalisation of 232,096 shares
- An issue of 1,750,000 shares as fully paid up on 7 January 2013 at a price of 8 0p per share
- An issue of 1,526,300 shares as fully paid up on 31 January 2013 at a price of 8 0p per share
- An issue of 30,000,000 shares as fully paid up on 5 July 2013 by listing on the London Stock Exchange Alternative Investment Market at a price of 6 0p per share

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

- An issue of 1,128,000 shares on 5 July 2013 at an issue price of 5 Op per share as fully paid in lieu of commission
- An issue of 80,700 shares on 6 June 2013 at a price of 6 5p per share as fully paid as a result of the exercise of share options by a former director of the Company
- An issue of 100,000 shares on 14 June 2013 at a price of 5 5p per share as fully paid as a result of the exercise of a share option on behalf of the estate of a former director of the Company

#### Equity Swap

On 19 June 2013, the Company entered into an Equity Swap Agreement with YA Global Master SPV. Under the Equity Swap Agreement, which was conditional on Admission, the Company agreed to make a swap payment to YA Global for £500,000 (the "Swap Payment") and to grant a warrant to YA Global to subscribe for 416,666 Shares (see below), exercisable at the Placing Price and which must be exercised within three years of the date of Admission. In return, YA Global had agreed to make 15 monthly settlement payments of £33,333 each to the Company, subject to adjustment to reflect the price of the Company's Shares at each agreed settlement period end. Each such net monthly payment would be adjusted, either upwards or downwards, based on a formula related to the difference, if any, between the prevailing market price (as defined in the Equity Swap Agreement) of the Company's Shares in any given month and an agreed benchmark price of £0.066 per share (a 10% premium to the Placing Price). Save for a maximum of 416,666 Shares to be issued on exercise of the warrant as described above, no further Shares under any circumstances would be issued to YA Global under the Equity Swap Agreement. Accordingly, the funds received by the Company in respect of the Equity Swap Agreement are dependent on the future price performance of the Company's Shares. YA Global and its connected parties further covenanted that they would not hold any short position in the Company's Shares. The Company gave YA Global customary covenants and warranties under the Equity Swap Agreement and YA Global had the right to terminate the Equity Swap Agreement and accelerate the payments due under it in certain circumstances. The agreement was agreed to be terminated with effective date 27 January 2014.

On 27 January 2014, Frontier Resources International Plc received a net amount of \$256,481 from YA Global Master SPV Ltd, in full and final settlement of the Equity Swap Agreement. The difference of \$468,000 between the valuation of the receivable amount at 31 December 2013 and the net settlement amount of \$256,481 has been charged to the Statement of Comprehensive Income as disclosed in note 5.

Separately YA Global had agreed to subscribe to 8,333,325 of the Company's Shares at the placing price, conditional on Admission. These shares were conditionally placed with institutional investors also on 27 January 2014.

#### 20 Notes to the statement of cash flows

Group	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Cash from operating activities		
Operating loss	(1,830)	(859)
Adjustments for		
Other non cash items	(1)	-
Depreciation of plant and equipment	1	1
Restricted cash	750	(750)
(Increase)/decrease in trade and other receivables	(282)	26
Increase in trade and other payables	164	271
Share-based payments	189	73
<b>Net cash used in operating activities</b>	<b>(1,009)</b>	<b>(1,238)</b>

# Frontier Resources International Plc

## Notes to the financial statements for the year ended 31 December 2013

Company	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
<b>Cash from operating activities</b>		
Operating loss	(1,883)	(1,201)
Adjustments for		
Impairment of Investment in subsidiary (note12)	616	600
Other non cash items	(1)	42
Depreciation of plant and equipment	1	1
(Increase)/decrease in trade and other receivables	(268)	(3)
(Decrease)/increase in trade and other payables	(636)	1,044
Share-based payments	189	73
<b>Net cash used in operating activities</b>	<b>(1,982)</b>	<b>556</b>

### 21 Related party transactions

#### Intercompany transactions

Balances and transactions between the Company and its subsidiaries, which are a related party, have been eliminated on consolidation and mainly comprise amounts lent by the Company to the subsidiaries (note 13)

#### Transactions with associate

Transactions and the relationships between the Group and its associate are disclosed in note 13

#### Compensation and other payments to key management personnel (including directors)

The remuneration of the directors, who were the key management personnel of the Group in 2013, is set out below in aggregate for each of the categories specified in IAS 24, 'Related Party Disclosures'

	Year ended 31 December 2013 \$'000	Year ended 31 December 2012 \$'000
Short term employment benefits	198	194
Share-based payments	36	62
	<b>234</b>	<b>256</b>
Consultancy fees	40	-
Service fees	83	84
	<b>357</b>	<b>340</b>

The consultancy fees for finance management services were paid to Cambridge Financial Partners LLP, The service fees were paid to Cambridge Financial Partners LLP and Oloco Limited. Barbara Spurrier (appointed a Director of the Company in 2013) has a financial interest in both companies. Amounts payable at year end and included in trade payables and accruals are \$5,000 (2012 \$4,000)

#### Balance owing on Director's current account

The Group owes Michael J Keyes, the CEO at 31 December 2013 a balance of \$223,000 (2012 \$206,000) which is unsecured and will be settled in cash. No guarantees have been given or received.

In addition, the Group owes Michael J Keyes \$17,000 for benefits in kind.

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

#### Balance owing on Directors' deferred fees

The Directors have voluntarily agreed to defer part of their emolument from the date of the AIM admission on 5 July 2013 until 1 October 2014 or, if earlier, the date on which the Company raises further significant funding. The part deferred is CEO 62.5%, other Directors 33.0%. The total amount so deferred at 31 December 2013 is \$217,000 (2012 Nil).

#### 22 Financial instruments and financial risk factors

The carrying amounts of the financial instruments are set out below. Details of the significant accounting policies including the criteria for recognition, the basis of measurement and the bases for recognition of income and expense for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

	Group		Company	
	31	31	31	31
	December	December	December	December
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>				
Loans and receivables (including cash and cash equivalents)	672	792	615	47
	672	792	615	47
<b>Financial Liabilities</b>				
Payables and borrowings	677	1,263	555	1,191
	677	1,263	555	1,191

#### Derivatives

The Group and Company have no derivative financial instruments.

#### Fair values

The directors consider that the carrying amounts of financial assets and financial liabilities approximate their fair values.

#### Financial risk factors

The Group has exposure to a number of different financial risks arising from its business operations including market risks relating to commodity prices, foreign currency exchange rates, interest rates, credit exposures and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The directors determine, as required, the degree to which it is appropriate to use financial instruments or other hedging contracts or techniques to mitigate risk. The main risk affecting such instruments is foreign currency risk which is discussed below. During the year ended 31 December 2013 the Company entered into an Equity Swap Agreement with YA Global as disclosed that has been adjusted to its final settlement amount at the year-end (note 19). The transaction was a cash flow hedging arrangement. Throughout the year ending 31 December 2012 no trading in financial instruments was undertaken and the Group did not have any derivative or hedging instruments.

## Frontier Resources International Plc

Notes to the financial statements for the year ended 31 December 2013

### **Market risk**

Market risk is the risk or uncertainty arising from possible market movements and their impact on the performance of the business and the value of the assets, liabilities or expected cash flows. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

### **Foreign currency risk**

Foreign currency exchange rates could impact the results of the Group as well as the future cash flows and values of its financial instruments. The Group undertakes transactions denominated in foreign currencies (other than the functional currency of the Company, £ Sterling), with exposure to exchange rate fluctuations.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities were

	<b>Group</b>		<b>Company</b>	
	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>
	<b>December</b>	<b>December</b>	<b>December</b>	<b>December</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>				
Sterling	621	798	615	47
US Dollars	53	(6)	-	-
	<b>674</b>	<b>792</b>	<b>615</b>	<b>47</b>
<b>Financial Liabilities</b>				
Sterling	661	1,261	555	1,191
US Dollars	16	2	-	-
	<b>677</b>	<b>1,263</b>	<b>555</b>	<b>1,191</b>
Impact of a 10 per cent change in the sterling/dollar exchange rate, if all other variables were constant, on reported losses with a corresponding impact on net assets	(7)	(47)		

### **Interest rate risk**

The Group is exposed to interest rate risk because the Group borrows and deposits funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate cash deposits and borrowings.

The losses recorded by both the Group and the Company for the year ended 31 December 2013 would not materially increase/decrease if interest rates had been significantly higher/lower and all other variables were held constant.

### **Credit risk**

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. The Group seeks to limit credit risk on liquid funds through trading only with counterparties that are banks with high credit ratings assigned by international credit rating agencies.

The Group's principal financial assets are bank balances, cash, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. Receivables are regularly monitored and assessed for recoverability. The Group has no significant concentration of credit risk as exposure is spread over a number of customers.

## Frontier Resources International Plc

### Notes to the financial statements for the year ended 31 December 2013

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the year-end was

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables excluding prepayments	274	759	272	9
Cash and cash equivalents	366	16	323	23
	<b>640</b>	<b>775</b>	<b>595</b>	<b>32</b>

#### Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and putting in place programmes for raising capital, maintaining adequate banking facilities and managing short-term surplus funds in bank deposits.

In managing its capital, the Group's primary objective is to maintain a sufficient funding base to enable working capital, exploration commitments and strategic investment needs to be met and therefore to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders. In making decisions to adjust its capital structure to achieve these aims, through new share issues, the Group considers not only its short term position but also its long term operational and strategic objectives.

The capital structure of the Group currently consists of cash and cash equivalents and equity comprising issued capital, reserves and retained earnings as disclosed in note 19 and the statement of changes in equity. The Group is not subject to any externally imposed capital requirements.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest due repayment dates. The Group has no finance debt.

	Year ended 31 December 2013		Year ended 31 December 2012	
	Non interest bearing	Finance debt	Non interest bearing	Finance debt
	\$'000	\$'000	\$'000	\$'000
<b>Group</b>				
Within 6 months	677	-	1,057	-
6 months to 1 year	-	-	-	-
Over 1 year	-	-	206	-
	<b>677</b>	<b>-</b>	<b>1,263</b>	<b>-</b>
<b>Company</b>				
Within 6 months	555	-	1,057	-
6 months to 1 year	-	-	-	-
Over 1 year	-	-	134	-
	<b>555</b>	<b>-</b>	<b>1,191</b>	<b>-</b>

## Frontier Resources International Plc

Notes to the financial statements for the year ended 31 December 2013

### 23 Obligations under operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are

	Group		Company	
	31 December 2013 \$'000	31 December 2012 \$'000	31 December 2013 \$'000	31 December 2012 \$'000
No later than 1 year	12	156	-	-
Less than 1 year, and not later than 5 years	-	17	-	-
Later than 5 years	-	-	-	-

### 24 Exploration and evaluation commitments

The Group does not have any exploration or work programme commitments as the Group has the right to withdraw from its license areas at any stage. Its planned expenditure for the near term is as follows

	Group		Company	
	31 December 2013 \$'000	31 December 2012 \$'000	31 December 2013 \$'000	31 December 2012 \$'000
No later than 1 year	500	3,256	-	-
More than 1 year, and not later than 5 years	20,000	17,324	-	-
Later than 5 years	-	-	-	-
To be incurred in Rest of World	20,500	20,580	-	-

### 25 Contingent liabilities

Due to the nature of the Group's business, some contamination of oil and gas properties in which the Group has an interest in is possible. Environmental site assessments of the properties would be necessary to adequately determine remediation costs, if any. The directors do not consider the amounts that would result from any environmental site assessments to be significant to the financial position or results of operations of the Group. Accordingly, except for the provision made against decommissioning costs in 2012 (note 17), no further provision for potential remediation costs is required.

### 26 Subsequent events

The Group has been granted in February 2014, by the Minister of Mines and Energy in Namibia, a two year extension to its exploration licence covering onshore Blocks 1717 and 1718 in the Owambo Basin. The original licence, awarded in January 2012, is now valid until 20 January 2016.

The Company has on 26 June 2014 conditionally issued to institutional and other investors 40,000,000 new ordinary shares at a placing price of 1.5p per Placing Share to raise £600,000 (\$1,000,000) before expenses subject to admission.

### 27 Control

The Company is under the control of its shareholders and not any one party.