



Exillon Energy plc
ANNUAL REPORT 2010

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Exillon Energy is a British listed independent oil producer with assets in two oil-rich regions of Northern Russia: Exillon TP in Timan-Pechora and Exillon WS in West Siberia. Exillon Energy plc is incorporated in the Isle of Man, with an operational centre in Urai, Russian Federation.

This document may contain forward-looking statements concerning the financial condition and results of operations of the Group. Forward-looking statements are statements of future expectations that are based on the management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. No assurances can be given as to future results, levels of activity and achievements and actual results, levels of activity and achievements may differ materially from those expressed or implied by any forward-looking statements contained in this report. The Company does not undertake any obligation to update publicly or revise any forward-looking statement as a result of new information, future events or other information.

GROUP HIGHLIGHTS

Corporate – FTSE promotion

- |||| Admitted to the FTSE All-Share Index and the FTSE Small Cap Index effective 17 September 2010
- |||| Promoted to the FTSE 250 Index effective 17 December 2010

Reserves – significant increase in booked volumes across 1P, 2P and 3P levels

- |||| Group 1P reserves increased by 72% to 112 million barrels, 2P reserves increased by 82% to 239 million barrels and 3P reserves increased 19% to 439 million barrels

Production – substantial increase in output recorded

- |||| The Group started the reporting period with production of 2,400 bbl/day and finished the reporting period with production of 8,100 bbl/day, achieving an average daily production rate of 4,656 bbl/day, an increase of 137.8% over the comparable period in 2009 (2009: 1,958 bbl/day)

Financial – well funded for operational programmes

- |||| 2010 revenue increased to US\$84.8 million, up from US\$22.5 million in 2009
- |||| Equity offering raised US\$32.2 million in the second quarter of 2010
- |||| Additional equity offering completed in April 2011 raising a further US\$150.0 million
- |||| Loan facility secured US\$50.0 million at an interest rate of LIBOR + 7%
- |||| Group cash balance of US\$56.0 million at 31 December 2010 with US\$10.0 million of debt maturing in 2012, US\$20.0 million of debt maturing in 2013 and US\$20.0 million of debt maturing in 2014

REGIONAL HIGHLIGHTS

Exillon WS

- |||| Achieved 100% drilling success rate across seven wells drilled in 2010
- |||| Successfully re-entered and tested two legacy wells with results supporting the possibility that EWS II and III fields could form a single large accumulation
- |||| Completed 39 km pipeline allowing year round production to start on 6 June 2010
- |||| Completed the first stage of the oil processing facility, allowing production of commodity oil
- |||| Completed a permanent oil filling station next to the interstate road, shortening the transportation distance and allowing utilization of higher capacity trucks
- |||| Completed key infrastructure and new wells allowing for the start of year round production of 4,750 bbl/day

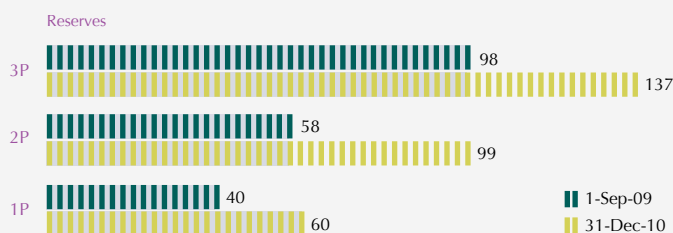
Exillon TP

- |||| Acquired the North Kenyunskeye licence adjacent to Exillon TP's ETP V field
- |||| Completed installation of the Gas Power Generator with 1MW capacity
- |||| Successfully completed workover of 7 wells in Timan Pechora leading to an increase in production from 2,050 bbl/day to 3,350 bbl/day

EXILLON ENERGY AT A GLANCE



1 Exillon TP

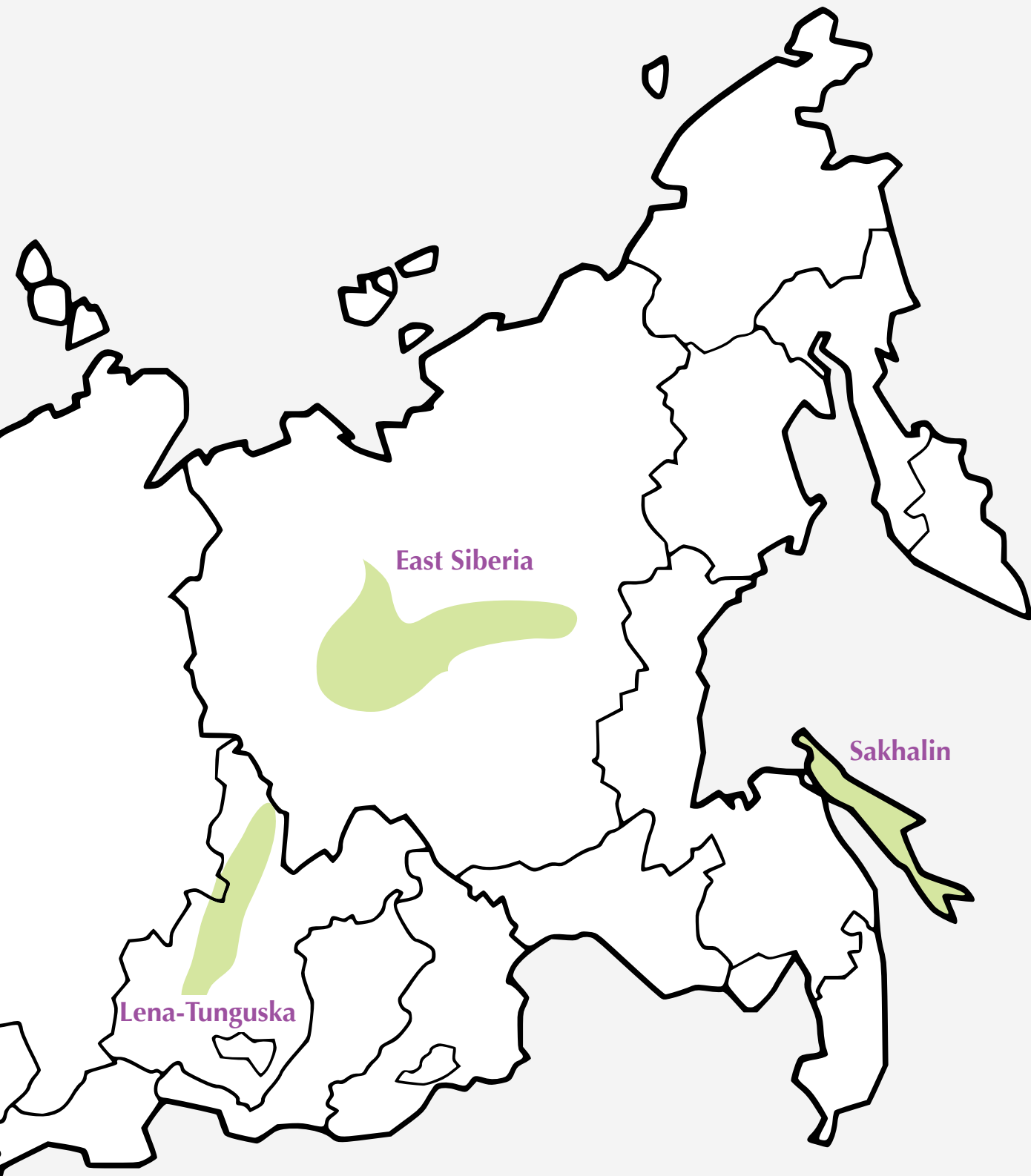


(Millions of barrels of oil, MMBBL)

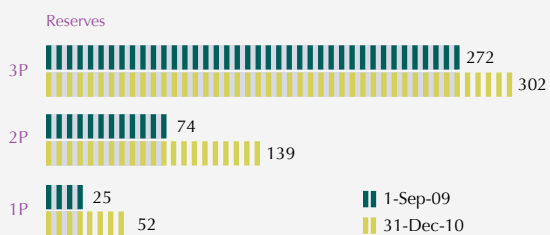
Source: Miller and Lents Reports dated 1 September 2009 and 31 December 2010.

Exillon TP in 2010

Licences	ETP I ^P , ETP II & III ^P , ETP IV ^P , ETP V ^{EP} , ETP VI ^{EP}
Total acreage	214 km ²
Production	1,050,997 bbl
Revenue	US\$58.3 million



2 Exillon WS



(Millions of barrels of oil, MMBBL)

Miller and Lents Reports dated 1 September 2009 and 31 December 2010.

Exillon WS in 2009

Licences	EWS ^{R,EP}
Total acreage	550.5 km ²
Production	649,312 bbl
Revenue	US\$26.5 million

Licence types: E - exploration, P - production, R - research

FROM THE CHIEF EXECUTIVE

After our successful IPO in December 2009, Exillon reached a number of important objectives in 2010 and successfully positioned itself for future growth.

Operations

In 2010, we increased production by 233%. Having started the reporting period with production of 2,400 bbl/day, we finished the year with daily production of 8,100 bbl. We had an average daily production rate of 4,656 bbl/day, an increase of 137.8% over the comparable period in 2009 (2009: 1,958 bbl/day).

In addition, we completed a number of key infrastructure projects, including a 39 km pipeline connecting oil fields at Exillon WS to an interstate road, an oil processing facility and an oil filling station in Exillon WS, a 1 MW gas fuelled generator in Exillon TP, and a network of infield pipelines in both assets.

Financial



We maintained a healthy financial position throughout the year. In June 2010, the Group placed 12,552,082 new ordinary shares to institutional investors. The price per share was 170 pence, resulting in proceeds to the Company of US\$32.2 million.

Later in the year we secured a US\$50.0 million loan facility at a competitive interest rate, which we had drawn in full by 18 October 2010.

In March 2011, the Group placed 23,438,000 new ordinary shares to institutional investors in a private placing. The price per share was 400 pence, resulting in gross proceeds to the Company of US\$150.0 million.

Accelerated production helped us to significantly increase our revenue, with 2010 revenue reaching US\$84.8 million (up from US\$22.5 million in 2009).



Operational Management Structure

On 15 March 2010, we moved our operational management centre to Urai (Khanty-Mansiysk Autonomous Okrug, West Siberia, Russian Federation), close to our Exillon WS assets. The move will reduce administrative costs and improve management oversight, ensuring that the Company has the right management on the ground.

Outlook

In 2011 we are planning to drill 21 new wells in an effort to more than double production by the end of 2011, reaching 17,000 bbl/day by the end of the year.

We have commissioned 250 km² of 3D seismic and 440 km² of graphic and magnetic surveys

across Exillon WS' fields in order to improve our understanding of the fields and identify new opportunities. In addition, we will be completing additional infrastructure projects such as an entry point to the Transneft system that will allow us to drive operating costs down further.

Alessandro Manghi,
CEO
Exillon Energy

OPERATIONAL REVIEW

Exillon TP

Exillon TP had a successful year, producing 1,050,997 bbl and generating revenue of US\$58.3 million, thus exceeding its revenue target of US\$50 million. The crude oil extracted from the Exillon TP fields is of high quality, with an average density of 35 to 38 API, low sulphur content of less than 0.4% and low paraffin content.

In 2009 Exillon TP owned four licences – three for production and one for production and exploration. On 25 February 2010, the Group acquired an additional licence in a state auction, which covers 119 sq km, most of which is covered by 2D and 3D seismic and borders the west margin of the ETPV field. The licence

consists of three main structures with possible reserves estimated at 1.2 mmbbl, and unrisks net prospective resources estimated at 25.6 mmbbl. The new licence represents a significant addition to the Company's portfolio, and development of the field is expected to commence in 2012. The main focus at Exillon TP has been on production optimisation through the well workover programme which commenced in early 2010, and on construction of a Gas Power Generating Unit with 1MW capacity which brought a considerable reduction in diesel costs. During 2010, workover of 7 wells in Timan Pechora was successfully completed leading to an increase in production from 2,050 bbd to 3,350 bbd.

Exillon WS

Uninterrupted production at Exillon WS started in June 2010, upon completion of the pipeline, infield infrastructure and drilling projects.

In February 2010, Exillon WS started construction of a 39km pipeline from the EWS I oil field to a year-round state road. The pipeline was successfully completed in Q2 2010, and enabled the Group to unlock the potential of Exillon WS by making possible year-round production.

To reduce dependence on third parties and to improve the economics of oil production, the

first stage of an infield oil processing facility was completed, allowing production of commodity oil. A permanent oil filling station next to the interstate road was also completed in 2010, shortening the transportation distance and permitting the use of higher capacity trucks. Commencement of oil processing at Exillon WS in October 2010 provided the Company with more options to sell its oil and to reduce transportation and processing costs further. The Group has now signed an agreement and started trucking oil from Exillon WS to the oil filling station owned by Ritek, which is about 70km closer than the previous alternative.

Drilling

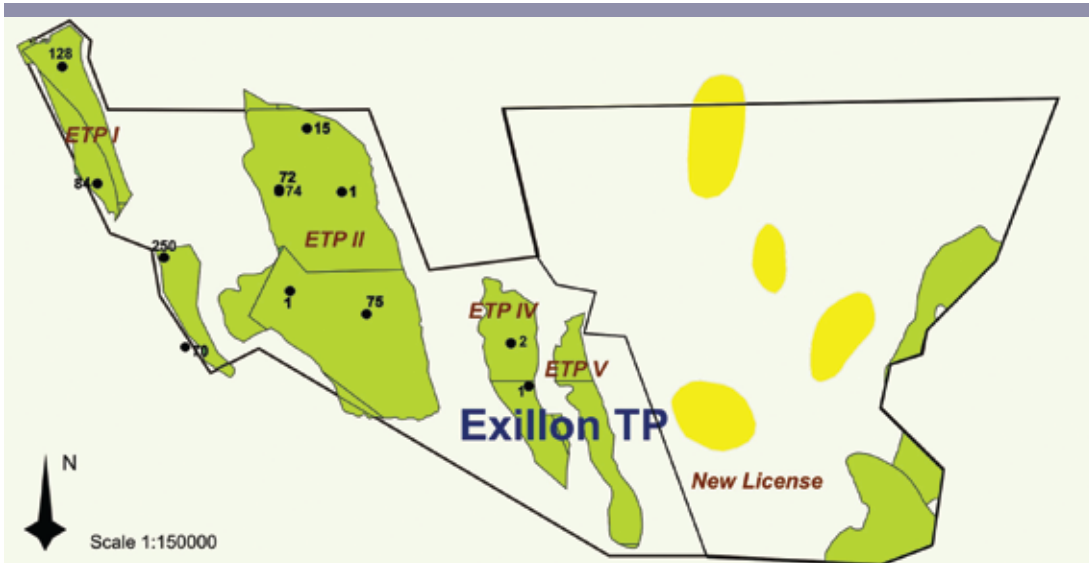
Exillon WS drilled seven wells during the period, achieving a 100% drilling success rate. The wells were drilled with an average drilling time of 30 days per well, and at an average cost of US\$1.2 million. Five wells drilled on EWS I fields were tested and achieved an average test flow rate of 524 bbl/day of water-free oil.

In addition in 2010, two legacy wells were successfully re-entered and tested with results supporting the possibility that the EWS II and III fields could form a single large accumulation.

Exillon TP:

The estimate of the total proved (1P) recoverable oil reserves within the Exillon TP license areas has increased 47% from 40 million barrels to 60 million barrels. The estimate of the total proved plus probable (2P) recoverable oil reserves within Exillon WS has increased 73% from 58 million barrels to 99 million barrels, and the estimate of the total proved plus probable plus possible (3P) recoverable

oil reserves within Exillon TP has increased 40% from 98 million barrels to 137 million barrels. This increase in reserves is attributable to the acquisition of a new license, increased Original Oil in Place estimates for fields with a long production history, and improvement in recovery factors for some fields due to oil field development optimization.



Map of Exillon TP oilfields

Overall, the Group's 1P reserves increased by 47 million barrels to 112 million barrels, 2P reserves increased by 107 million barrels to 239 million barrels and its 3P reserves increased by 69 million barrels to 439 million barrels.

The updated reserves report for Exillon Energy plc was completed by Miller & Lents effective 31 December 2010.

KEY PERFORMANCE INDICATORS

Key Performance Indicator	Unit	2010 result	2009 result
Revenue	US\$ million	84.80	22.5
Achieved oil price			
Export sales		74	63
Domestic sales	US\$/bbl	30	27
Average sales price		51	40
Operating Costs ¹	US\$ million	34.4	10.5
EBITDA ²	US\$ million	3.8	184.5
Net (Loss)\profit	US\$ million	(3.6)	180.3
Loss/earnings per share			
Basic		(0.03)	15.87
Diluted	US\$	(0.03)	15.80
Capital Expenditure	US\$ million	48.0	4.7
Total production	Bbl	1,700,309	714,672
Lifting costs	US\$/bbl	3.98	6.8
ROCE	%	(0.4)%	39%
Lost time injury rate	Incidents	0	0

¹ Excluding depreciation and exploration costs

² Earnings before interest (finance cost), tax, DD&A (depreciation and depletion) and exploration expenses

FINANCIAL REVIEW

The Consolidated Financial Statements and notes which follow should be read in conjunction with this review which has been included to assist in the understanding of the Group's financial position at 31 December 2010.

Summary

The Group has maintained a healthy financial position due to the successful issuance of new shares in 2010, securing loan financing, strong growth in oil reserves and rising production levels.

In June 2010, the Group issued 12,552,082 new shares with total proceeds of US\$32.2 million. Costs related to the issuance of new shares amounting to US\$1.9 million were recorded in the share premium account as directly attributable to the equity cost.

On 10 September 2010 Exillon Finance Limited

agreed a US\$50,000,000 term loan facility with Credit Suisse. The facility has a competitive interest rate above LIBOR, a term of 3.5 years, and is free of any equity related components.

The Company was admitted to the FTSE 250 Index on 17 December 2010.

During the reporting period, Group production rose to 8,100 bbl/day following completion of workovers of 7 wells in Exillon TP and the launch of uninterrupted production at Exillon WS in June 2010.

Income Statement

The Group's revenue for the year ended 31 December 2010 comprised revenue from the sale of crude oil and amounted to US\$84.8 million (2009: US\$22.5 million), of which US\$58.6 million or 69% came from export sales and US\$26.2 million or 31% came from domestic sales. The increase in revenue was driven by the acceleration of production: a 47% increase to 1,050,997 bbl (2009: 714,672 bbl) in Exillon TP production following a well optimisation programme in early 2010 and 649,312 bbl (2009: nil) production in Exillon WS following the start of production in Q2 2010. The Group achieved an average oil price of US\$74/bbl (2009: US\$63/bbl) for export sales and US\$30/bbl (2009: US\$27/bbl) for domestic sales, reflecting strengthening and stabilising crude oil prices during the period.

Cost of sales excluding depreciation, depletion and amortisation increased to US\$34.4 million or 40.6% of the Group's revenue (2009: US\$10.5 million or 46% of the Group's revenue) as a result of an increase in production of 138% to 1,700,309 bbl (2009: 714,672 bbl).

The Group's depreciation, depletion and amortisation costs primarily relate to the depreciation

of production and non-production assets for the year ended 31 December 2010. These costs totalled US\$6.7 million (2009: US\$3.5 million) or 8% of the Group's revenue (2009: 16%). The increase in DD&A costs is driven by higher production volumes.

Selling expenses for 2010 of US\$36.3 million (2009: US\$8.1 million) or 42.9% of the Group's revenue (2009: 36%), comprised export duties of US\$28.9 million (2009: US\$5.8 million), which represented 49% of the Group's export sales (2009: 45%); transportation services of US\$6.7 million (2009: US\$2.1 million) and other selling expenses of US\$0.7 million (2009: US\$0.2 million). Export duty rates increased at the beginning of the period by 12%, from US\$267 per ton to US\$303.8 per ton following the increase of crude oil prices, due to the fact that the Russian government has been revising the crude oil export duty monthly on the basis of the immediately preceding month's average crude oil price.

Administrative expenses totalled US\$11.7 million (2009: US\$9.4 million) amounting to 13.8% of the Group's revenues (2009: 41.7%). The increase is primarily attributable to an increase in salaries and consulting costs.

The 2010 taxation credit of US\$0.14 million (2009: US\$0.27 million) comprised an income tax charge of US\$0.32 million (2009: US\$0.03 million) and a deferred tax credit of US\$0.46 million (2009: US\$0.3 million). Income tax charge relates to Exillon TP's operating profit generated in 2010. Exillon WS has also generated operating profit in 2010, but no current income tax was accrued, because of tax loss carried forwards from previous periods. The basic corporate income tax rate in the Russian Federation is 20%.

The Group's net loss decreased by US\$13.6 million from US\$17.2 million (pre bargain purchase gain) in 2009 to US\$3.6 million in 2010 primarily due to the increase in production and higher crude prices. The positive effect was offset by an increase in depreciation, depletion and amortisation leading to losses in 2010. Despite these losses, the Group continues to be well funded and able to finance ongoing operational programmes.

Financial Position

In June 2010, the Group issued 12.5 million ordinary shares at a value of \$30.3 million net of transaction fees to fund exploration and development activity. Total equity as at 31 December 2010 was \$408.0 million compared to \$383.8 million at the beginning of the year.

The Group ended the year in a strong financial position with \$56.3 million of cash and cash equivalents (2009: \$34.3 million), of which \$47.1 million (net of transaction fees) was received

from the term loan agreed with Credit Suisse in September 2010. The cash proceeds will be used to finance drilling and infrastructure related projects in Exillon WS and Exillon TP.

The increase in the property, plant and equipment has been driven by the construction of pipeline, drilling of wells and other field developments in Exillon WS; successfully completed installation of the Gas Power Generator at Exillon TP and the purchase of the ETP VI licence.

Cash Flow

Net cash used in operating activities for 2010 was US\$6.7 million, compared to US\$7.1 million used in 2009. Operating cash flow before working capital changes was positive in 2010, at US\$3.9 million compared to an outflow of US\$9.9 million in 2009. Net cash from operating activities was positively affected by longer payment terms for tax payments to the Russian Government. The negative effect was due to a decrease in trade and other payables following the settlement of payment obligations for drilling works and an increase in trade and other receivables because of the expansion of the Group's operations in 2010.

Net cash used in investing activities during the year was US\$48.0 million (2009: US\$63.7 million) representing capital expenditure for purchase of equipment for works related to the drilling of wells and the construction of infrastructure.

Cash flow from financing activities was US\$76.7 million (2009: US\$104.9 million). This inflow relates to the net proceeds from borrowings of US\$47.1 million (2009: US\$9.1 million) and net proceeds of US\$30.3 million from the issue of new shares. During the reported period, the Group repaid the outstanding loan balance of US\$0.74 million to related parties.

CORPORATE SOCIAL RESPONSIBILITY

We recognise that our operations have a commercial and economic impact on the communities in which we operate, and we are committed to the sustainable development of these communities. Equally, the way in which we relate to all of our key stakeholder groups – internal and external – is an important part of our social responsibility.

Below are highlights of our CSR activity in 2010, which continued to focus on: continually seeking to improve health and safety; environmental awareness; and nurturing our people.

CSR Oversight and Implementation

The CSR Committee is responsible for developing, monitoring and reporting on the Group’s corporate social responsibility policies and activities. The members of the CSR committee are an independent non-executive director (Ezio Bracco), the Chief Executive Officer, and the Chief Operating Officer. The CSR committee meets twice a year and reports to the Board.

The Group is committed to embedding the principles of sound corporate social responsibility throughout its businesses. Exillon Energy adopted a revised Code of Business Practice on 15 March 2010. The Code describes values and ethical principles on which the Company’s work is based and determines the unified standards of corporate behaviour in the Company. The Code of Business Practice is applicable to each and every worker of Exillon. A Whistleblower Policy was adopted

on 15 March 2010. The Group recognises that incidents of workplace fraud, wrongdoing or mismanagement are possible in any business and it is committed to ensuring that any such malpractice is prevented from happening and immediately dealt with if it does arise. The Group encourages employees to raise their concerns about any malpractice at the earliest possible stage and the policy sets out the correct method for raising any such concerns. The policy confers no contractual rights on employees.

At the operational level, Health, Safety and Environment (“HSE”) is managed at Exillon WS and Exillon TP by designated members of local management who report to the General Director of their respective companies and the Group’s Chief Operating Officer.

Health and Safety

Exillon Energy plc is subject to a wide range of Russian Federal regulations relating to health and safety, notably Federal Law No. 116-FZ “On Industrial Safety of Hazardous Industrial Facilities” and various parts of the Russian Labour Code. Exillon Energy is committed to complying with GOST standards on environmental and production

safety. We have a comprehensive Environmental and Production Safety Programme (EPSP), which includes policies related to personnel safety, emergency control and production safety.

Employees receive regular mandatory training and drills on emergency response, well blow-out

prevention, oil and other hazardous liquid spills prevention, hydrogen sulphide safety knowledge, first aid training, fire safety and fire fighting equipment.

The Federal Service for Ecological, Technological and Nuclear Supervision (Rostekhnadzor), which ensures compliance with safety rules, periodically inspects our field operations and has found them compliant to date. In addition, the Group's Health, Safety and Environment Department carries out quarterly safety audits of our field operations. Findings on these audits are presented to the General Directors of Exillon TP and Exillon WS as well as the Group's Chief Operating Officer. There are at present no significant recommendations arising from these audits.

Again in 2010, the Group reported no fatalities and no work-related injuries. The Group's Lost Time Injury Frequency Rate for 2010 was therefore zero and our long-term target would be to sustain this impressive level. Any incidents are a cause of grave concern and we remain committed to providing a safe and supportive work environment for all. The Group did not pay any compensation claims in 2010.

With the exception of those based in Moscow, all Group employees in Russia are provided with medical insurance, which includes health check-ups. The families of employees of Exillon Middle East (Dubai) are also provided with medical insurance.

Environment

Exillon Energy recognises the importance of protecting the environment in all of its activities and aims to fulfill this commitment by complying with relevant environmental legislation and regulations, continuous improvement of environmental management practices and preventing pollution.

The Group's operations are subject to various environmental laws and regulations in Russia, including those governing emissions; wastewater discharges; the reclamation of contaminated soil; and the use, handling and disposal of hazardous substances and wastes.

In addition, the Group has long-term obligations relating to decommissioning of operational facilities and remediation of soil or groundwater, and waste disposal.

Exillon Energy seeks to meet high standards for environmental protection. Our commitment to the GOST standards includes specific requirements for environmental protection and hazard control.

The Group regularly audits the environmental impact of all aspects of its activities. Environmental protection and hazard control measures include:

- |||| Daily sampling of air, water and soil
- |||| Control of stationary sources of air pollution emission
- |||| Laboratory analysis of surface water
- |||| Monitoring condition of streams, water conservation zones
- |||| Transporting sewage to treatment facilities
- |||| Installation of equipment for storing dangerous refuse
- |||| Forsage -1 industrial waste furnace
- |||| Training managers and staff in environmental protection and hazard control

In 2010, a Gas Power Generator with 1MW capacity was installed at Exillon TP enabling associated gas to be used as fuel for internal purposes. Before the installation of this equipment the gas which accompanied the extraction of oil was flared, which had a negative impact on the environment. In addition, the Company intends to build a gas turbine plant and gas pipeline which is already included into the capital expenditure budget of Exillon TP and Exillon WS for 2011.

The Group spent a total of US\$0.57 million on environmental protection in 2010 (2009: US\$0.1 million), of which US\$0.54 was spent at Exillon TP (2009: US\$0.093 million) and US\$0.03 was spent at Exillon WS (2009: US\$0.01 million).

Employees

At the end of 2010 Exillon Energy employed 253 staff, of whom 22 were employed by Exillon Middle East in Dubai, 16 by Regional Resources LLC in Moscow, 91 by Exillon WS and 124 by Exillon TP. In addition, it employed 19 contractors.

As identified in the Risk Factors on pages 24-25, the company's success depends on its ability to recruit, motivate and retain senior management and highly skilled employees in a competitive job market.

The Group has addressed this in part by establishing an employee share plan to create incentives for Executive Directors and senior management. The Company supports its

employees' career development and career progression, by providing stable and fair compensation and benefits, as well as extensive training.

Key engineering staff receive compulsory training in production safety, which is delivered by the state authorities or service providers certified by the authorities. Staff are tested on industrial safety and subsoil protection once every three years.

At Exillon TP, staff receive training relevant to their field of work once every three months. Testing is carried out annually and staff receive cards confirming that they have attended training and passed the relevant tests.

Looking Ahead

As a relatively young company, we recognise that there is always room for improvement in developing further our overall CSR strategy and policies. We are committed to doing this. Sound corporate social responsibility is not only important to the sustainable development

of the communities in which we operate, and to all of our stakeholders, but it's also key to the sustainable growth and development of our business. It will continue to be a key strategic issue for us, and a regular agenda item at our Board and management meetings.

DIRECTORS' REPORT

Board of Directors of Exillon Energy plc

MAKSAT ARIP

Chairman

Mr Arip was appointed as Chairman of the Group in November 2009. He previously served as Chief Executive Officer of Kazakhstan Kagazy plc (a company listed on the London Stock Exchange since July 2007) between 2003 and April 2008 and as a Director of Kazakhstan Kagazy JSC until July 2009. Between 2000 and 2003, Mr Arip was First Deputy General Director of KazTransCom, a telecommunications company operating in Kazakhstan, which is a subsidiary of KazMunaiGaz, a leader in the Kazakhstan oil and gas industry. Prior to that, between 1999 and 2000, he served as Finance Director of Spectrum LLP, a Kazakh-American joint venture in mobile communications and a European Bank for Reconstruction and Development investee company. Mr Arip has also held senior positions with Tumar Insurance Company and Kyz-Zhibek Investment Fund. Mr Arip holds a Masters degree in Business Administration from the International Academy of Business in Almaty and a Law degree from the Kunayev Humanities University. Mr. Arip is 38 years old.

ALESSANDRO MANGHI

Chief Executive Officer

Mr Manghi was appointed Chief Executive Officer of the Group in November 2009 and has served as a Director since 2008. Mr Manghi served as Chairman of Kazakhstan Kagazy plc between April 2008 and January 2010 and prior to that was head of corporate finance and investor relations at Kazakhstan Kagazy plc since joining in 2005. He is also a non-executive Chairman of the Leasing Group JSC. Mr Manghi has fifteen years of finance and investment experience in the CIS. Prior to joining Kazakhstan Kagazy plc, Mr Manghi was the Chief Financial Officer of a London-based insurance management group that was active in Central Asia, the Caucasus and Eastern Europe. Between 1998 and 2001, Mr Manghi was Senior Investment Manager at EBRD Eagle Kazakhstan Fund, where he held positions on the Board of Directors of JSC Arna (part of Kazakhstan's then largest private fixed-line and satellite telecoms operator), Rainbow Paint LLP (a paint production group), Bauta LLP (a water desalination and packaging joint venture), and Spectrum LLP. He has several years of audit and transaction support experience with Price Waterhouse and Barents Group. Mr Manghi qualified as a Chartered Accountant and is a member of the Institute of Chartered Accountants in England and Wales. Mr. Manghi is 50 years old.

L. STUARD DETMER

Senior Independent Non-executive Director

Mr Detmer was most recently CEO of Sibir Energy plc, an integrated oil and gas company with 80,000 bopd of crude production in West Siberia, 100,000 bopd of refining capacity in Moscow and over 130 petrol service stations in the greater Moscow region. As CEO of Sibir, he led the company out of crisis and concluded its successful sale to Gazprom in 2009. Mr.

Detmer also worked with Mobil Oil Corporation in Russia, Latin America and the United States and has over 16 years of experience in emerging markets. Mr. Detmer holds an MBA from the Darden School of Business Administration at the University of Virginia, a BA from Vanderbilt University and attended Leningrad State University. He is fluent in Russian and speaks Spanish and French. Mr. Detmer is 48 years old.

EZIO BRACCO

Independent Non-executive Director

Mr Bracco is the President, founder and major shareholder of Expertise srl. Expertise is an oil and gas engineering company that provides services to major onshore and offshore projects in Kazakhstan, Turkmenistan, the Middle East, Africa and Russia for clients such as Agip KCO, KPO-Karachaganak Petroleum Operating, ADNOC and ENI. Mr Bracco founded Expertise srl. 27 years ago. Mr Bracco graduated in Chemical Engineering at the University of Genoa. Mr Bracco is 63 years old.

ANNE BELVÈZE

Independent Non-executive Director

Ms Belvèze is the Managing Partner of the Russian office of accounting firm Mazars, which she joined in 2005 as its head of outsourcing. She is a senior external trade advisor to the French government, a position she has held since July 2009. Prior to this Ms Belvèze held the following positions: General Manager of Sansha; Zone Finance Director with Castel Group in Moscow; Regional Financial Controller of the Barents Group in Almaty; Professor of Mathematics of Finance and Financial Statements Analysis at the European University of Brussels. Ms Belvèze has a BBA and a degree in Information Systems from the European University of Brussels, and a degree in Mechanical Engineering from the University of Nantes. Ms Belvèze is 44 years old.

Introduction

The Directors present their Annual Report and Accounts to shareholders for the financial year ended 31 December 2010.

London Stock Exchange on 17 December 2009 and were admitted to the FTSE 250 Index on 17 December 2010.

Exillon Energy plc is the holding company of the Group and all its issued ordinary shares were admitted to listing on the main market of the

Principal activities

The principal activities of the Group are as an independent oil producer with operations located in two oil-rich regions of northern Russia, Timan-Pechora and West Siberia.

Business review

A review of the Company's business, its principal activities and future development can be found in the pages listed below and are incorporated into this report by reference.

- |||| Chief Executive Officer's Statement on pages 6 to 7
- |||| Business Review on pages 6 to 16 incorporating the Operational Review on pages 8 to 10 and the Financial Review on pages 12 to 13 and the CSR Report which includes information on employee, environmental and social matters on pages 14 to 16
- |||| Key Performance Indicators on page 11

Duties and disclosure in accordance with good practice are described in the Corporate Governance Report on pages 35 to 41 which also sets out the Company's compliance with the provisions of section 7.2 of the Disclosure & Transparency Rules of the Financial Services Authority. Shareholders who wish to read the full version of the Combined Code are directed to the Financial Reporting Council's website: www.frc.org.uk

Results and dividends

The Financial Statements for the year-ended 31 December 2010 are as set out on pages 46 to 81. The Company has declared no dividend for the year-ended 31 December 2010 (2009: nil). It is

the Directors' current intention that the Company will not pay a dividend for the foreseeable future in order to conserve cash resources for future investments in the Group.

Directors

The Directors who served in office during the financial year were as follows:

Maksat Arip
Alessandro Manghi
L. Stuard Detmer
Anne Belvèze
Ezio Bracco

Further details about the Directors and their roles within the Group are given in the Corporate Governance Report on pages 35 to 41. Details of the directors' remuneration and their interests in shares in the Company are set out in the Remuneration Report on pages 28 to 34.

Appointment and replacement of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM and is then eligible for appointment by the shareholders. Each Director shall retire at the annual general meeting held in the third year following the year in which he was appointed or last reappointed by the Company. However, in order to conform to the requirements of the new UK Corporate

Governance Code ("Governance Code") which is applicable for the first time for the year ending 31 December 2011, all directors have agreed to submit themselves to re-appointment at the forthcoming AGM.

Details of the Directors' service contracts, including the arrangements for compensation for loss of office, are contained in the Remuneration Report on pages 31 to 33.

Powers of the Directors

Subject to the Company's Articles of Association, the Isle of Man Companies Act 2006 and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

Share Capital and Shareholders' Restrictions

The Company has one class of share capital that is divided into 138,072,911 ordinary shares (2009: 125,520,829) of US\$0.0000125 each ("Ordinary Shares"). Further details of the share capital together with the specific movements in share capital during the year are included in note 28 to the financial statements on pages 71 to 72.

The rights and obligations attached to these shares are governed by Isle of Man law and the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. There are no restrictions on the transfer of the Ordinary Shares other than as set out in the Articles of Association and:

- |||| certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- |||| pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval of the Company to deal in the Ordinary Shares.

Subject to any rights or restrictions attached to any shares, on a show of hands every shareholder present in person or by proxy (or being a corporation present by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder.

The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the

AGM and published on the Company's website after the meeting.

No shareholder holds shares carrying special rights as to the control of the Company. There are no limitations on the holding of shares. There are no agreements between holders of shares that are known to the Company which may result in restrictions on the transfer or on voting rights.

Any of the rights attached to any class of share may be varied by consent in writing of not less than three quarters in par value of the issued shares of the class or by special resolution passed at a separate meeting of the holders of shares of the class.

Authority to Purchase Own Shares

Powers relating to the issuing and buy back of shares are also included in the Articles and the authority to issue shares is renewed by shareholders each year at the Annual General Meeting. The Company was authorised by a shareholder resolution passed on 14 June 2010 to purchase up to 10% of its issued Ordinary

Share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed.

No shares were purchased by the Company during the year.

Employee Share Plan

The Company has established an employee benefit plan ('EBP') by which shares may be awarded to Executive Directors (excluding the Chairman) and senior managers. Participants holding restricted share awards may not vote shares held in the trust until after the end of the vesting period but will be entitled to dividends. Participants holding conditional shares may not vote shares held in the

trust and are not entitled to dividends until after the end of the vesting period.

The trustees of the EBP may vote or abstain from voting on shares held in the Employee Benefit Trust ('EBT') as they think fit and in doing so may take into account both financial and non-financial interests of the beneficiaries of the EBP or their dependants.

Admission Share Awards

The key elements of the award of Ordinary Shares to nine employees on Admission, including one Director Alessandro Manghi, are set out in the Remuneration Report on page 30.

Substantial shareholdings

As of 21 April 2011, the significant interests in the voting rights of the Company's issued ordinary shares as notified in accordance with Chapter 5 of the Disclosure and Transparency Rules were as follows:

Name of shareholder	Voting rights attaching to issued ordinary shares of US\$0.0000125 each	Percentage of total voting rights	Nature of holding Direct/Indirect
Cypcoserve Limited *	48,738,159	30.2%	Direct

* Cypcoserve Limited is an associate of the Chairman, which holds shares for Caspian Minerals I Trust.

Relationship Agreement

On 10 December 2009 Maksat Arip and the trustees of his investment vehicle entered into a Relationship Agreement with the Company (the "Relationship Agreement"). The principal purpose of the Relationship Agreement is to ensure the regulation of the ongoing relationship between Mr Arip and the Company and to help ensure

that transactions and relationships between the respective parties are conducted at arm's length and on a commercial basis. Further details about the Relationship Agreement and transactions with the Chairman are set out on pages 35 to 41 in the Corporate Governance Report.

Events Since Balance Sheet Date

Post balance sheet events are set out in note 35 to the Financial Statements on page 81.

Principal Risks and Uncertainties

The Board has overall responsibility for ensuring that risk is effectively managed across the Group, while the efficacy of the internal control system is monitored by the Audit Committee. The day-to-day responsibility for managing risk and maintaining the Group's system of internal control lies jointly with the Chief Financial Officer and the Chief Executive

Officer. Plans to mitigate known risks and the effectiveness of and progress in implementing these plans will be reviewed regularly in accordance with Turnbull Guidance. Despite the Group's best efforts to factor these known risks into its business strategy, inevitably risks will exist of which the Group is currently unaware.

Principal risks and uncertainties

Risk	Mitigation / control
<p>The Group may be adversely affected by a substantial or extended decline in the prices for crude oil.</p>	<ul style="list-style-type: none"> » The Russian taxation regime serves as a hedge against oil price declines, as the most significant components of taxation such as Export Duty and Mineral Extraction Tax decline to zero as the oil price decreases to US\$15/bbl. » An extended decline in prices for crude oil is likely to result in a depreciation of the Rouble, which will lower production costs per barrel.
<p>The Group's business depends on exploration and production licences issued by the Russian authorities, which could be suspended, restricted, terminated or not extended.</p>	<ul style="list-style-type: none"> » The Group's licences are subject to periodic review by the regional authorities and as part of the most recent reviews, the authorities indicated that the Group is in compliance with the terms of its licences. In addition, the Group is in compliance with all tax obligations and none of the Group's oilfields is regarded as a strategic deposit, which significantly reduces the risk of suspension, restriction or termination of the licence.
<p>Leases relating to some of the Group's oil wells have expired, which may result in a potential inability to operate these wells</p>	<ul style="list-style-type: none"> » In accordance with existing law and practice, Exillon TP leases from the Russian government three of the oil wells it operates (ETP IV - 1, ETP III - 1 and ETP II - 74). The three wells represent approximately 1.4 % of Exillon TP's reserves and a small portion of its expected production. » In continuing to use these wells, the Group relies on Article 621(2) of the Civil Code of the Russian Federation, which states that such leases are extended for an indefinite term if the tenant continues to use the property after the term of the lease has expired in the absence of objections from the lessor, although either party is entitled to terminate the lease upon three months' notice. The Group believes that the Russian authorities are unlikely to exercise this termination right as the Group has the exclusive right to extract the oil resources underlying the wells and it continues to make lease payments.
<p>Fluctuations in currency exchange rates may materially and adversely affect the Group's financial results and condition.</p>	<ul style="list-style-type: none"> » Most of the Group's revenues from the sale of crude oil are denominated in U.S. dollars, while a substantial proportion of its costs are denominated in Roubles. Accordingly, the real appreciation of the Rouble against the U.S. dollar may negatively affect the Group's profits, but the Group anticipates that such appreciation will most likely be the result of high crude oil prices which would neutralise the effect. In addition, the effect on net income would be even less as the applicable mineral extraction tax would be reduced as a result of such appreciation.
<p>The Group relies on the services of third party providers.</p>	<ul style="list-style-type: none"> » The Group's assets are located in well developed regions, which means that services are available on commercially reasonable terms from a number of providers.

Risk	Mitigation / control
<p>Most of the crude oil produced by the Group is transported via a single pipeline system operated by an external provider – Transneft.</p>	<p>» The oil produced by the Group is of high quality with 35 to 40 API gravity and less than 0.5% sulphur content, which allows it to be refined into higher value products than heavier crude, when it is not mixed with oil in the Transneft pipeline system. This makes the Group's oil attractive to refinery and pipeline operators, thereby increasing the Group's delivery options. In addition, the Group's fields are located near existing infrastructure. Exillon TP's fields are adjacent and located near Usinsk, one of the most developed areas of the Komi Republic, and approximately 30km from the site on which a major refinery is currently being built. The Exillon WS oilfields are located only 12km from a Transneft pipeline.</p>
<p>The Group could be subject to claims and liabilities under environmental, health, safety and other laws and regulations.</p>	<p>» In the last two years, the authorities have not imposed any fines on Exillon WS and Exillon TP or instructed them to improve their procedures or infrastructure in relation to any environmental laws and regulations.</p> <p>» The Group endeavours to comply with all the environmental and health and safety laws and regulations at all times.</p>
<p>The Group faces drilling, exploration and production risks which may prevent it from realising profits and may result in substantial losses.</p>	<p>» The Group's core technical and operational team have extensive experience gained from their work on a wide variety of projects in Russia, and the top twelve operational and technical executives have over 300 years' of combined experience in the oil industry.</p> <p>» Since the end of 2006, Exillon Energy's management has had a 100% drilling success rate with eleven exploration, appraisal and development wells. The Group has continued to optimise its development plan through the application of advanced subsurface evaluation techniques, including utilising its extensive 3D seismic database to build robust 3D subsurface models; implementation of advanced oilfield technology such as Schlumberger's borehole imaging technology and successful development of hydrofracturing techniques.</p>
<p>The Group does not carry the types of insurance normally carried by a business of its size and nature.</p>	<p>» The Group currently maintains all mandatory insurance required by law and has enhanced its policies with respect to medical insurance and accidents. The Group does not maintain property insurance.</p>
<p>The Company will be subject to restrictions on foreign ownership in future.</p>	<p>» None of the Group's oilfields is regarded as a strategic deposit and none of the Group's subsidiaries is engaged in any other activities of strategic importance envisaged by the Strategic Investment Law. The Group estimates that the possibility of the future discovery of such deposits at one of its current oilfields, or the acquisition of such deposits, to warrant restrictions on foreign ownership as low.</p>
<p>There are high levels of inflation in Russia</p>	<p>» The Group anticipates that high levels of inflation in Russia will be balanced by higher domestic oil prices and/or Rouble devaluation.</p>
<p>Russian tax law and practice are not fully developed and are subject to frequent changes</p>	<p>» There can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. The Group, however, is committed to continue to comply with all the provisions of the Tax Code.</p>

Significant Agreements – change of control

There are no circumstances connected with significant agreements to which the Company is a party that would take effect, alter or terminate upon a change of control following a takeover bid with the exception of the Relationship Agreement referred to above.

Key Relationships

Exillon Energy enjoys stable relationships with the suppliers of essential services. The agreements that are critical to Exillon Energy's business are:

- |||| Yenisey LLC for oil processing at Exillon TP
- |||| AK Transneft JSC for core and oil storage services at Exillon TP
- |||| Lukoil-Komi on participation interest in maintenance of roads of Exillon TP

Licenses are critical to the Group's operations, and therefore the Group's relationship with the Russian Government departments for issuing licenses are important.

Statement on Disclosure of Information to Auditors

Each of the Directors at the date of the approval of this report confirms that:

- |||| so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- |||| the Director has taken all the steps that ought to have been taken as a Director to make the Director aware of any relevant audit information and to establish that the Group's auditors are aware of the information.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position including financial risk factors are set out on page 24 and 25. In carrying out their assessment, the Directors have considered the Company and Group budget, the cash flow forecast, trading estimates, contractual arrangements, committed financing and exposure

to contingent liabilities. The Directors believe that the Group's forecasts and projections, taking accounts of reasonably possible changes in trading performance, show the Group is adequately financed and for this reason they continue to adopt the going concern basis in preparing the Financial Statements.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board of Directors on 21 April 2011.

Thomas Johnson
Company Secretary

REMUNERATION REPORT

Introduction

This report sets out information about the remuneration of the Directors of the Company and the work of the Remuneration Committee for the year ended 31 December 2010. This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") in line with the relevant

requirements of the Financial Services Authority's Listing Rules. Part II of this report has been audited by PricewaterhouseCoopers LLP in accordance with the Regulations.

As required by the Regulations, this report will be subject to an advisory shareholder vote at the Company's forthcoming annual general meeting.

Part 1 – Unaudited Information

Remuneration Committee

The members of the Remuneration Committee are Stuard Detmer (Chairman), Ezio Bracco and Anne Belvèze, all of whom are independent Non-executive Directors.

Terms of reference have been approved for the Remuneration Committee and its primary duty is to

determine and agree with the Board the framework or broad policy for the remuneration of the Group's Chief Executive Officer, the Executive Chairman, the Company Secretary and such other members of senior management as it is designated to consider. The remuneration of the Non-executive Directors is a matter for the Chairman and the Executive Directors.

The main responsibilities of the Committee are to:

- |||| Assess and set compensation levels for Executive Directors and senior managers.
- |||| Review Executive Directors' and senior managers' share and other incentive plans prior to award.
- |||| Review compensation levels for Executive Directors and senior managers at least annually.
- |||| Make recommendations to the Board on matters relating to the remuneration and terms of employment of the Directors of the Company and on proposals for granting of share awards pursuant to any share awards plan in operation from time to time.

The Chairman of the Board, the Chief Executive Officer and external advisers may be invited to attend meetings of the Remuneration Committee but do not take part in the decision making.

The terms of reference of the Remuneration Committee are available on the Company's website, www.exillonenergy.com

Attendance at meetings of the Remuneration Committee by individual members is detailed in the Corporate Governance Report on page 37.

Advisers

The Remuneration Committee has not, to date, appointed any advisers to assist it in formulating the Group's remuneration policy as it has felt it is too early to do so.

Remuneration Policy

Exillon Energy's remuneration policy continues to be developed with the intention of enabling the Group to attract, motivate and retain talented executives to help drive the future growth and performance of the business.

During 2010, the remuneration of the Group's senior executives consisted of basic salary, share awards and benefits in kind.

As the remuneration policy is developed, it is expected to have the following objectives:

- |||| To align executive and shareholder interests
- |||| To link a proportion of remuneration to performance
- |||| To provide competitive rewards assessed against the relevant market to attract, motivate and retain talented executives

In determining Exillon's remuneration policy, the Remuneration Committee will take into account the particular business context of the Company, the geography of its operations, the relevant talent market for each executive and best practice guidelines set by institutional shareholder bodies.

Employee Share Plan

As outlined below, an Employee Share Plan is in place for granting awards of shares ("Awards") to eligible employees including Executive Directors, but excluding the Chairman. The Employee Share Plan specifies that the Remuneration Committee will determine those eligible employees to whom Awards are to be granted ("Participants"), and the number of Ordinary Shares comprised in each Award. Awards may be in the form of restricted shares, being Ordinary Shares transferred to the Participant on grant subject to restrictions which will lapse at the end of the vesting period, provided that the Participant is still in employment within the Group ("Restricted Share Awards"). No payment will be required for the grant of a Restricted Share Award or for the transfer of shares comprising the Restricted Share Award. The Participants will not be entitled to vote using the Ordinary Shares subject to the Restricted Share Awards until after the end of the vesting

period although the Participants will be entitled to receive dividends paid by the Company in respect of those Ordinary Shares prior to the date of vesting.

Alternatively, awards may be in the form of conditional share awards, being a conditional right to acquire Ordinary Shares for no payment, that will vest subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied ("Conditional Share Awards"). No payment will be required for the grant of a Conditional Share Award. Participants will have no voting rights or rights to receive dividends in respect of the Conditional Share Awards before such awards vest.

During the year a total of 302,880 shares were granted to new employees joining the Group in the form of Restricted Share Awards. No Conditional Share Awards have been granted.

Timing of Grant of Awards

The Remuneration Committee may grant Awards at any time during the period of six weeks following the Company's announcement of its results for any period, or at such other time as the Remuneration Committee considers that exceptional circumstances exist which justify a grant.

Performance Measures

Restricted Share Awards will be granted on the basis of the Remuneration Committee's determination of the eligible employee's performance over the previous year.

Vesting and Lapse of Awards

A Restricted Share Award will vest on the third anniversary of the date of grant, provided that the Participant is still employed within the Group on the date of vesting. On vesting, the employment restriction attaching to the Ordinary Shares subject to the Restricted Share Award will lapse. The Ordinary Shares comprised in any Restricted Share Award which does not vest will be forfeited.

Employee Benefit Trust

Share awards under the Employee Share Plan are delivered through the Exillon Energy plc Employee Benefit Trust. The Trust is administered by the Trustees, Appleby Trust (Jersey) Limited, for the benefit of employees. The Trustees have the power

to acquire ordinary shares for the purpose of satisfying awards that may be granted in future by the Company under the Employee Share Plan. On Listing the Trustees subscribed for 3,765,624 shares in the Company.

Admission Share Awards

On Admission to the London Stock Exchange in December 2009, nine employees including one Director, Alessandro Manghi, were awarded Ordinary Shares in the Company subject to certain conditions. The aggregate number of shares awarded to employees on Admission (the "Admission Shares") constituted 1% of the Company's share capital as of the date of Admission. The Admission Shares are subject to restrictions on sale and a forfeiture provision for a period of three years after grant (the "Retention Period"). An employee will forfeit his or her Admission Shares in the event that his or her employment with the Group terminates during the Retention Period, other than by reason of

death, injury, disability, redundancy, the sale of the business or company in which the employee is employed, or such other circumstances as the Remuneration Committee considers appropriate in its discretion.

The employees will not be entitled to vote the Admission Shares until after the end of the Retention Period but will be entitled to receive dividends paid by the Company in respect of the Admission Shares. Four of the nine employees left the Company within one year of the IPO, forfeiting their Admission Shares. Alessandro Manghi received 138,826 Ordinary Shares as Admission Shares.

Annual Bonus

The Remuneration Committee may determine an annual bonus structure for Executive Directors which is appropriate for the business. Such a structure may be developed in conjunction with modification of the Employee Share Plan.

Service agreements, notice periods and termination payments

The Service Agreements for the Executive Directors are for no fixed term and may in normal circumstances be terminated by the Company giving three months notice and the Executive Directors' twelve months notice, at any time. The Company reserves the right and discretion to pay an Executive Director in lieu of notice. If

the Company terminates the employment of an Executive Director by exercising its right to pay in lieu of notice, the Company is required to make a payment equal to the aggregate of basic salary and the cost to the Company of providing other contractual benefits for the unexpired portion of the duration of any entitlement to notice

The key terms of the Executive Directors' service agreements are as follows:

Name	Position	Date of contract	Notice period	Current salary (p.a.)
Maksat Arip	Chairman	10 December 2009	Twelve months from the employee; three months from the employer	US\$300,000
Alessandro Manghi	Chief Executive Officer	10 December 2009	Twelve months from the employee; three months from the employer	US\$290,000

Benefits-in-Kind

Under their service agreements, Mr Arip and Mr Manghi are entitled to medical, travel and related insurance and accommodation allowances in connection with work activities in accordance with the Company's policy on expenses.

Pensions

The Group does not have a pension scheme that is open to all employees. Social contributions are withheld from employees of Exillon TP and Exillon WS and are payable directly to local state funds. None of the Directors is entitled to pension provision at the Company's expense.

Non-executive Directors

The remuneration of the Non-executive Directors consists of fees that are paid monthly in arrears. The Chairman and Non-executive Directors do not participate in any long-term incentive or annual bonus schemes, nor do they accrue any pension

entitlement. The Non-executive Directors do not have service contracts with the Company; however each has entered into a letter of appointment with the Company.

Non-executive Directors' Letters of Appointment

Anne Belvèze, Ezio Bracco and Stuard Detmer have each signed a letter of appointment with the Company. They have each been appointed for an initial period of three years and their appointments will be renewed on a three-yearly basis, subject to re-election by the Company in a general meeting. Unless otherwise determined neither the Board nor

the Director concerned may give less than three months' notice of termination of the appointment.

The Non-executive Directors' fees have been set at a level to reflect the time commitment and level of involvement that they are required to make in the activities of the Board and its committees.

The key terms of the Non-executive Directors' letters of appointment are as follows:

Director	Date of Appointment	Notice Period	Duration of term	Fees p.a.
Anne Belvèze	17 November 2009	3 months	3 years	£50,000
Ezio Bracco	17 November 2009	3 months	3 years	£50,000
Stuard Detmer	17 November 2009	3 months	3 years	£50,000

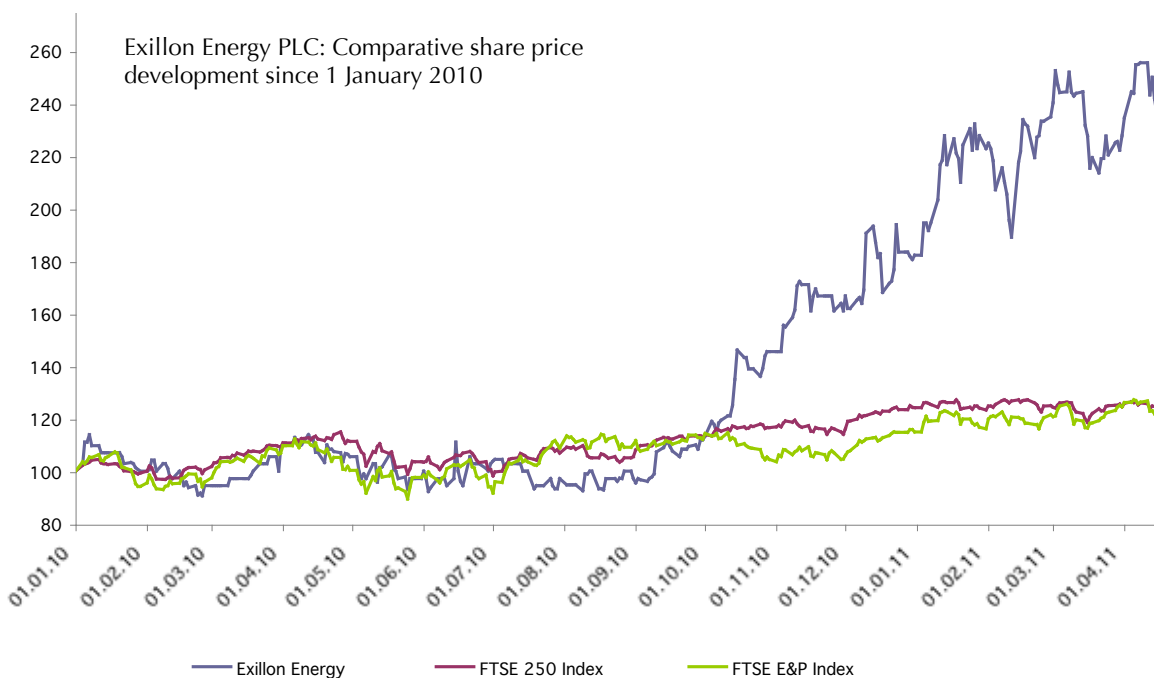
External Appointments

It is the Board's policy to allow the Executive Directors to accept directorships of other quoted companies provided that they have obtained the consent of the Chairman of the Company. Any such directorships must be formally notified to the Board.

No amounts were received in respect of external directorships during the period under review.

The Directors' biographical details are set out on pages 18 to 19.

Performance Review



Part 2 – Audited Information

Directors' remuneration for the period 1 January 2010 to 31 December 2010

Salary, Annual Bonus and other benefits

US\$	Salary/ Fees	Benefits- in-Kind	Total 2010	Total 2009
Chairman				
Maksat Arip	300,000	534,308*	834,308	34,961
Executive Director				
Alessandro Manghi	290,000	1,574	291,574	17,150
Non-Executive Directors				
Anne Belvèze	77,146	-	77,146	9,955
Ezio Bracco	77,146	-	77,146	9,955
Stuard Detmer	77,146	-	77,146	9,955
Directors in prior years				
Shynar Dikhanbayeva	-	-	-	68,888
Thomas Johnson	-	-	-	32,455
Nurlan Assilbekov	-	-	-	91,258
Total	821,438	535,882	1,357,320	274,577

* For accommodation in Moscow and Dubai

Directors' interests in Ordinary Shares

The interests of Directors in the ordinary share capital of the Company during the year were as follows:

	1 January 2010	31 December 2010
Maksat Arip ^(see note)	78,777,407	69,036,454
Anne Belvèze	-	-
Ezio Bracco	-	-
Stuard Detmer	-	-
Alessandro Manghi	138,826 (restricted shares)	138,826 (restricted shares)

Note

On 25 June 2010 the Company placed new ordinary shares with institutional investors. As part of the placing, the Company's Chairman and principal shareholder sold 9,740,953 ordinary shares in which he had a beneficial interest.

In March 2011, the Group placed 23,438,000 new ordinary shares to institutional investors in a private placing. The price per share was 400 pence, resulting in proceeds to the Company of US\$150.0 million. As part of the placing, the Company's Chairman and principal shareholder sold an additional 20,313,000 ordinary shares at 400 pence.

Following the share placement in March 2011, the Company's Chairman and principal shareholder was left with a beneficial interest of 30.2% in the Company's outstanding issued share capital.

This report was approved by the Board of Directors on 21 April 2011.

Signed on behalf of the Board.
L. Stuard Detmer
Chairman of the Remuneration Committee

CORPORATE GOVERNANCE REPORT

Introduction

The Board is committed to good corporate governance practices. The Company implemented its governance procedures and processes following its listing in December 2009. The Company is subject to the governance framework contained in the 2008 Combined Code on Corporate Governance published by the Financial Reporting Council (the "Combined Code") and will be subject to the

Governance Code when it becomes effective for the Company in 2011. Both the Combined Code and the Governance Code are available from the Financial Reporting Council's website www.frc.org.uk

This report describes how the Company has applied, or how it intends to apply, the principles set out in Section 1 of the Combined Code.

Statement of Compliance

It is the Board's intention to comply with Section 1 of the Combined Code in all material respects. The Board considers, as at the date of this report that, it complies with the Combined Code.

DIRECTORS

Board of Directors

The Board comprises the Executive Chairman: Maksat Arip, the Chief Executive Officer: Alessandro Manghi and three independent Non-executive Directors. L. Stuard Detmer has been appointed the Senior Independent Director. The other two Non-executive Directors are Ezio Bracco and Anne Belvèze.

Biographical details of all the Directors at the date of this report are set out on pages 18 to 19. The Board is responsible for setting the Company's objectives and policies, and providing effective leadership and the controls required for a publicly listed company. The Board has a formal schedule of matters specifically reserved to it for decision which sets out those matters which require Board approval and include the Group's strategy, business plan and annual budget, major capital expenditure, project approvals and contract awards, as well as key policies and procedures. Matters not reserved to the Board are generally delegated to management.

Directors receive a suite of briefing notes and reports for their consideration in advance of each Board meeting, including reports on the Group's operations, to ensure that they remain briefed on the latest developments and are able to make fully informed decisions. The Board met five times during 2010, four times in the Isle of Man and once by telephone conferencing from Dubai.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Thomas Johnson is the Company Secretary of Exillon Energy plc. In respect of the statutory aspects of the role under Isle of Man law, he is supported by Cains Fiduciaries Limited, a corporate entity based in the Isle of Man. The Board and its Committees are, therefore, serviced by the Company Secretary or his designated nominee. The Board will monitor the provision of company secretarial duties and take any action as appropriate to ensure its requirements are met. In accordance with the Articles, the removal of the Company Secretary is a matter for the Board as a whole.

All Directors may take independent professional advice at the expense of the Company in the furtherance of their duties.

Directors have the right to request that any concerns they have are recorded in the appropriate Board or committee minutes. The Company maintains Directors' and Officers' Liability Insurance and indemnity cover, the level of which is reviewed annually.

Chairman, Chief Executive Officer, and Senior Independent Director

The roles of the Chairman and Chief Executive Officer are held by different individuals and there is a clear separation of roles. The Chairman's key responsibilities are the effective running of the Board, ensuring that the Board plays a full and constructive part in the development and determination of the Group's strategy, and overseeing the Board's decision-making process. There have been no changes to those commitments since the Company's IPO. The key responsibilities of the Chief Executive Officer are managing the

Group's business, proposing and developing the Group's strategy and overall commercial objectives in consultation with the Board and, as leader of the executive team, implementing the decisions of the Board and its Committees.

Stuard Detmer is the Senior Independent Director. Mr Detmer is available to shareholders who have concerns that cannot be resolved through discussion with the Chief Executive Officer or Chairman.

Board balance and independence

The Board believes that its current membership of an Executive Chairman, one Executive Director and three Non-executive Directors is appropriate given the size and structure of the Group. Maksat Arip entered into a Relationship Agreement with the Company to ensure that the Group is capable of carrying on its businesses independently, and that transactions between the parties are dealt with on an arm's length basis and on normal commercial terms and that there shall at all times be a majority of Directors independent of Mr Arip.

The Board has also established a Conflicts Committee of independent Directors to consider

and, if appropriate, approve related party transactions (whether in relation to Mr Arip or any other Director). A description of the Conflicts Committee can be found below. It therefore considers that no single Director can dominate decision-making.

The Board has considered the guidance criteria on independence on Non-executive Directors under the Combined Code. In the opinion of the Board all the Non-executive Directors are independent as defined by A.3.1 of the Combined Code.

Appointments to the Board and re-election

Non-executive Directors are appointed for an initial term of three years. Thereafter, they may serve one or more three-year terms subject to satisfactory performance. The terms for the re-appointment of Directors are referred to more fully

on page 21 of the Directors' Report. The letters of appointment of each Non-executive Director are available for inspection at the registered office. Biographies of all the Board members appear on pages 18 to 19.

Information and professional development

As part of the Listing process all Directors received a briefing of their duties, responsibilities and liabilities as a director of a public listed company. Directors are encouraged to keep abreast of developments and attend training courses to assist them with their duties.

In addition to the formal meetings of the Board, the Chairman and Chief Executive Officer maintain frequent contact with the other Directors to discuss

any issues of concern they may have relating to the Group or as regards their area of responsibility and to keep them fully briefed on ongoing matters relating to the Group's operations.

The Company Secretary, in consultation with the Chairman and Chief Executive Officer, will provide an induction process for each new director tailored to their individual knowledge and experience.

Board performance

An annual performance appraisal of the Board, its Committees, individual Directors and the Chairman commenced during 2010. It was concluded that the Board and committees as presently constituted were of the right size and its members had the breadth of experience appropriate for the Company. These appraisal results were then confirmed and presented to the Chairman and the whole Board of Directors on 25 February 2011.

On 25 February 2011, the Non-executive Directors, led by the Senior Independent Director,

and without the Executive Directors' present, conferred to evaluate the Chairman's performance in leading the Board and in chairing meetings to conduct the Board's business.

In addition to their attendance at Board and, as appropriate, Committee meetings, the Chairman and the Non-executive Directors also met formally in February 2011 (without executive management present) to examine and review the Board performance of the executive management, both individually and as a team.

Board Committees

The following table sets out the number of meetings of the Board and its Committees following its Listing and individual attendance by the relevant members at these meetings.

	Board Meetings	Committee Meetings		
		Audit	Remuneration	Nomination
Maksat Arip	4	n/a	n/a	2
Alessandro Manghi	5	n/a	n/a	n/a
L. Stuard Detmer	5	4	2	2
Ezio Bracco	4	4	2	n/a
Anne Belvèze	5	4	2	2

Audit Committee

The members of the Audit Committee are Anne Belvèze (Chairman), Ezio Bracco and Stuard Detmer. Chairman Anne Belvèze is considered to have recent and relevant financial experience. Meetings are held at least four times a year. The primary duty of the Audit Committee is to oversee the accounting and financial reporting process of the Group, the external audit arrangements, the

internal accounting standards and practice, the independence of the external auditor, the integrity of the Group's external financial reports and the effectiveness of the Group's risk management and internal control system. The terms of reference of the Audit Committee are included on the Company's website, www.exillonenergy.com

Remuneration Committee

The members of the Remuneration Committee are Stuard Detmer (Chairman), Ezio Bracco and Anne Belvèze. Meetings will be held at least twice a year. The primary duty of the Remuneration Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Group's Chief Executive Officer, Chairman, the Executive Directors, the Company Secretary and such other members of

the executive management as it is designated to consider. The remuneration of Non-executive Directors is a matter for the Chairman and the executive members of the Board. No Director may be involved in any decisions as to their own remuneration. The terms of reference of the Remuneration Committee are included on the Company's website, www.exillonenergy.com

Nomination Committee

The members of the Nomination Committee are Maksat Arip (Chairman), Anne Belvèze and Stuard Detmer. Meetings will be held at least twice a year. The Nomination Committee's terms of reference, which are included on the Company's website, www.exillonenergy.com, are to review regularly the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes. The Nominations Committee also considers future considerations of the composition of the Board, taking into account the challenges

and opportunities facing the Group, and what skills and expertise are needed on the Board. It is the intention to review succession plans for key management roles, including the Executive Directors, on an ongoing basis.

All the current Board appointments were made prior to the IPO. The Board did not consider it appropriate to use an external search agency or open advertising as part of the IPO recruitment process. The Nominations Committee will review the use of external search agencies for future appointments when considering new appointments.

Corporate Social Responsibility Committee

The Board has constituted a Corporate Social Responsibility ("CSR") Committee to develop and approve the Group's corporate social responsibility policies including a new employee induction process policy, policy on the reporting and investigating accidents, a code of business practice and a whistleblowing policy. The members

of the CSR committee are one independent Non-executive Director (Ezio Bracco), the Chief Executive Officer and the Chief Operating Officer. The CSR will meet at least twice a year and its terms of reference are included on the Company's website, www.exillonenergy.com

The Conflicts Committee

The Board has also constituted a Conflicts Committee to consider and make recommendations to the Board with respect to conflicts of interest authorisations for members of the Board, the approval of related party transactions and transactions governed by

the Relationship Agreement. The members of the Conflicts Committee are Stuard Detmer (Chairman), Ezio Bracco and Anne Belvèze. The Conflicts Committee will meet immediately before and/or after each Board meeting, provided it has business to consider.

REMUNERATION

Full details of the role and composition of the Remuneration Committee, the remuneration policy of the Company and its compliance

with the Combined Code provisions relating to remuneration are set out in the Remuneration Report on pages 28 to 34.

ACCOUNTABILITY AND AUDIT

Audit Committee Report

The members of the Audit Committee are Anne Belvèze (Chairman), Ezio Bracco and Stuard Detmer. Other Board members may also be invited to attend committee meetings. Meetings will be held at least four times a year. The Chief Financial Officer will be invited to attend meetings where appropriate and the Group's Auditors will be regularly invited to attend meetings. At least once a year the Audit Committee will also meet the Group's external auditors without management present. The Audit Committee met four times in 2010 and has reviewed the following items of business:

- |||| consideration of matters relating to the appointment of the Group's Auditors.
- |||| the independence, objectivity and effectiveness of the Group's Auditors.
- |||| the integrity of the Group's annual preliminary results announcements and any other formal announcement relating to its financial performance.

- |||| accounting principles and practices adopted in the preparation of the financial statements and the basis for significant estimates and judgments.
- |||| the effectiveness of the Group's system of internal control and compliance procedures.
- |||| the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

The Audit Committee's recommendations on the accounting treatment of major transactions will be submitted to the Board for approval.

There was no internal audit function in place in 2010. In view of the increased size and complexity of the Group, the Audit Committee decided in March 2011 that it was appropriate for the Group to establish an internal audit function. Recruitment is currently under way.

The terms of reference of the Audit Committee are included on the Company's website, www.exillonenergy.com

Internal control

The Board has overall responsibility for the Group's system of internal control which includes risk management. The Board has delegated the responsibility for reviewing the effectiveness of its internal control systems to the Audit Committee. The Audit Committee will review these systems, including reviewing the risk matrix, policies and processes for tendering, authorisation of expenditure, fraud and the resourcing of internal audit activity, on an annual basis. The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by management. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

- |||| A risk matrix will continue to be developed and reviewed by management and monitored by the Audit Committee.
- |||| A framework of transaction and entity level controls to prevent and detect material error and loss.

The Board regularly updates a risk matrix for identifying, evaluating and managing the significant risks the Group faces, building on work in identifying risks that was undertaken at the time of the Company's listing on the London Stock Exchange. This process aims to follow current guidance on internal control issued by the Financial Reporting Council (the "Turnbull Guidance"). The Audit Committee will assist the Board in discharging its review responsibilities. A summary of the key risks facing the Group and mitigating actions is described on pages 24 to 25.

There are a number of components to the system of internal controls within the Company which form the basis on which assurance is sought and these are detailed as follows:

- |||| A budgetary and periodic reporting review process performed by management.
- |||| Financial reporting systems are managed and monitored by line and functional management through regular reporting.
- |||| A documented structure of delegated authorities and approvals for transaction and investment decisions, including any with related parties.
- |||| Controls, policies and procedures under the Financial Reporting Plan prepared at the time of the Company's listing is being monitored.

Responsibility for maintaining an effective control environment for financial reporting has been delegated to the Chief Financial Officer. Management at various levels also have operational responsibility within their respective areas. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements. Consolidated financial statements are prepared on a semi-annual basis in accordance with International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB') and the Listing Rules of the United Kingdom's Financial Services Authority ('FSA'). Data consolidated into the Group's financial statements is reconciled to the underlying financial systems and management accounts. A review of the consolidated data is undertaken by the Chief Financial Officer to ensure that the true position and results of the Group are reflected, through compliance with approved accounting policies and the appropriate

accounting for non-routine transactions. The Audit Committee reviews and discusses half-year and annual financial statements with management and the external auditors focusing on, without limitation, the quality and acceptability of accounting policies and practices, the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirement.

The Board has reviewed the effectiveness of the Group's system of internal controls taking account of the matters summarised above. On the basis of this review and in view of a number of related party transactions with the Chairman which have been set out in Note 32 to the financial statements on page 75, additional training of employees is necessary to ensure that the Group's listing obligations are fully understood and complied with. The Board is committed to ensuring that the Group introduce appropriate levels of risk management and internal control for companies listed on the London Stock Exchange.

Auditor independence

The Audit Committee also reviewed the independence and effectiveness of the external auditors, accepting that their independence had been maintained throughout the audit process for the financial year.

The Audit Committee has established a policy on the provision of non-audit services by the external auditor. In compiling that policy, which sets out the external auditors' acceptable and non-acceptable non-audit services and a fee threshold requiring

prior approval by the Audit Committee for any new engagement, reference was made to the "Guidance for Audit Committees – Reviewing Auditor Independence", published by the Institute of Chartered Accountants of England and Wales. The Audit Committee monitors the types of non-audit work that is undertaken by the external auditors to ensure that their objectivity and independence is not compromised. Non-audit work performed during the year principally referred to some services in relation to tax.

Going Concern

A statement on the Directors' position regarding the Company as going concern is contained in the Directors' Report on page 26.

SHARE CAPITAL STRUCTURE

The Group's share capital structure is detailed in the Director's report on page 21.

SHAREHOLDER RELATIONS

As part of the Placing roadshow in June 2010 the Group met with a number of investors in London and New York. The meetings involved the Chairman, and the First Vice President, Nurlan Assilbekov. The Chairman and First Vice President also participated in a non-deal roadshow on October 2010 in London. At the beginning of December 2010 the Company's Chief Executive Officer participated in an investor conference hosted by ING Bank.

The Chairman and First Vice President are primarily responsible for ensuring the effective communication of shareholders' views to the Board as a whole and will update the Board accordingly. Board members will seek to keep in touch with shareholder opinion and to discuss strategy and governance issues with them as time progresses. In addition an investor relations

programme, to include a 2011 roadshow and face-to-face meetings, is being put in place to meet major shareholders and analysts.

The Annual General Meeting of the Company will be an opportunity to communicate with shareholders and the Board welcomes their participation. The chairmen of the Remuneration, Audit and Nomination Committees will endeavour to be present at the Annual General Meeting to answer questions. Notice of the Annual General Meeting will be sent to shareholders at least 20 working days before the meeting. The voting results will be made available on the Company's website following the meeting.

Corporate information including the Annual Report and other financial information and announcements will be made available on the Company's website at www.exillonenergy.com.

This report was approved
by the Board of Directors
on 21 April 2011.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For stewardship purposes to assist the directors to discharge their obligations under Section 4 of the Disclosure and Transparency Rules issued by the United Kingdom's Financial Services Authority, the directors have prepared consolidated financial statements for the financial year. The directors have prepared the consolidated financial statements in accordance with International Financial Reporting

Standards (IFRSs) issued by the International Accounting Standards Board (IASB). The directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these consolidated financial statements, the directors are required to:

- |||| select suitable accounting policies and then apply them consistently;
- |||| make judgements and accounting estimates that are reasonable and prudent;
- |||| state whether applicable International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- |||| prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with IFRSs issued by the IASB. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Directors' Report on pages 18 to 19, confirm that, to the best of their knowledge:

- |||| the consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- |||| the Director's Report contained on pages 18 to 27 includes a fair review of the development and performance of the business and the position of the Group, together with a description of principal risks and uncertainties that it faces.

For and on behalf of the Board
Alessandro Manghi
Chief Executive Officer
21 April 2011

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF EXILLON ENERGY PLC

We have audited the consolidated financial statements of Exillon Energy plc for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cashflows and the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in the preparation of these consolidated financial statements is International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 42 the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the directors for stewardship purposes to assist the directors to discharge their obligations under Section 4 of the Disclosure and Transparency Rules issued by the United Kingdom's Financial Services Authority in accordance with our engagement letter dated 15 December 2010 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the consolidated financial statements:

- » give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended; and
- » have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board.

Matter on which we are required to report by exception

We have nothing to report in respect of the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review by the Listing Rules of the UK Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London
21 April 2011

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2010

Consolidated statement of comprehensive income

	Note	For the year ended 31 December 2010	For the year ended 31 December 2009
		\$'000	\$'000
Revenue	6, 8	84,787	22,526
Cost of sales	9	(40,821)	(14,017)
GROSS PROFIT		43,966	8,509
Selling expenses	10	(36,302)	(8,096)
Administrative expenses	11	(11,672)	(9,388)
Other income, net	12	1,421	22
Share issuance costs	15	(237)	(7,755)
Bargain purchase gain		-	197,562
OPERATING (LOSS)/PROFIT		(2,824)	180,854
Finance income	16	61	220
Finance cost	17	(982)	(1,019)
(LOSS)/PROFIT BEFORE INCOME TAX		(3,745)	180,055
Income tax credit	18	143	277
NET (LOSS)/PROFIT FOR THE YEAR		(3,602)	180,332
OTHER COMPREHENSIVE (EXPENSE)/ INCOME:			
Currency translation differences recognised directly in equity		(2,678)	39,072
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		(6,280)	219,404
(Loss)\earnings per share for profit attributable to the equity holders of the Company			
- Basic (\$)	19	(0.03)	15.87
- Diluted (\$)	19	(0.03)	15.80

The notes on pages 50 to 81 are an integral part of these consolidated financial statements

Alessandro Manghi
Chief Executive Officer

Consolidated statement of financial position

		As at 31 December	
	Note	2010	2009
		\$'000	\$'000
ASSETS:			
Non-current assets:			
Property, plant and equipment	20	469,394	430,352
Intangible assets		115	54
Long-term prepayments	23	-	317
		469,509	430,723
Current assets:			
Inventories	21	1,504	1,067
Trade and other receivables	22	8,407	1,800
Other current assets	23	4,034	1,646
Cash and cash equivalents	24	56,297	34,280
		70,242	38,793
TOTAL ASSETS		539,751	469,516
LIABILITIES AND EQUITY:			
Equity:			
Share capital	28	1	1
Share premium	28	126,034	95,783
Other invested capital	29	68,536	68,536
Retained earnings		177,051	180,421
Translation reserve		36,394	39,072
		408,016	383,813
Non-current liabilities:			
Provision for decommissioning	25	3,949	2,704
Deferred income tax liabilities	18	69,273	70,308
Trade and other payables	26	-	1,908
Long-term borrowings	27	47,147	240
		120,369	75,160
Current liabilities:			
Trade and other payables	26	7,020	7,651
Taxes payable		3,587	1,420
Short-term borrowings	27	759	1,472
		11,366	10,543
TOTAL LIABILITIES AND EQUITY		539,751	469,516

The notes on pages 50 to 81 are an integral part of these consolidated financial statements.

The financial statements on pages 46 to 81 were authorised for issue by the board of directors on 21 April 2011 and were signed on its behalf.

Alessandro Manghi
Chief Executive Officer

Consolidated statement of changes in equity

	Note	Share capital	Share premium	Other invested capital	(Accumulated loss)/ Retained earnings	Translation reserve	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2009		-	-	57,096	(357)	-	56,739
Comprehensive income							
Net profit for the year		-	-	-	180,332	-	180,332
Other comprehensive income							
Translation difference		-	-	-	-	39,072	39,072
Total comprehensive income		-	-	-	180,332	39,072	219,404
Initial Share capital	28	1	-	-	-	-	1
Additional paid-in-capital	28	-	999	-	-	-	999
Ordinary shares issued for cash	28	-	100,644	-	-	-	100,644
Share based payment charge	30	-	-	-	446	-	446
Share issue costs	28	-	(5,860)	-	-	-	(5,860)
Other contributions from shareholders	28	-	-	11,440	-	-	11,440
Transactions with owners		1	95,783	11,440	446	-	107,670
Balance at 31 December 2009		1	95,783	68,536	180,421	39,072	383,813
Comprehensive income							
Net loss for the year		-	-	-	(3,602)	-	(3,602)
Other comprehensive income							
Translation difference		-	-	-	-	(2,678)	(2,678)
Total comprehensive income		-	-	-	(3,602)	(2,678)	(6,280)
Ordinary shares issued for cash	28	-	32,190	-	-	-	32,190
Share based payment charge	30	-	-	-	232	-	232
Share issue costs	28	-	(1,939)	-	-	-	(1,939)
Transactions with owners		-	30,251	-	232	-	30,483
Balance at 31 December 2010		1	126,034	68,536	177,051	36,394	408,016

The notes on pages 50 to 81 form an integral part of these consolidated financial statements

Consolidated statement of cashflows

		For the year ended 31 December	
	Note	2010	2009
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss)/profit before income tax		(3,745)	180,055
Adjustments for:			
Depreciation, depletion and amortisation	20	6,670	3,509
Loss on disposal of property, plant and equipment		84	77
Finance income	16	(61)	(220)
Finance cost	17	982	1,019
Bargain purchase gain	7	-	(197,562)
Non-cash transactions		-	3,200
Operating cash flow before working capital changes		3,930	(9,922)
Changes in working capital:			
Increase in inventories		(447)	(140)
Increase in trade and other receivables		(9,078)	(26)
(Decrease)/increase in trade and other payables		(3,115)	2,937
Increase in taxes payable		1,990	558
Cash used in operations		(6,720)	(6,593)
Interest paid		-	(550)
Interest received		61	48
Net cash used in operating activities		(6,659)	(7,095)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(47,967)	(4,687)
Purchase consideration paid		-	(60,645)
Cash acquired in acquisition of Exillon WS		-	21
Cash acquired in acquisition of Exillon TP		-	1,610
Net cash used in investing activities		(47,967)	(63,701)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from share issuance	28	30,251	95,784
Contribution to equity		-	7,729
Proceeds from borrowings	27	47,147	6,223
Repayment of borrowings	27	-	(1,000)
Loan received from related parties	32	-	2,828
Repayment of loan from related parties	32	(740)	(6,656)
Net cash from financing activities		76,658	104,908
NET INCREASE IN CASH		22,032	34,112
Translation difference		(15)	163
Cash at beginning of the year		34,280	5
Cash at end of the year		56,297	34,280

The notes on pages 50 to 81 form an integral part of these consolidated financial statements

Alessandro Manghi
Chief Executive Officer

Notes to the financial statements

1. BACKGROUND

The principal activity of the Company and its subsidiaries (together “the Group”) is the exploration, development and production of oil within the Commonwealth of Independent States (“CIS”) region. The Group’s production facilities are based in the Republic of Komi and the Khanty-Mansiysk Region of the Russian Federation. The Group’s structure is given in Note 34.

Exillon Energy plc (the “Company” or the “Parent”) is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the Isle of Man. The company was formed on 27 March 2008. Its registered address is Fort Anne, South Quay, Douglas, Isle of Man, IM1 5PD.

As at 31 December 2010, the main shareholder has 49.9% in the Company's outstanding issued share capital.

The Group’s operations are conducted primarily through its subsidiaries, Exillon TP and Exillon WS.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRSs’) issued by the International Accounting Standards Board (‘IASB’) and the Listing Rules of the United Kingdom’s Financial Services Authority (‘FSA’). These standards are subject to interpretations issued from time to time by the International Financial Reporting Interpretation Committee (‘IFRIC’). These consolidated financial statements have been prepared on a historical cost basis, modified for fair values under IFRS.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also necessitates management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Note 33 to the financial statements include the Group’s objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk.

The Group believes that it has sufficient financial resources to manage its business risks successfully despite the current uncertain economic outlook. The Company’s forecasts and projections, taking account of reasonably possible changes in trading performance (including oil price), show that the Company should be able to operate with its current cash holding.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3. ADOPTION OF NEW AND REVISED STANDARDS

(I) Certain new and revised standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2010 and which the Group has adopted:

- » IFRS 3 Business combinations (revised January 2008); effective for the periods beginning on or after 1 July 2009;
- » IAS 27 Consolidated and separate financial statements (revised January 2008); effective for the periods beginning on or after 1 July 2009;
- » IFRIC 17 Distributions of non cash assets to owners (effective for the periods beginning on or after 1 July 2009) which requires to present details of dividends recognised as distributions to owners;
- » Amendments to IFRS 1 relating to additional exemptions; effective for the periods beginning on or after 1 July 2009 (earlier application is permitted).

Adoption of these Standards and Interpretations in current period had no material impact on these consolidated financial statements.

(II) Standards, amendments and interpretations to existing standards that are not effective yet and have not been early adopted by the Group:

- » IFRS 9 Financial instruments (effective on or after 1 January 2013);
- » IAS 24 Related party disclosures (revised, effective 1 January 2011);
- » IFRS 7 Financial instruments: Disclosures (amendment, effective 1 July 2011);
- » IAS 12 Income taxes (amendment on deferred tax, effective 1 January 2012).

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The Group’s consolidated financial statements incorporates the financial statements of the Company and its subsidiaries. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct and indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segmental reporting – Operating segments are reported in a manner consistent with the internal reporting provided to the directors of the Company. The Group’s primary format for reporting segment information is operational segments. The chief operating decision-maker, who is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments, has been identified as the Board.

Functional and presentation currencies – The items included in these consolidated financial statements relating to the Group companies are measured using their functional currency that is the currency in the main environment in which they operate. These consolidated financial statements are presented in US Dollars or \$, which is the Exillon Energy plc functional and presentation currency. The functional currency of the Group’s trading and oil extracting subsidiaries is the Russian Rouble and for the other companies it is the US dollar.

Foreign currency translation – Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

On consolidation, assets and liabilities denominated in foreign currencies are translated into US dollars at closing rates of exchange. Trading results of subsidiary undertakings are translated into US dollars at average rates of exchange. The Group uses average monthly rates published by Central Bank to translate trading results denominated in roubles into US dollars. Differences resulting from the retranslation of the opening net assets and the results for the year are taken to reserves.

The Group used the following exchange rates of one rouble to one US dollar:

	For the year ended 31 December	
	2010	2009
Closing rates of exchange	30.4769	30.2442
Effective annual average rates of exchange	30.3765	31.7231

The exchange rate of UAE Dirham (AED) to US dollar has been held constant for the last several years at a rate of 3.675 AED for one US dollar.

Business combination – The acquisitions of subsidiaries and businesses from third parties are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date. Where the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Property, plant and equipment – The Group uses the cost model by which items of property, plant and equipment are stated at historical purchase cost less accumulated depreciation.

a) Historical cost

Historical cost of property, plant and equipment items includes their acquisition cost, all the costs directly related to bringing the assets to the location and condition ready for their intended use and any costs of dismantling and removing the item or restoring the site on which it is located.

Staff costs and other operating expenses incurred in the construction of the asset are also capitalised.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Repair, upkeep and maintenance expenses are recognised in the consolidated statement of comprehensive income as incurred. Furthermore, certain of the Group's facilities require periodic reviews. In this respect, a portion of the items requiring replacement are recognised specifically and are depreciated over the period until the next repairs are carried out.

Property, plant and equipment also include investments relating to oil and gas exploration, development and production activities.

Exploration and evaluation assets

Exploration and evaluation assets are measured at cost less provision for impairment, where required.

The Group recognises oil and gas exploration and evaluation activities using successful efforts accounting, whereby the accounting treatment of the various costs incurred is as follows:

- I. The costs incurred in the acquisition of new interests in areas with proved and unproved reserves including exploration licence acquisition costs, are capitalised as incurred to the account "Exploration and Evaluation Assets" of the field concerned.
- II. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of unproved reserves and other expenditures relating to the exploration activity), excluding exploratory drilling expenditures, are expensed as incurred.
- III. Administrative expenses (office rent, office cars, administrative personnel) that are not directly attributable to the exploration and evaluation activities are expensed as incurred.
- IV. Exploratory drilling costs are capitalised to the account "Exploration and Evaluation Assets" of the field concerned, pending determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort. If the well does not demonstrate potential economic oil and gas quantities, the well costs are expensed as a dry hole and are reported in exploration expenses. It is not unusual to have exploration wells remaining suspended on the balance sheet for several years while additional appraisal drilling and seismic work on the potential oil and gas field is performed or while the optimum development plans and timing are established.
- V. The Group classifies exploration and evaluation assets as tangible assets since its tangible element (underlying reserves) is significant and exploration and evaluation assets represent an integral part of the underlying reserves.
- VI. Activities preceding the acquisition of oil and gas properties are defined as pre-exploration (or pre-licence). All pre-exploration expenditures are recognised as an expense in the consolidated statement of comprehensive income when incurred and include project feasibility studies, surface mapping and appraisal activities, as well as other overhead costs related to pre-exploration activities.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource is proved. Once commercial reserves are found, exploration and evaluation assets are transferred to account "Oil and Gas Properties" and depleted using the unit-of-production method as described in paragraph b) **Depreciation and depletion** below.

Development costs

Expenditures related to the development of hydrocarbons are not recognised as exploration and evaluation assets but as oil and gas properties.

Development costs include the cost of development wells to produce proved reserves, the cost of production facilities (such as flow lines, separators, oil treatment facilities, heaters, storage tanks, improved recovery systems and gas processing facilities), borrowing costs and other costs necessary to obtain access to proved and probable reserves.

b) Depreciation and depletion

Property, plant and equipment related to oil and gas production activities are depreciated using the unit-of-production method as described below, except in the case of assets whose useful life is shorter than the lifetime of the field (roads, pipelines, pumps etc), in which case the straight-line method is applied. Exploration and evaluation assets are only depreciated when the field is in production.

- I. Producing wells, well pads and other producing items are depleted over Proved and Probable (2P) reserves on a field-by-field basis.
- II. Capitalised future decommissioning costs are depleted over Proved and Probable reserves (2P).
- III. Other development costs that cannot be attributed to particular producing units are allocated to cost centres of related oil fields based on their reserve share in the total portfolio. Such costs are depleted over Proved and Probable (2P) reserves on a field-by-field basis.

Since 2P reserves assume future development costs to access proved undeveloped and probable reserves, an adjustment is made to the depreciation base to reflect the effect of future development costs.

Property, plant and equipment, other than those described above, are depreciated using the straight-line method on the basis of the acquisition cost of the assets less their estimated residual value, over the years of estimated useful life of the assets, as follows:

Buildings and construction	5 to 30 years
Machinery and equipment	3 to 20 years
Other	3 to 7 years

The residual values and useful lives of these assets are reviewed annually. Depreciation and depletion starts when the assets become available for use.

Impairment of assets - Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped into cash-generating units as they generate cash flows which are independent from other units.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax risk adjusted discount rate.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount, and an impairment loss is recognised in the consolidated statement of comprehensive income.

The basis for future depreciation or amortisation will take into account the reduction in the value of the asset as a result of any accumulated impairment losses.

When an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined in case no impairment loss had

been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of comprehensive income. The reversal is capped at the value that the asset would have been held at had it continued to be depreciated. An impairment loss recognised for goodwill can not be reversed in a subsequent period.

Impairment of oil and gas properties

For oil and gas properties, assets are tested for impairment whenever facts and circumstances indicate potential impairment. Impairment reviews compare the carrying amount of an asset with its recoverable amount. Recoverable amount is the higher of value in use and fair value less costs to sell. As the company is in the development phase, recoverable amount is based on fair value less costs to sell based on market participant assumptions of the future cash flows to be obtained from the proved and probable reserves.

Recognition and measurement of financial instruments – The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument.

Financial assets and liabilities are initially recognised at fair value. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions; and short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition.

Trade and other receivables – Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The primary factors that the Group considers when determining whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- » any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- » the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- » the counterparty considers bankruptcy or a financial reorganisation;
- » there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Inventories – Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and custom clearance costs.

Trade and other payables – Trade and other payables are carried at payment or settlement amounts. Where the time value of money is material, payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate.

Borrowings – Borrowings are initially recognised at fair value, being the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised costs using the effective interest method.

Operating leases – Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are recognised on a straight-line basis over the period of the lease and charged to the consolidated statement of comprehensive income.

Provisions and contingencies – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under

an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost. Any change in the amount recognised for environmental and litigation and other provisions arising through changes in discount rates is included within finance cost.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Provision for decommissioning – Provision for decommissioning is recognised only to the extent of the expected costs needed to remediate the actual damage made to the environment. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Income taxes – Income tax expense represents the sum of the tax currently payable and deferred tax. The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation.

The tax currently payable is based on the taxable profits for the period. Taxable profit differs from net 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on arising temporary differences, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

Pensions and post-employment benefits – Wages, salaries, mandatory defined contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Share based payments – the fair value of share incentives and awards to employees is measured with reference to the fair value of the equity instruments awarded at the date of grant. The Black-Scholes option pricing model is used to determine the fair value of the award made. The cost of the share based incentives is recognised as an expense over the vesting period of the award, with a corresponding increase in equity.

Share issuance costs – Costs related directly to the new issue of shares have been deducted from equity. Attributable IPO costs are allocated between the share premium account and income statement in proportion to the number of new shares issued compared to the existing number of shares. Other costs attributable to the Listing have been expensed.

Advances and prepayments – Advances and prepayments are carried at cost less provision for impairment. An advance or prepayment is classified as construction in progress when the goods or services relating to the advance or prepayment are expected to be obtained after one year, or when the advance or prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Advances or prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances and prepayments are written off to profit or loss when the expenses relating to the advances or prepayments are incurred. If there is an indication that the assets, goods or services relating to an advance or prepayment will not be received, the carrying value of the advance or prepayment is written down accordingly and a corresponding impairment loss is recognised in the consolidated statement of comprehensive income.

Share capital – Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Revenue recognition – Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the crude oil is shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. Interest income is recognised on a time-proportion basis using the effective interest method.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Details of the Group's significant accounting judgements and critical accounting estimates are set out below:

Licence life of Exillon TP

Some of the licences of Exillon TP for subsurface use for the extraction of hydrocarbons, such as ETP I and ETP IV expire in 2013. Management of the Group expects that these licences will be extended at nominal cost until the end of the field life which is expected to be in 2027-2028. In these financial statements the depreciation charge and the carrying amounts of property, plant and equipment and provision for decommissioning have been recorded on the assumption that the subsurface use licences will be extended until the end of the field life. Based on analysis of its subsurface use licences, current Russian legislation, and industry practice, the Group believes that it is entitled to prolong the licences under the contractual terms and the subsurface use legislation beyond 2013. If the licences are not renewed by the end of 2013, the carrying amount of property, plant and equipment that would have to be derecognised at the expiry date of the subsurface use licence will be \$75,282 thousand as of 31 December 2010 (2009: \$77,516 thousand). The decommissioning liability would be \$108 thousand higher as at 31 December 2010 (2009: \$123 thousand).

Decommissioning costs

Provision for decommissioning represents the present value of decommissioning costs relating to the Russian Federation oil and gas interests, which are expected to be incurred after 2027. These provisions have been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. Those estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works 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.

Major assumptions used in estimation of decommissioning costs are set out below:

Exillon TP:

- » As at 31 December 2010, undiscounted value of estimated future cash outflows is estimated at \$1,499 thousand (2009: \$2,399 thousand);
- » Expected timing of future cash outflows – the majority of the expenditure is expected to take place after 2027 (2009: after 2027);
- » Discount rate – 10% per annum (2009: 10%);
- » Inflation rate – 7% per annum (2009: 7%).

If the inflation rate had increased by 1% to 8% at 31 December 2010, the decommissioning liability would have been \$156 thousands higher (2009: \$239 thousand higher).

If the discount rate had increased by 1% to 11% at 31 December 2010, the decommissioning liability would have been \$125 thousands lower (2009: \$197 thousand lower).

Exillon WS:

- » As at 31 December 2010, undiscounted value of estimated future cash outflows is estimated at \$4,792 thousand (2009: \$1,439 thousand);
- » Expected timing of future cash outflows – the majority of the expenditure is expected to take place after 2027 (2009: after 2027);
- » Discount rate – 10% per annum (2009: 10%);
- » Inflation rate – 7% per annum (2009: 7%).

If the inflation rate had increased by 1% to 8% at 31 December 2010, the decommissioning liability would have been \$523 thousands higher (2009: \$203 thousand higher).

If the discount rate had increased by 1% to 11% at 31 December 2010, the decommissioning liability would have been \$418 thousands lower (2009: \$167 thousand lower).

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in oil and gas reserves, particularly proved and probable reserves, will affect unit-of-production depreciation charges in the consolidated statement of comprehensive income.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Probable reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as depletion charges and provision for decommissioning) that are based on Proved and Probable reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future

revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Changes to the Group's estimates of Proved and Probable reserves also affect the amount of depreciation and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in Proved and Probable reserves will increase depreciation and amortisation charges (assuming constant production) and reduce income.

Proved and Probable reserve estimates of the Group as of 31 December 2010 were based on the reports prepared by Miller and Lents Ltd, independent engineering consultants.

As at 31 December 2010, the net carrying amount of oil and gas properties and related cost of production licence was \$395,829 thousand (2009: \$390,253 thousand).

6. SEGMENTAL ANALYSIS

Management has determined the operating segments based on the reports reviewed by Directors that are used to make strategic decisions, who are deemed to be the chief operating decision maker.

Exillon Energy plc manages its business as 3 operating segments, Exillon WS, Exillon TP and Regional Resources.

- » Exillon TP: oil company based in the Timan-Pechora basin in the Komi Republic in the Russian Federation. The revenue is derived from extraction and sale of crude oil.
- » Exillon WS: oil company based in Western Siberia in the Russian Federation. The revenue is derived from extraction and sale of crude oil.
- » Regional Resources: oil trading company based in Moscow in the Russian Federation.

Segmental information for the Group for the year ended 31 December 2010 is presented below:

	Exillon TP	Exillon WS	Regional Resources	Other	Intersegment eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross segment revenue	58,288	26,499	1,046	-	-	85,833
Inter-segment revenues	-	-	(1,046)	-	-	(1,046)
Revenue	58,288	26,499	-	-	-	84,787
Selling expenses	(29,208)	(8,038)	-	-	944	(36,302)
Net Back	29,080	18,461	-	-	(944)	48,485
EBITDA	13,856	5,528	121	(15,659)	-	3,846
Depreciation and depletion	5,276	564	-	23	-	5,863
Finance income	(19)	(26)	-	(16)	-	(61)
Finance cost	48	120	-	814	-	982
Operating (loss)/profit	8,960	3,921	58	(15,763)	-	(2,824)
Capital Expenditures	4,177	37,884	148	5,758	-	47,967
Total assets	200,091	277,104	2,168	60,388	-	539,751

For the year ended 31 December 2010, revenues of approximately \$33,289 thousand (full amount is attributable to Exillon TP), \$22,084 thousand (full amount is attributable to Exillon TP) and \$14,753 thousand (TP: \$3,869 thousand; WS: \$10,884 thousand) are derived from three external customers. These revenues are attributable to Exillon TP and Exillon WS segments and are from the only customers which individually represent over 10% of the Group's revenues.

Segmental information for the Group for the year ended 31 December 2009 is presented below:

	Exillon TP	Exillon WS	Regional Resources	Other	Intersegment eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross segment revenue	22,526	-	487	-	-	23,013
Inter-segment revenues	-	-	(487)	-	-	(487)
Revenue	22,526	-	-	-	-	22,526
Selling expenses	(8,096)	-	-	-	-	(8,096)
Net Back	14,430	-	-	-	-	14,430
EBITDA	(677)	(380)	121	(12,166)	-	(13,102)
Depreciation and depletion	3,648	-	-	-	-	3,648
Finance income	(48)	(172)	-	-	-	(220)
Finance cost	215	254	-	550	-	1,019
Operating (loss)/profit	(1,497)	(618)	121	182,848	-	180,854
Capital Expenditures	2,952	1,355	-	380	-	4,687
Total assets	203,710	231,214	309	34,283	-	469,516

For the year ended 31 December 2009, revenues of approximately \$12,840 thousand and \$3,379 thousand are derived from two external customers. These revenues are attributable to Exillon TP segments and are from the only customers which individually represent over 10% of the Group's revenues.

The Group's management assesses the performance of the operating segments based on EBITDA (Earnings before interest, tax, depreciation and depletion and exploration expenses) which is calculated as follows: operating result plus depletion and depreciation, exploration and evaluation expenses and plus/minus other significant one-off income/(expenses). In 2009, other significant on-off items included Bargain purchase gain. EBITDA is calculated based on depletion and depreciation calculated in compliance with IFRS.

Net back is defined as revenue less selling expenses.

Reconciliation of operating (loss)/profit to EBITDA for the year ended 31 December 2010 is presented below:

	Exillon TP	Exillon WS	Regional Resources	Other	Intersegment eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating profit/(loss)	8,960	3,921	58	(15,763)	-	(2,824)
Depreciation and depletion	4,896	1,607	63	104	-	6,670
EBITDA	13,856	5,528	121	(15,659)	-	3,846

Reconciliation of operating (loss)/profit to EBITDA for the year ended 31 December 2009 is presented below:

	Exillon TP	Exillon WS	Regional Resources	Other	Intersegment eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating (loss)/profit	(1,497)	(618)	121	182,848	-	180,854
Depreciation and depletion	3,484	2	-	23	-	3,509
Bargain purchase gain	-	-	-	(197,562)	-	(197,562)
Exploration and evaluation expenses	16	81	-	-	-	97
EBITDA	2,003	(535)	121	(14,691)	-	(13,102)

For management purposes, depreciation calculated in accordance with Russian Accounting Standards (RAS) is reported to the CODM. IFRS depreciation is calculated based on fair value of Property, plant and equipment as it was measured in business combination, while RAS calculations are based on historical costs. Another principle difference of calculation relates to the usage of straight-line method for Property, plant and equipment related to oil and gas production activities in RAS instead of usage of unit-of-production method used in IFRS. The reconciliation of depreciation is presented below:

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Depreciation calculated in compliance with RAS	5,863	3,648
IFRS adjustments	807	(139)
Depreciation calculated in compliance with IFRS	6,670	3,509

Activities by geographical areas

The Group derives its revenue from export and domestic sales with allocation of revenue on the basis of the customer's location:

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Domestic sales		
Russian Federation	26,177	9,608
Export sales		
Switzerland	33,520	7,505
Germany	22,084	-
Poland	-	5,413
Hungary	3,006	-
Total	84,787	22,526

For the year ended 31 December 2010, revenues of approximately \$14,660 thousand, \$3,403 thousand and \$2,880 thousand are derived from three external customers and attributable to domestic sales. Export sales included revenues from two customers which individually represent over 10% of the Group's revenues.

For the year ended 31 December 2009, revenues of approximately \$4,420 thousand, \$1,250 thousand and \$961 thousand are derived from three external customers and attributable to domestic sales. Export sales are derived from a single external customer, which individually represent over 10% of the Group's revenues.

As at 31 December 2010 and 31 December 2009, non-current assets located outside the Russian Federation were insignificant.

7. 2009 ACQUISITIONS

a) Acquisition of an interest in a joint venture

Exillon WS

On 30 January 2009, the Group acquired a 50% interest in Exillon WS, a company incorporated in the Russian Federation, for the total purchase consideration comprising a deferred cash payment of \$2,500 thousand and the assumption and repayment of all debts of Exillon WS to the selling party of \$11,992 thousand. On 20 February 2009, the Group informed the Russian Federation anti-trust authorities of the transaction. Approval from the anti-trust authorities was not required prior to the acquisition due to the size of the company being acquired. Anti-trust approval for the acquisition has since been obtained.

The Group started to consolidate its share in assets, liabilities, income and expenses of Exillon WS with effect from 30 January 2009.

b) Acquisition of the remaining 50% interest in a joint venture

Exillon WS

On 16 December 2009, the Group acquired the remaining 50% interest in Exillon WS, for the total purchase consideration comprising a cash payment of \$35,694 thousand and the assumption and repayment of all debts of Exillon WS to the selling parties of \$15,569 thousand. On 28 January 2010, the Group informed the Russian Federation anti-trust authorities of the transaction. Approval from the anti-trust authorities was not required prior to the acquisition due to the size of the company being acquired. Anti-trust approval for the acquisition has since been obtained.

The Group started to consolidate its share in assets, liabilities, income and expenses of Exillon WS with effect from 16 December 2009.

c) Acquisition of a subsidiary

Exillon TP

On 12 February 2009, the Group acquired a 10% interest in Exillon TP, for the deferred cash payment of \$156 thousand. On 9 April 2009 the Group acquired the remaining 90% interest in Exillon TP for the total purchase consideration comprising a deferred cash payment of \$1,562 thousand and the assumption and repayment of all debts of Exillon TP to the selling party.

The approval of that transaction by the Russian Federation anti-trust authorities was received on 2 April 2009. The Group obtained control over Exillon TP on 9 April 2009 after legal acquisition had been completed and approval of Russian Federation anti-trust authorities has been obtained.

The Group started to consolidate its share in assets, liabilities, income and expenses of Exillon TP with effect from 9 April 2009.

8. REVENUE

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Export sales of crude oil	58,610	12,918
Domestic sales of crude oil	26,177	9,608
	84,787	22,526

9. COST OF SALES

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Minerals extraction tax	23,536	6,315
Depreciation and depletion	6,454	3,457
Oil treatment and in field transportation	4,882	814
Salary and related taxes	2,583	1,428
Materials	1,323	683
Current repair of property, plant and equipment	735	314
Taxes other than income tax	687	577
Licence maintenance cost	360	445
Operating lease	243	185
Exploration and evaluation expenses	-	97
	40,803	14,315
Change in finished goods	18	(298)
	40,821	14,017

10. SELLING EXPENSES

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Export duties	28,855	5,796
Transportation services	6,750	2,120
Other expenses	697	180
	36,302	8,096

11. ADMINISTRATIVE EXPENSES

	Note	For the year ended 31 December	
		2010	2009
		\$'000	\$'000
Salary and related taxes		6,131	3,878
Consulting services		1,136	966
Business travel		1,063	472
Share based payment charge	30	232	1,346
Operating lease		595	349
Communication services		323	142
Depreciation and amortisation		216	52
Bank services		186	47
Accounting fees		177	445
Secretary services		177	-
Insurance		113	58
Security services		341	12
Advertising services		8	70
Other expenses		974	1,551
		11,672	9,388

12. OTHER INCOME, NET

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Debt forgiveness	972	-
Income on inventory sales	692	-
Penalties received	516	-
Foreign exchange loss	(625)	(38)
Other (costs)/income	(134)	60
	1,421	22

During the year ended 31 December 2010, the interest-free loan received by Exillon TP from OJSC Center Finance in 2008 of \$972 thousand was forgiven (Note 27).

Income on inventory sales in the amount of \$692 thousand related to the sale of pipes by Exillon WS.

Penalties were received from third parties as a result of non compliance with contractual terms.

13. AUDITORS' REMUNERATION

During the year, the Group obtained the following services from the Group's auditor as detailed below:

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Audit services		
Fees payable to the Group's auditor for the audit of annual financial statements	325	335
Other audit services pursuant to legislation	78	-
Non-audit services		
Services pursuant to legislation*	-	2,400
All other services	129	65
Total	532	2,800

* Comprises primarily services in relation to the preparation for the Listing of the Company.

14. EMPLOYEE COSTS

	Note	For the year ended 31 December	
		2010	2009
		\$'000	\$'000
Wages and salaries		7,650	5,070
Social tax		530	236
Share based payment cost*		232	1,346
Accommodation allowance	32	534	-
IPO bonus		-	1,500
		8,946	8,152

* Costs expensed in relation to the preparation to the initial public offering for which Directors and senior management received share awards with vesting period of three years from the date of the Initial Public Offering (IPO) and prohibition of any dealings with these shares during the vesting period. The award has no dependence on performance during vesting period.

The average number of full time equivalent employees (including directors) during the year was as follows:

	Number of employees	
	For the year ended 31 December	
	2010	2009
Exillon TP	120	123
Exillon WS	59	22
Regional Resources	13	4
Head office	22	25
	214	174

15. SHARE ISSUANCE COSTS

Costs expensed for the year ended 31 December 2010, in relation to the issue of new shares in June 2010, are \$237 thousand all of which related to professional and other services. Costs expensed for the year ended 31 December 2009, in relation to the initial public offering, are \$7,755 thousand of which \$6,255 thousand related to professional and other services. The remaining costs for the year ended 31 December 2009 in the amount of \$1,500 thousand relates to an IPO bonus, payable to a member of senior management. Costs of \$5,860 thousand have been taken to equity (Note 28).

16. FINANCE INCOME

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Net foreign exchange gains on borrowings	-	172
Interest income on cash in bank	61	48
	61	220

17. FINANCE COST

	Note	For the year ended 31 December	
		2010	2009
		\$'000	\$'000
Interest expense on borrowings		619	189
Amortisation of borrowing costs		195	-
Unwinding of the present value discount on borrowings and provisions	25, 27	168	280
Financing arrangement fees*		-	550
		982	1,019

* During the year ended 31 December 2009 \$550 thousand had been advanced by the Group to Lootah Farazad Investments ("LFI") for the arrangement of bond financing. In the middle of October 2009 it became clear that LFI was unable to arrange this financing. The Group fully provided against this amount during 2009.

18. INCOME TAXES

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Current tax	318	25
Deferred tax	(461)	(302)
Income tax credit	(143)	(277)

The income tax rate applicable to the major part of the Group's income is 20% (2009: 20%). Reconciliation between the expected and the actual taxation charge is provided below:

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
(Loss)/profit before income tax	(3,745)	180,055
Theoretical tax charge at statutory rate 20%	(749)	36,011
Non-taxable gain from business combination	-	(39,513)
Effect of 0% tax rate for Cyprus, UAE and Isle of Man	1,103	2,329
Utilisation of tax loss carry forward	(639)	816
Other non-deductible expenses	142	80
Income tax credit	(143)	(277)

Deferred taxation

Differences between IFRS and statutory taxation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%:

	31 December 2009	Charged to profit or loss	Translation difference	31 December 2010
	\$'000	\$'000	\$'000	\$'000
Tax effect of deductible temporary differences and tax loss carry forwards				
Provision for decommissioning	(542)	(254)	5	(791)
Provision for unused vacation	(24)	(4)	-	(28)
Tax loss carry forward	(443)	387	4	(52)
Other	(53)	(249)	(39)	(341)
Gross deferred tax asset	(1,062)	(120)	(30)	(1,212)
Tax effect of taxable temporary differences				
Property, plant and equipment	71,346	(341)	(544)	70,461
Other	24	-	-	24
Gross deferred tax liability	71,370	(341)	(544)	70,485
Net deferred tax liability	70,308	(461)	(574)	69,273

The tax effect of the movements in the temporary differences for the year ended 31 December 2009 are:

	31 December 2008	Acquired in business combination	Charged to profit or loss	Translation difference	31 December 2009
	\$'000	\$'000	\$'000	\$'000	\$'000
Tax effect of deductible temporary differences and tax loss carry forwards					
Provision for decommissioning	-	(435)	(67)	(40)	(542)
Provision for unused vacation	-	(23)	1	(2)	(24)
Tax loss carry forward	-	(428)	20	(35)	(443)
Other	-	(42)	(8)	(3)	(53)
Gross deferred tax asset	-	(928)	(54)	(80)	(1,062)
Tax effect of taxable temporary differences					
Property, plant and equipment	-	65,893	(253)	5,706	71,346
Borrowings	-	19	(19)	-	-
Other	-	-	24	-	24
Gross deferred tax liability	-	65,912	(248)	5,706	71,370
Net deferred tax liability	-	64,984	(302)	5,626	70,308

The deferred tax liability mainly arises from the measurement at fair value of property, plant and equipment.

The Group estimated that \$69 thousand of gross deferred tax assets relating to tax losses and provision for decommissioning will be recovered within 12 months from the financial position date. Under Russian tax legislation tax losses are available for use for a period of 10 years. In addition, the Group estimated that \$229 thousand of the gross deferred tax liabilities relating to property plant and equipment will be reversed within 12 months from the financial position date. The Group estimated that all other deductible and taxable temporary differences will reverse after 12 months from the financial position date.

At 31 December 2010, the aggregate amount of temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognized, was \$10,110 thousand.

19. EARNINGS PER SHARE

Basic earnings per share ('EPS') is calculated by dividing net profit for the year attributable to ordinary equity shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and adjusted share data used in the EPS computations:

	For the year ended 31 December	
	2010	2009
Net (loss)/profit attributable to equity shareholders of the Group	(3,602)	180,332
Number of shares:		
Weighted average number of ordinary shares	126,827,625	11,364,384
Adjustments for:		
Shares additionally issued for IPO share awards	1,255,205	48,145
Weighted average number of ordinary shares for diluted earnings per share	128,082,830	11,412,529
Basic (\$)	(0.03)	15.87
Diluted (\$)	(0.03)	15.80

In March 2011, the Group placed 23,438,000 new ordinary shares to institutional investors in a private placing (Note 35).

20. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Exploration and Evaluation Assets	Buildings and construction	Machinery, equipment, transport and other	Construction in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Historical Cost						
1 January 2009	-	-	-	-	-	-
Acquisition of subsidiaries/ joint ventures	353,502	-	7,470	3,019	29,649	393,640
Additions	146	-	-	1,200	3,983	5,329
Transferred from construction in progress	8,068	-	-	7	(8,075)	-
Disposals	-	-	(11)	(31)	(44)	(86)
Translation difference	31,367	-	872	369	2,435	35,043
31 December 2009	393,083	-	8,331	4,564	27,948	433,926
Additions	2,940	5,295	1,219	2,761	37,025	49,240
Transferred from construction in progress	10,530	-	17	-	(10,547)	-
Disposals	-	-	-	(103)	-	(103)
Translation difference	(2,757)	81	(58)	(27)	(713)	(3,474)
31 December 2010	403,796	5,376	9,509	7,195	53,713	479,589
Accumulated depreciation and depletion						
1 January 2009	-	-	-	-	-	-
Charge for the period	(2,769)	-	(292)	(448)	-	(3,509)
Disposals	-	-	2	7	-	9
Translation difference	(61)	-	(6)	(7)	-	(74)
31 December 2009	(2,830)	-	(296)	(448)	-	(3,574)
Charge for the period	(5,160)	-	(474)	(1,036)	-	(6,670)
Disposals	-	-	-	19	-	19
Translation difference	23	-	5	2	-	30
31 December 2010	(7,967)	-	(765)	(1,463)	-	(10,195)
Net book value						
1 January 2009	-	-	-	-	-	-
31 December 2009	390,253	-	8,035	4,116	27,948	430,352
31 December 2010	395,829	5,376	8,744	5,732	53,713	469,394

Included within oil and gas properties as of 31 December 2010 is \$2,829 thousand (2009: \$1,746 thousand) relating to decommissioning costs and \$175 thousand (2009: nil) relating to borrowing costs capitalised during the period. Total borrowing costs incurred during the period amounted to \$989 thousand with capitalisation rate equal to 17.7%.

Exploration and Evaluation Assets as of 31 December 2010 are attributable to the North Kenyuns koye licence acquired in February 2010.

Construction in progress relates to the construction of infield infrastructure and drilling of oil wells commenced during the year ended 31 December 2010.

21. INVENTORIES

	As at 31 December	
	2010	2009
	\$'000	\$'000
Fuel	227	150
Spare parts	830	337
Raw materials and components	123	171
Finished goods	324	409
	1,504	1,067

22. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2010	2009
	\$'000	\$'000
Trade receivables	1,626	618
Allowance for doubtful debts	(136)	(136)
Net trade receivables	1,490	482
Other receivables	2,613	275
Taxes recoverable	4,304	1,043
Current trade and other receivables	8,407	1,800

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the management of the Group believes that there is no further credit provision required in excess of the allowance for doubtful debts.

23. OTHER ASSETS

	As at 31 December	
	2010	2009
	\$'000	\$'000
Loans to employees	1,352	-
Prepayments	1,841	1,222
Prepaid expenses	695	656
Other	146	85
	4,034	1,963
Less: long-term prepayments	-	(317)
Other current assets	4,034	1,646

Included within Loans to employees as of 31 December 2010 are one-year interest-free loans provided to the employees and receivables from the employees for accommodation prepayments made by the Company for them.

24. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2010	2009
	\$'000	\$'000
Cash on deposit (contractual interest rate 0.25 % p.a.)	45,645	-
Cash in bank (contractual interest rate 1.5 % p.a.)	3,662	-
Cash in bank (interest-free)	5,380	-
Cash on deposit (contractual interest rate 3.5 % p.a.)	-	34,085
Cash on deposit (contractual interest rate 6.2 – 6.9 % p.a.)	-	164
Cash on hand	1,610	31
	56,297	34,280

25. PROVISION FOR DECOMMISSIONING

	As at 31 December	
	2010	2009
	\$'000	\$'000
Balance at the beginning of the year	2,704	-
Acquisition of Exillon WS and Exillon TP	-	2,173
Additions	2,140	54
Change in estimates	(1,105)	91
Unwinding of the present value discount (Note 17)	168	188
Translation difference	42	198
Balance at the end of the year	3,949	2,704

In accordance with the licence agreements the Group is liable for site restoration, clean up and abandonment of the wells upon completion of their production cycle. The provision for future site restoration relates to obligations to restore the oilfields after use. All of these costs are expected to be incurred at the end of the life of wells after 2027. They depend on the estimated lives of the wells, the scale of any possible contamination and the timing and extent of corrective actions.

The summary of the key assumptions on which the discounted carrying amount of the obligation is based is provided in the Note 5 to these consolidated financial statements.

The unwinding of the discount related to future site restoration and abandonment reserve is included within finance costs. The management believes that this estimate of the future liability is appropriate to the size of the fields.

26. TRADE AND OTHER PAYABLES

	As at 31 December	
	2010	2009
	\$'000	\$'000
Trade payables	3,768	4,280
Purchase of well	778	2,930
Salary payable	1,683	2,061
Other payables	791	288
Total trade and other payables	7,020	9,559
Less non-current portion	-	(1,908)
Current trade and other payables	7,020	7,651

Long-term payables represent payables to Zarubezhneft, which had arisen from the purchase of oil well #15 in January 2009. The amount is payable in monthly installments of \$195 thousand until the end of April 2011.

27. BORROWINGS

	As at 31 December	
	2010	2009
	\$'000	\$'000
Credit Suisse	47,906	-
OJSC Center Finance	-	972
Loan from majority shareholder	-	500
Tredall Ltd	-	140
Caspian Minerals LLP	-	100
Total borrowings	47,906	1,712
Less: current portion	(759)	(1,472)
Long-term portion	47,147	240

There is no material difference between the carrying amount and fair value of borrowings.

Credit Suisse – On 10 September 2010, the Group agreed a loan facility of \$50 million with a term of 3.5 years. Interest is charged at LIBOR plus 7% interest rate. At 31 December 2010, the outstanding balance of \$47,147 thousand was recognized net of the unamortized amounts of borrowing costs of \$2,853 thousand. The amortisation of borrowing costs for 2010 was \$230 thousand.

The loan is free of any equity related components and is repayable in instalments from 18 January 2012: four equal payments in the amount of \$2.5 million will be made on a quarterly basis in 2012; four equal payments in the amount of \$5 million will be made on quarterly basis in 2013; the payment of \$5 million will be made on 20 January 2014 and the remaining amount of \$15 million will be paid on 22 April 2014.

The interest is payable quarterly with the first payment made in January 2011.

The loan is secured by a pledge of the 100% shares of certain Group's subsidiaries (Note 34): Exillon TP, Exillon WS, Regional Resources LLC, Ucatex Oil LLC, Kayumneft LLC, Nem Oil LLC, Actionbrook Limited, Claybrook Limited, Diamondbridge Limited, Lanarch Limited, Halescope Limited, Vitalaction Limited, Corewell Limited, Touchskope Limited, Silo Holdings Limited and Exillon Finance Limited.

The loan is also secured by the rights to receive cash from Trade receivables balances under export contracts with Vitol S.A. and Altex Handel und Betatung GmbH and cash balances from bank account opened in CJSC Bank Credit Suisse (Moscow).

OJSC Center Finance – Interest-free loan from OJSC Center Finance was obtained in 2008 by Exillon TP. The loan was forgiven based on the agreement concluded between the parties on 24 December 2010.

Short term loan from Major Shareholder – On 11 November 2009, the Company received a short-term loan of \$500 thousand from the Major Shareholder. The loan was interest free and was repaid on 13 January 2010.

28. SHARE CAPITAL

The amount of share capital available for issue at the date of these consolidated financial statements and the issued share capital of the Company are as follows:

	Note	Number (allotted and called up)	Share capital \$'000	Share Premium \$'000
As at 31 December 2008		-	-	-
Allotted and called up share capital		1,000,000	1	999
Share split		79,000,000	-	-
Shares issued to EBT		3,765,624	-	-
IPO share awards	30	810,736	-	-
Forfeited IPO share awards	30	444,469	-	-
Issuance of shares on IPO		40,500,000	-	94,784
As at 31 December 2009		125,520,829	1	95,783
Issuance of shares		12,552,082	-	30,251
As at 31 December 2010		138,072,911	1	126,034

The total number of allotted ordinary shares is 138,072,911 with a par value of \$0.0000125 each.

Share split – each of the authorised but unissued ordinary shares of \$0.001 par value in the capital of the Company was subdivided into 80,000,000 ordinary shares of \$0.0000125 par value each.

Shares issued to EBT – an employee benefit trust (“EBT”) was set up on 11 December 2009, before the IPO date and subscribed for 3,765,624 ordinary shares in the Group at nominal price for the total amount of \$47. The market value of the shares as at 31 December 2010 is £12,351 thousand or \$19,109 thousand (2009: £6,778 thousand or \$10,796 thousand).

The Group intends to operate Performance Share Plan by distribution of these shares to the employees in accordance with performance criteria. Currently, the Group hasn't yet established performance criteria and employees to whom shares will be granted, and no awards have been made to employees. The members of the Board constituting the remuneration committee will determine the performance criteria for each eligible employee after the 2010 financial year.

IPO share awards – 1,255,205 ordinary shares awards with a par value of \$0.0000125 each were awarded to Directors and senior management as part of the IPO plan. The share awards are subject to a restriction period of three year from the date of the IPO, during which any dealings are prohibited (Note 30).

Issuance of shares on IPO – on 17 December 2009, the Company successfully completed its IPO and Listed on the London Stock Exchange. A total number of 40,500,000 new shares with a par value of \$0.0000125 each were issued at £1.53 for total proceeds of £61,965 thousand or \$100,644 thousand. Costs related to the issuance of new shares and attributable IPO costs taken against share premium amounted to \$5,860 thousand (Note 15).

Issuance of new shares – on 24 June 2010, the Company issued 12,552,082 of new shares with a par value of \$0.0000125 each at £1.70 for total proceeds of £21,339 thousand or \$32,190 thousand. Costs related to the issuance of new shares taken against share premium amounted to \$1,939 thousand.

29. OTHER INVESTED CAPITAL

Other invested capital – The Memorandum Of Understanding dated 24 October 2008 (“MoU”), in respect of the acquisition of Exillon TP and Exillon WS required the Company or its subsidiaries to purchase the debts of Exillon TP and Exillon WS owed to the group of selling companies.

In December 2008 and January 2009, following the agreement of the main principles in the MoU, two companies that were under the common control of the Group’s shareholders, provided a short-term repayable loan to the seller of Exillon WS and Exillon TP. This short-term loan was equal to the amount of debt owed by Exillon WS and Exillon TP to the seller and amounted to \$55,785 thousand. As of 31 December 2008, the cumulative amount paid to the seller was classified as ‘prepaid consideration’ and ‘other contributions from shareholders’ based on its economic substance.

On 30 April 2009, after the completion of the acquisition of Exillon WS and Exillon TP, the two companies that were under the common control of the Group’s shareholders forgave this short term debt, which had been purchased by the Exillon Energy plc Group on the acquisition of Exillon TP and Exillon WS.

The amount of debt forgiveness was included in the Group’s equity as Other invested capital as it represents contributions from the Group’s shareholders.

In addition, the shareholder and shareholder related entities provided \$8,824 thousand of loans pre and post acquisition (split between \$6,370 thousand pre acquisition and \$2,454 thousand post acquisition). The pre acquisition amounts have been included within purchase consideration. Both the pre and post acquisition loans have been subsequently forgiven and \$8,824 thousand has been included within Other invested capital.

Other invested capital also includes the costs of the Group’s head office in 2009 incurred by other founder shareholder controlled entities, which were included in the consolidated financial statement in accordance with the basis of preparation described in Note 2.

An analysis of the amounts included within other invested capital as at 31 December 2009 is set out below. No similar transactions occurred during the reporting period ended 31 December 2010.

	\$'000
Assumption of debt to seller	55,785
Non repayable financing made to Exillon TP and Exillon WS pre and post acquisition	8,824
Head office costs incurred	3,927
	68,536

30. SHARE-BASED PAYMENT

In 2009 1,255,205 ordinary shares awards with a par value of \$0.0000125 each were awarded to Directors and senior management as part of the IPO plan. The share awards are conditional on the employee completing three year's service (the vesting period) from the date of the IPO, during which any dealings are prohibited. These share awards are not subjected to any performance conditions. The Group has no legal or constructed obligation to repurchase the shares related to the granted share awards.

During the year ended 31 December 2010 747,349 ordinary share awards were forfeited due to the termination of the employment with the Company by five senior managers, of which 302,880 share awards were granted to the new senior managers. These share awards are also conditional on the completion of three year's service (the vesting period) with any dealings prohibited during that period.

Movements in the number of share awards outstanding are as follows:

	As at 31 December	
	2010	2009
	\$'000	\$'000
At 1 January	1,255,205	-
Granted	302,880	1,255,205
Forfeited	(747,349)	-
At 31 December	810,736	1,255,205

As of 31 December 2010 and 31 December 2009 there were no exercisable share awards.

Share awards outstanding at the end of the year have the following expiry dates:

	As at 31 December	
	2010	2009
December 2012	507,856	1,255,205
June 2013	302,880	-
	810,736	1,255,205

The weighted average fair value of share awards granted during the period determined using the Black-Scholes valuation model was \$2.47 per award (2009: \$1.6). The significant inputs into the model were weighted average share price of £1.7 per share (2009: £1.53) at the grant date, exercise price of nil (2009: nil), dividend yield of 0% (2009: 0%) and an expected share awards life of three years (2009: three years).

The total expense arising from share-based payment transactions recognised for the period ended 31 December 2010 amounted to \$232 thousand (2009: \$1,346 thousand).

31. COMMITMENTS AND CONTINGENCIES

Capital commitments – The Group has capital commitments outstanding against major contracts.

	As at 31 December	
	2010	2009
Road construction	3,122	3,469
Well construction	39,823	782
Oil reserves development work	7,653	97
Pipeline construction	1,510	-
Other	291	192
Total	52,399	4,540

Leases – the Group leases wells and associated land plots from government agencies in the Russian Federation. The initial terms on all leases has expired as at 31 December 2010. The lease terms allow for continued lease renewal after expiry of the initial term. At the present time the annual payments arising on the leases are approximately \$247 thousand. In continuing to use these wells, the Group relies on Article 621(2) of the Civil Code of the Russian Federation, which states that such leases are renewed for an indefinite term if the tenant continues to use the property after the term of the lease has expired in the absence of objections from the lessor, although either party is entitled to terminate the lease upon three months' notice. The Group believes that the Russian authorities are unlikely to exercise this termination right as the Group has the exclusive right to extract the oil resources underlying the wells and continues to make lease payments. Management expects to continue to pay for the leases until the end of the life of the reserves, in approximately 2027.

The Group also leases apartments for offices at Exillon WS and Exillon TP. The initial terms on all leases has expired as at 31 December 2011. The lease terms allow for continued lease renewal after expiry of the initial term. At the present time the annual payments arising on the leases are approximately \$394 thousand.

Minimum lease payments as of 31 December 2010 were as follows:

	Minimum lease payments
	\$'000
Within one year	470
Two to five years	986
Later than five years	2,959
Total	4,415

Taxes – Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group's subsidiaries may be challenged by the relevant federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments in different areas, including general tax deductibility and tax depreciation rules, transfer pricing regulations, application of thin capitalisation rules, etc. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Russian transfer pricing legislation introduced on 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions where the transaction price differs from the market price by more than 20%. Controllable transactions include: transactions with interdependent parties (as determined under the Russian Tax Code), all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court has governed practice in this area.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of

any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity. Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group includes companies incorporated outside of the Russian Federation. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Environmental matters – The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

32. TRANSACTIONS WITH RELATED PARTIES

For the purposes of the financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's outstanding balances with related parties attributable to loans payable:

	As at 31 December	
	2010	2009
	\$'000	\$'000
Major Shareholder	-	500
Subsidiaries:		
Tredall LLC	-	140
Associates:		
Caspian Minerals LLC	-	100
Key Management personnel:		
Interest-free loans	364	-
Total	364	740

Tredall LLC was disposed from the Group on 20 January 2010, and Caspian Minerals LLC ceased to be a related party to the Group on 24 December 2009.

The balances received from related parties were one-year interest-free loans.

Transactions with related parties during the period were as follows:

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Major Shareholder:		
Interest-free loan receipt	-	500
Loan repayment	(500)	-
Prepayments made for office rent	626	-
Returned prepayments for office rent	(626)	-
Office improvement costs paid	(793)	-
Reimbursement of office improvement costs	793	-
Interest-free loan issued	(1,431)	-
Repayment of interest free-loan	1,431	-
Joint venture partner:		
Oil Company Krasnoleninskneftegaz LLC (NK KNG)		
Interest-free loan receipt	-	866
Loan repayment	-	(13,874)
Interest expenses	-	120
Key Management personnel:		
Interest-free loan issued	(424)	-
Interest-free loan repaid	60	-
Associates:		
San Roche LLC		
Loan repayment	-	(1,905)
Caspian Minerals LLC		
Interest-free loan receipt	-	100
Loan repayment	(100)	-
Other contributions to equity received	-	8,824
Subsidiaries:		
Tredall LLC		
Interest-free loan receipt	-	1,362
Loan assignment	-	5,223
Loan repayment	(140)	(6,446)
Disposal of Tredall LLC	-	2

During the year, the Group made a series of payments to the major shareholder to fund business expenses. These amounts were subsequently reclassified as personal loans, and were fully repaid by 31 December 2010.

Improvements made to the Dubai office in 2010 at a cost of \$793 thousand were fully reimbursed by the major shareholder during the year.

During the year, the Group issued one-year interest-free loans to key management personnel to assist with their moves to Urai. The loans were partially repaid by 31 December 2010.

Oil Company Krasnoleninskneftegaz LLC and San Roche LLC were related parties of the Group until 16 December 2009.

Compensation of key management personnel – Key management personnel consist of independent non-executive directors, executive directors, directors and presidents of operational subsidiaries. Compensation of key management personnel is set by senior executives of the Group. Compensation of key management includes salary and other short-term benefits. Total compensation to key management personnel included in administrative expenses in the consolidated statement of comprehensive income was \$3,060 thousand for the year ended 31 December 2010 (2009: \$4,433 thousand).

Key management compensation is summarised below:

	For the year ended 31 December	
	2010	2009
	\$'000	\$'000
Salaries and other short-term employee benefits, including bonuses	2,294	1,587
Accommodation allowance	534	-
Share based payment	232	1,346
IPO bonus	-	1,500
Total	3,060	4,433

33. RISK MANAGEMENT

Capital management – The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may raise capital from shareholders or restructure its borrowings. In March 2011, the Group placed 23,438,000 new ordinary shares to institutional investors in a private placing (Note 35).

Consistent with others in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as debt divided by equity. Debt represents total borrowings (including current and non-current borrowings as shown in the statement of financial position, less cash and cash equivalents). Equity represents 'equity' as shown in the statement of financial position.

The gearing ratios at 31 December 2010 and 2009 were as follows:

		As at 31 December	
	Note	2010	2009
		\$'000	\$'000
Total borrowings	27	47,906	1,712
Less: Cash and cash equivalents	24	(56,297)	(34,280)
Total net debt		(8,391)	(32,568)
Total equity		408,016	383,813
Total capital		399,625	351,245
Gearing ratio		(2.1%)	(9.3%)

The decrease in gearing ratio is in line with the Group's strategy to keep debt at comfortable, sustainable levels.

Under the terms of its loan agreement, the Group is subject to four financial covenants and a number of general covenants. Two of the financial covenants are tested annually from December 2010, with the remaining two tested on a rolling 12 month basis from June 2012. The Group has complied with these covenants during 2010.

Major categories of financial instruments – The Group's principal financial liabilities comprise borrowings and trade payables. The Group has financial assets such as trade and other receivables, and cash.

As at 31 December			
	Note	2010	2009
		\$'000	\$'000
Financial assets			
Cash and cash equivalents	24	56,297	34,280
Trade and other receivables	22	4,103	757
Loans to employees	23	1,352	-
Total financial assets		61,752	35,037
Financial liabilities			
Trade and other payables	26	5,337	5,590
Long-term payables	26	-	1,908
Borrowings	27	47,906	1,712
Total financial liabilities		53,243	9,210

The main risks arising from the Group's financial instruments are foreign currency, interest rate, credit and liquidity risks.

Commodity price risk – The Group's operating results are affected by changes in world oil prices which are dependent on general and specific market conditions. A decrease in oil prices generally has a negative impact on the Group's operating results and vice-versa. The Group manages the exposure to commodity prices risk by optimising its core activities in order to achieve stable margins. The Group has not entered into any hedging arrangements in respect of its commodity price exposures. A decrease in oil prices of 10% would have led to decrease in profit for the year ended 31 December 2010 of \$6,102 thousand (2009: \$1,434 thousand).

Interest rate risk – Interest rate risk arises from long-term borrowings and short-term bank deposits. The Group's borrowings are exposed to interest rate risk. As the Group has no significant short-term bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

If the interest rate had increased by 100 base points at 31 December 2010, after-tax profit would have been \$400 thousand lower (2009: \$1 thousand lower). Since the Group does not hold any financial instruments revalued through equity, the effect of any changes in interest rate on equity would be the same as on post-tax profit. Short-term bank deposits bear no significant interest rate risk due to short maturity.

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The Group only transacts with entities that demonstrate strong financial ability or rated the equivalent of investment grade. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management for each customer individually.

The Group's credit risk principally arises from cash and cash equivalents and from credit exposures of its customers relating to outstanding trade and other receivables.

Cash is placed in financial institutions which are considered at time of deposit to have minimal risk of default.

	Note	As at 31 December	
		2010	2009
		\$'000	\$'000
<i>Cash and cash equivalents</i>			
Counterparties with external credit rating:			
Aa1 (Moody's)		43,850	-
Aa2 (Moody's)		5,330	33,720
Aa3 (Moody's)		1,672	-
Baa1 (Moody's)		3,835	532
Cash on hand		1,610	28
Total cash and cash equivalents	24	56,297	34,280

The maximum exposure to credit risk is the carrying amount of trade and other receivables of \$4,103 thousand as of 31 December 2010 (2009: \$757 thousand).

Trade and other receivables included no amounts past due, but not impaired as of 31 December 2010 (2009: nil).

At 31 December 2010, trade receivables amounted to \$1,490 thousand (Note 22) and were due from two customers. Other accounts receivable amounted to \$2,613 thousand with 74% represented by receivables for sales of inventory. This transaction was a one-off sale of pipes that has no significant influence on the credit risk of the Group.

The movement in the allowance for doubtful debts is presented below:

	As at 31 December	
	2010	2009
	\$'000	\$'000
Balance at the beginning of the year	136	-
Bad debt expense	-	136
Balance at the end of the year	136	136

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The maturity analysis of financial liabilities as at 31 December 2010 and 2009 is as follows:

	As at 31 December 2010			
	Within 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years
	\$'000	\$'000	\$'000	\$'000
Trade and other payables	5,337	-	-	-
Borrowings	-	-	10,000	40,000
Interest payable	911	2,784	3,276	2,457
	6,248	2,784	13,276	42,457

	As at 31 December 2009			
	Within 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years
	\$'000	\$'000	\$'000	\$'000
Trade and other payables	258	5,332	1,908	-
Borrowings	-	1,472	240	-
Interest payable	-	-	-	-
	258	6,804	2,148	-

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on floating rate borrowing to maturity has been calculated using the rate in existence at 31 December 2010.

Foreign currency risk – Currency risk is the risk that the consolidated financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	As at 31 December 2010				
	US Dollars	RUR	EUR	GBP	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Long-term loans issued	-	128,743	25	-	128,768
Trade and other receivables	952	-	172	6,706	7,830
Prepayments	-	-	1	-	1
Cash and cash equivalents	-	-	-	-	-
Total monetary assets	952	128,743	198	6,706	136,599
Long-term borrowings	495	47,619	-	-	48,114
Trade and other payables	-	-	75	6,283	6,358
Short-term borrowings	27,132	-	-	-	27,132
Total monetary liabilities	27,627	47,619	75	6,283	81,604
Net financial position	(26,675)	81,124	123	423	54,995

At 31 December 2010, Trade and other receivables and payables denominated into GBP, Long-term loans issued, Short-term and Long-term borrowings consist of foreign currency denominated inter-company balances.

	As at 31 December 2009				
	US Dollars	RUR	EUR	GBP	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Long-term loans issued	-	-	-	-	-
Trade and other receivables	463	-	220	60,909	61,592
Prepayments	-	-	-	-	-
Cash and cash equivalents	351	-	-	-	351
Total monetary assets	814	-	220	60,909	61,943
Long-term borrowings	-	-	-	-	-
Trade and other payables	-	-	18	444	462
Short-term borrowings	-	-	-	-	-
Total monetary liabilities	-	-	18	444	462
Net financial position	814	-	202	60,465	61,481

The table below details the Group's sensitivity to strengthening or weakening of the Russian Rouble, EUR and GBP against the US Dollar by 10% as at 31 December 2010 and 2009. The analysis was applied to monetary items at the financial position dates denominated in respective currencies.

	Russian Roubles – impact as at 31 December		EUR – impact as at 31 December		GBP – impact as at 31 December	
	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit or loss	195	1	13	(1)	40	(35)

The table below details the Group's sensitivity to strengthening or weakening of the US Dollar against the Russian Rouble by 10% as at 31 December 2010 and 2009. The analysis was applied to monetary items at the financial position dates denominated in respective currencies.

	US Dollar – impact as at 31 December	
	2010	2009
	\$'000	\$'000
Profit or loss	52	162

Fair value of financial instruments – Management believes that the carrying values of financial assets and liabilities recorded at amortised cost in these financial statements approximate their fair values. All fair value measurements are calculated using inputs which are not based on observable market data (unobservable inputs) (Level 3).

34. CONTROLLED ENTITIES

A list of the Company's principal subsidiaries is set out below:

Name	Country of incorporation	Principal activity	Ownership/ proportion of ordinary shares as at 31 December	
			2010	2009
Dinyelneft LLC (Exillon TP)	Russian Federation	Exploration, development and production of oil and gas	100%	100%
KNG-Dobycha LLC (Exillon WS)	Russian Federation	Exploration, development and production of oil and gas	100%	100%
Regional Resources LLC	Russian Federation	Oil sales and marketing	100%	100%
Ucatex Oil LLC	Russian Federation	Subsoil user	100%	-
Kayumneft CJSC	Russian Federation	Subsoil user	100%	-
Nem Oil CJSC	Russian Federation	Subsoil user	100%	-
Silo Holdings LLC	BVI	Oil trading	100%	-
Exillon Finance LLC	Isle of Man	Treasury	100%	100%
Exillon Middle East LLC	UAE	Services and administration	49%*	49%*

* Entities where the Group holds less than 50% interest are consolidated by virtue of the Group having the ability to exercise effective control. There is no Non-Controlling Interest related to 51% not owned by the Group, because in compliance with UAE Legislation the other party is the nominal owner with no ability to exercise any significant influence and no participation interest.

35. SUBSEQUENT EVENTS

In March 2011, the Group placed 23,438,000 new ordinary shares to institutional investors in a private placing. The price per share was 400 pence, resulting in proceeds to the Company of US\$150.0 million. Following the share placement in March 2011, the Company's Chairman and principal shareholder was left with a beneficial interest of 30.2% in the Company's outstanding issued share capital.

Glossary

1P	Proved reserves
2P	Proved and probable reserves
3P	Proved and probable and possible reserves
Admission	Admission of the Ordinary Shares to listing on the main market of the London Stock Exchange on 17 December 2009. Also referred to as the "IPO" or the "Listing."
AGM	The annual general meeting of the Company is to be held on 21 June 2010. Also referred to as the "Annual General Meeting."
API	American Petroleum Institute gravity
bbl	Barrels of oil
bpd	Barrels per day
C ₂	Category C2 reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. Category C2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.
C ₃	Category C3 resources are prospective reserves prepared for the drilling of (i) traps within the oil-and-gas bearing area, delineated by geological and geophysical exploration methods tested for such area and (ii) the formation of explored fields which have not yet been exposed by drilling. The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, reservoir characteristics of the formations, the composition and the characteristics of hydrocarbons are assumed to be analogous to those for explored fields. Category C3 resources are used in the planning of prospecting and exploration work in areas known to contain other reserve bearing fields.
D ₁	Category D ₁ resources are calculated based on the results the region's geological, geophysical and geochemical research and by analogy with explored fields within the region being evaluated. Category D1 resources are reserves in lithological and stratigraphic series that are evaluated within the boundaries of large regional structures confirmed to contain commercial reserves of oil and natural gas.
Directors	Directors of the Company
EBITDA	Earnings before interest (finance costs), tax, D D & A (depletion, depreciation and amortisation) and exploration expenses
EPSP	Environmental and Production Safety Programme
Executive Directors	The executive directors of the Company
Exillon Energy	Exillon Energy plc and its subsidiaries, referred to as the "Group"
Exillon Energy plc	A company incorporated in the Isle of Man, referred to as the "Company"
Exillon Finance Ltd	Isle of Man subsidiary providing Treasury services to the Group
GOST standards	Technical standards originally developed for use in the Soviet Union and now maintained by the Euro-Asian Council for Standardisation, Metrology and Certification, a regional standards organisation operating under the auspice of the Commonwealth of Independent States).
Exillon TP	Dinyelneft LLC, "Exillon Timan-Pechora"
Exillon WS	KNG-Dobycha LLC, "Exillon West Siberia"
HSE	Health, Safety and Environment
Miller and Lents	Independent reserves auditors
MMbbl	Millions of barrels
Non-executive Directors	The non-executive directors of the Company
Ordinary Shares	The Company has one class of share capital that is divided into 125,520,829 ordinary shares of US\$0.0000125 each
Possible reserves	Those reserves of oil and/or gas that are not yet proven but which, on the available evidence and taking into account technical and economic factors, have a better than 10% chance of being produced
Probable reserves	Those reserves of oil and/or gas that are not yet proven but which, on the available evidence and taking into account technical and economic factors, have a better than 50% chance of being produced
Proved reserves	Those reserves of oil and/or gas that on the available evidence and taking into account technical and economic factors have a better than 90% chance of being produced
Regional Resources LLC	Moscow-based oil broker wholly owned by Exillon Energy plc
RUR	Russian Rouble
km sq	Square Kilometre
UAE	United Arab Emirates
\$	United States Dollar

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