EXILLON ENERGY PLC
ANNUAL REPORT 2016

CONTENTS

Exillon Energy is a London 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 operational centres in Urai and Usinsk, Russian Federation.

The financial and production data presented in the document are for the period from 1 January 2016 to 31 December 2016 and all other information, including details on operations covers the period to 26 April 2017. This document may contain forward-looking statements concerning our financial condition and results of operations. Forward-looking statements are statements of future expectations that are based on our 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. We do not undertake any obligation to update publicly or revise any forward-looking statement as a result of new information, future events or other information.

From the Chief Executive

- Net profit decreased by 38% to US$40.5 million (US$65.2 million in 2015)
- EBITDA decreased by 29% to US$70.8 million (US$100.4 million in 2015)
- EBITDA per barrel decreased by 14% to US$14.1 per barrel (US$16.4 per barrel in 2015)
- Production decreased by 15% to 5.0 million bbls (5.9 million bbls in 2015)

Dear Shareholders,

2016 was a reasonably successful year for Exillon. Continuous volatility of oil prices prevented us from generating the recurring growth of financial results for the period, although we still delivered strong financial performance with positive EBITDA and net profit.

Financial Position and Performance

Substantial volatility and relatively low level of global oil prices together with a change in our sales mix resulted in our revenue decreased by 36% from US$197.7 million in 2015 to US$127.0 million in 2016. In 2016, 11% of crude oil was sold abroad, while in 2015 a portion of 40% was derived from export sales. Our netback (which we define as revenue less mineral extraction tax, export duty and Transneft charges) reduced by 25% from US$138.5 million to US$103.7 million. Our EBITDA decreased by 29% from US$100.4 million to US$70.8 million, with a net profit of US$40.5 million (compared to a net profit of US$65.2 million in 2015).

Our EBITDA per barrel after allocation of central costs was equivalent to US$14.1 per barrel compared to US$16.4 per barrel in 2015. A 14% decrease was driven by continued Russian Rouble depreciation, which reduced US dollar equivalent of netback and EBITDA, and lower average prices achieved in 2016 as compared to 2015, reflecting the movements in global oil prices. The negative effect of revenue decrease was partially offset by significant reduction in mineral extraction tax due to the ongoing application of certain tax exemptions by Exillon TP and Exillon WS.

78% of our oil production in 2016 was from Exillon WS and 22% from Exillon TP. Both units were profitable in 2016 although Exillon WS is still larger and enjoys greater economies of scale than Exillon TP. EBITDA per barrel on an operating level (before central costs) was US$17.9 per barrel in Exillon WS (2015: US$19.2 per barrel) and US$6.5 per barrel in Exillon TP (2015: US$7.2 per barrel).

Our financial position remains strong with US$146.5 million of cash and cash equivalents as at 31 December 2016. We took out a term loan of US$100.0 million in March 2012. As at 31 December 2016, debt was US$7.7 million, following the scheduled repayments of principal. This debt has been fully repaid in March 2017. Our net cash position was US$138.8 million.

As at 25 April 2017 our cash balance amounted to US$144.1 million.

Production

Our oil production decreased by 15% from 5.9 million to 5.0 million barrels equivalent to a decrease from 16,110 bpd to 13,724 bpd compared to 2015. The details are provided in operational review for Exillon TP and Exillon WS.

We publish monthly production data, and, therefore, have already announced details of our production for the period. For reference, we summarise below the monthly data published during the period.

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
PLC peak, bpd	15,588	14,970	15,512	15,686	15,306	14,812	14,446	13,512	12,843	12,659	12,723	12,469
PLC average, bpd	15,094	14,660	14,968	15,094	14,646	14,364	13,883	12,969	12,607	12,119	12,252	12,066
ETP average, bpd	3,161	3,040	3,218	3,414	3,316	3,385	3,179	2,922	2,852	2,726	2,830	2,555
EWS average, bpd	11,933	11,620	11,750	11,680	11,330	10,979	10,704	10,047	9,755	9,393	9,422	9,511

Reserves

The updated reserves report for Exillon Energy plc was completed by Miller and Lents Ltd, independent engineering consultants, according to international SPE-PRMS standards with an effective date of 30 June 2016. This recorded a 3% increase in proved reserves ("1P") to 185,719 million barrels. Total proved plus probable reserves ("2P") decreased by 1% to 500,259 million barrels and total proved plus probable plus possible reserves ("3P") decreased by 1% to 881,744 million barrels.

	Reserves at 30/06/16 (mbbls)	Reserves at 31/12/14 (mbbls)	% Increase/(Decrease)
Total			
1P	185,719	180,371	3%
2P	500,259	506,457	(1%)
3P	881,744	894,479	(1%)
Exillon TP			
1P	90,505	90,428	0%
2P	172,666	164,472	5%
3P	269,435	268,195	0%
Exillon WS			
1P	95,214	89,943	6%
2P	327,593	341,985	(4%)
3P	612,309	626,284	(2%)

Dmitry Margelov
Chief Executive Officer

Operational Review

Strategy

Our aim is to enhance shareholder value by increasing both our production of crude oil and our audited reserves of crude oil, whilst at the same time delivering sustainable long-term growth in our EBITDA per barrel of crude oil sold. We seek to achieve this by a combination of:

- our ongoing drilling programme to sustain and increase oil production;
- exploration and appraisal using seismic and other techniques to enhance reserves and resources; and
- completing our physical infrastructure to minimise operational costs.

In addition we will consider growing our business through selective acquisitions. Our technical and senior management teams have a significant breadth and depth of experience in the hydrocarbon basins in Russia. We also have a corporate finance skills set to enable us to identify situations we can capitalise on, and to transact quickly and efficiently in building our portfolio.

Outlook

In 2017, we will focus our capital investments on further development of EWS I and EWS II oil fields in Exillon WS. We are planning to drill 25 new production oil wells and invest in construction of general infield infrastructure, such as power lines, infield pipelines and roads, and development of relative oil well pads.

We are not planning to drill any new wells at Exillon TP, but continue development of relevant well pads and required general infrastructure.

Business Model

Exploration and appraisal
First, we acquire the rights for exploration and development of crude oil. Through our exploration and evaluation activities including a range of seismic and geological survey techniques we are able to renew our portfolio, discover new resources and replenish our development options. We aim to create a portfolio built upon a foundation of producing and development assets that offer long-life, stable and reliable cash flows. These cash flows are re-invested in high returning development and exploration assets that provide further growth.

Developing and production
When we find hydrocarbon resources, we create value by seeking to progress them into proved reserves or by divesting if they do not comply with our strategy. If we believe developing and producing the reserves will be advantageous for Exillon, we commence the production of crude oil.

Transporting and selling
We transport crude oil through pipelines and by trucks. Using our trading skills and knowledge, we sell produced crude oil to the export or domestic markets with ongoing adjustment of our sales mix according to the changes in oil prices and applicable taxation in order to maximise the trading result.

Finance
Our finance function is responsible for managing equity, debt and cash to maintain a strong financial position and to fund exploration and appraisal as well as development and production activities.

Legal
Our legal team is responsible for all governance and legal issues including regulatory compliance and delivering commercial legal solutions for our business needs.

Leveraging regional knowledge and relationships

We believe that the best way to achieve sustainable success is to act in the long-term interests of our shareholders and society as well as to maintain strong relations with local governments, communities and key stakeholders. We aim to create value for our investors and benefits for the communities and societies in which we operate through job creation. We understand that operating in politically complex regions and technically demanding geographies requires particular knowledge of local environments. Regional focus helps us to anticipate and respond to changes in operating and economic environment, as well as maintain and deepen our network of contacts and relationships. On a technical and operational level, we use our knowledge and expertise gained from our producing and development assets in the exploration and appraisal activities.

Compliance with safety requirements and regulations on environmental protection

A relentless focus on production safety remains the top priority for everyone at Exillon. We are also committed to the protection of the environment in all of our activities and aim to comply with relevant environmental legislation and regulations, continuously improve our environmental management practices and prevent pollution. Please see Corporate Social Responsibility report on pages 13 to 15.

Drilling

During the period, we drilled three production oil wells. The drilling was carried out only at Exillon WS and the drilling results were successful for all wells.

Oil field	Well pad	Well №	Type of well	Spudded on	Drilling completed, days	Current production, bpd
Lumutinskoe	7L	707	Producer	4 December 2015	53	64
Kayumovskoe	7K	76	Producer	2 April 2016	14	n/a, waiting for well completion
Kayumovskoe	7K	77	Producer	15 April 2016	15	n/a, waiting for well completion

Production

Exillon WS produced 3,906,767 bbl and generated revenue of US$99.1 million (2015: produced 4,604,269 bbl and generated revenue of US$162.7 million). A 15% decrease of production in Exillon WS is reflecting the natural production decline curve due to the natural depletion.

Exillon TP produced 1,116,064 bbl and generated revenue of US$27.9 million (2015: produced 1,276,005 bbl and generated revenue of US$35.0 million). A 13% decrease of production in Exillon TP is reflecting the natural production decline curve due to the natural depletion.

Financial

Capital expenditure for the period was US$9.1 million (2015: US$39.1 million), 4% of which was incurred in Exillon TP and 96% in Exillon WS (2015: 4% in Exillon TP, 69% in Exillon WS and 27% in corporate companies, which are managed at the Group level). Of this total, US$2.0 million was attributable to drilling, US$6.9 million to infrastructure and US$0.2 million to seismic data acquisition and interpretation (2015: US$12.2 million was attributable to drilling, US$14.8 million to infrastructure and US$1.5 million to seismic data acquisition and interpretation). In 2015, capital expenditure related to the corporate companies was attributable to the purchase of an aircraft, which was subsequently leased to an unrelated third party for a period of ten years.

During the year we held major part of our cash in Russian banks, which provide more beneficial terms of investments with higher returns in comparison to the international banks. As of 31 December 2016, US dollars account for approximately 21% of our cash with the remaining 79% held in Russian Roubles (2015: 86% and 14%, respectively). In 2016, we continued to keep a portion of cash and cash equivalents in US dollars, in order to provide for servicing of our borrowing, which is denominated in US dollars (Note 24).

Key Performance Indicators

Key Performance Indicator	Unit	2016 result	2015 result
Revenue	US$ million	127.0	197.7
Achieved oil price			
Export sales Domestic sales Average sales price	US$/bbl	29 25 25	46 27 32
Operating Costs[1]	US$ million	36.0	53.6
EBITDA[2]	US$ million	70.8	100.4
EBITDA per barrel[3]	US$/bbl	14.1	16.4
Net Profit	US$ million	40.5	65.2
Profit per share			
Basic Diluted	US$	0.25 0.25	0.41 0.41
Capital Expenditure	US$ million	9.1	39.1
Total production	Bbl	5,022,831	5,880,274
Lifting costs per barrel[4]	US$/bbl	3.4	3.3
ROCE[5]	%	10.3%	19.9%
Lost time injury rate	Incidents	-	-

1 Cost of sales excluding depletion and depreciation costs. The indicator allows to access absolute value of expenses related to operating activities:

	For the year ended 31 December	
	2016	2015
Cost of sales, US$ thousand	52,204	73,125
Less: depreciation and depletion, US$ thousand	(16,210)	(19,486)
Operating Costs, US$ thousand	**35,994**	**53,639**

2 Earnings before interest, income tax, foreign exchange gain/loss, depletion, depreciation and amortisation, excluding gain/loss on disposal of non-current assets and exploration and evaluation expenses. The indicator reflects total profit received by the Company from operating activities, excluding implications from capital expenditures, significant non-recurring items, debt servicing and taxation regime (Note 6).

3 The ratio of EBITDA to barrels of crude oil sold, which shows relative profitability per barrel:

	For the year ended 31 December					
	2016			2015		
	Exillon TP	Exillon WS	Total	Exillon TP	Exillon WS	Total
EBITDA, US$ thousand	7,307	69,863	70,837	9,039	93,021	100,367
Barrels of crude oil sold	1,116,847	3,900,350	5,017,197	1,257,330	4,857,109	6,114,439
EBITDA per barrel, US$/bbl	**6.5**	**17.9**	**14.1**	**7.2**	**19.2**	**16.4**

[4] The ratio of lifting costs (operating costs excluding mineral extraction tax, purchased crude oil and exploration and evaluation expenses) to barrels of crude oil sold. The indicator represents production cost per barrel of crude oil, which is controlled by the Company:

	For the year ended 31 December	
	2016	**2015**
Operating Costs, US$ thousand	35,994	53,639
Less: mineral extraction tax, US$ thousand	(18,735)	(27,078)
Less: purchased crude oil, US$ thousand	-	(6,079)
Less: exploration and evaluation expenses, US$ thousand	-	(529)
Lifting costs, US$ thousand	**17,259**	**19,953**
Barrels of crude oil sold	5,017,197	6,114,439
Lifting costs, US$/bbl	**3.4**	**3.3**

[5] The ratio of operating profit to the difference between the total assets and current liabilities, which shows profitability created for shareholders on capital employed:

	For the year ended 31 December	
	2016	**2015**
Operating profit, US$ thousand	51,503	78,943
Total assets, US$ thousand	548,169	450,623
Less: current liabilities, US$ thousand	(47,386)	(53,484)
	500,783	397,139
ROCE	**10.3%**	**19.9%**

Financial Review

The Consolidated Financial Information and notes which follow should be read in conjunction with this review which has been included to assist in the understanding of our financial position as at 31 December 2016 and financial performance for the year then ended.

Summary

EBITDA decreased by 29% from US$100.4 million in 2015 to US$70.8 million in 2016.

Net profit for the year, which includes depreciation costs, foreign exchange translation effects and gain/loss on disposal of non-current assets amounted to US$40.5 million compared to net profit of US$65.2 million in 2015.

Revenue

Our revenue for the year ended 31 December 2016 decreased by 36% year-on-year, reaching US$127.0 million (2015: US$197.7 million), of which US$14.1 million or 11% came from export sales of crude oil and US$112.9 million or 89% came from domestic sales of crude oil (2015: US$79.3 million or 40% came from export sales of crude oil and US$118.4 million or 60% came from domestic sales of crude oil). This change in revenue is attributable to:

- a decrease in production leading to an 18% decrease in sale volumes from 6,114,439 bbl in 2015 to 5,017,197 bbl in 2016; and
- a decline in average commodity prices: we achieved an average oil price of US$29 / bbl for export sales (2015: US$46 / bbl) and US$25 / bbl for domestic sales (2015: US$27 / bbl).

Although the achieved average price for export sales exceeds average domestic sales price, this is compensated by the expenses associated with export sales, such as export duty and transportation services provided by Transneft.

As a result, our total netback for domestic and export sales decreased by 25% from US$138.5 million to US$103.7 million year-on-year.

Operating Results

Cost of sales excluding depreciation and depletion expenses decreased to US$36.0 million (2015: US$53.6 million), along with the decrease in production by 15% to 5,022,831 bbl (2015: 5,880,274 bbl). The difference between the production volumes and sales volumes is due to the change in the oil inventory balance during the period and the purchase of crude oil from external supplier in 2015. The major decrease occurred in mineral extraction tax from US$27.1 million in 2015 to US$18.7 million in 2016. It is mostly explained by the fact that Exillon WS applied 0% mineral extraction tax rate to the oil produced from a certain oil reservoir, which include oil production from the majority of oil wells located at EWS I and EWS II oil fields. A 0% tax rate was applied to 3,213,668 bbl of crude oil produced by Exillon WS out of the total production of 3,906,767 bbl in 2016. The tax exemption for this oil reservoir was introduced by Russian legislation in the second half of 2015 with effective date from 1 January 2015 (Note 7). In 2016, Exillon TP applied decreasing factors to the base mineral extraction tax rate, which reflect the specific characteristics of oil production from ETP V and ETP VI oil fields. In general, the increase of the base tax rate from 766 Russian Roubles per tonne of crude oil in 2015 to 857 Russian Roubles per tonne in 2016 was offset by mutual effect of decrease in production volumes, lower average crude oil prices used in the calculation of the tax and Russian Rouble depreciation, which reduced US dollar equivalent of mineral extraction tax (effective annual average rate of exchange was 60.9579 Russian Roubles to one US dollar (Rouble/US$) in 2015 and 67.0349 Rouble/US$ in 2016).

Depreciation, depletion and amortisation costs ("DD&A" costs) primarily relate to the depreciation of proved and probable reserves and other production and non-production assets. In 2016, these costs amounted to US$16.6 million (2015: US$19.8 million). The decrease in DD&A costs was a result of the combined effect of lower production volumes and Russian Rouble depreciation, since most of DD&A costs are nominated in Russian Roubles. This was partially offset by DD&A charge on the additions to property, plant and equipment.

Selling expenses for 2016 amounted to US$9.6 million (2015: US$37.1 million) and comprised of export duties of US$3.0 million, transportation services of US$5.2 million and services of the Transneft crude oil metering system of US$1.4 million (2015: export duties of US$26.0 million, transportation services of US$9.9 million, services of the Transneft crude oil metering system of US$1.0 million and other selling expenses of US$0.2 million). The major decrease related to export duty as a result of reduced export sales in our sales mix. Transportation services included services provided by Transneft and trucking services from the infield oil filling stations to oil terminals at Transneft. Transportation services provided by Transneft of US$1.6 million (2015: US$6.2 million) related to export sales of crude oil and decreased due to the change in our sales mix. During both periods domestic customers have been paying directly to Transneft for its transportation services. In 2016, all crude oil produced at Exillon TP was trucked to Transneft pipeline, due to changes in transportation logistics affecting new customers. These changes at Exillon TP were in place starting from the second half of 2015. Accordingly, in 2016 Exillon TP used Transneft crude oil metering system services at a cost of US$1.4 million (2015: US$1.0 million). A slight decrease in Russian Rouble nominated trucking services to Transneft from US$3.7 million in 2015 to US$3.6 million in 2016 is explained by the fact that an increase of these expenses at Exillon TP following the changes in transportation logistics was offset by depreciation of Russian Rouble against US dollar for both operating segments.

Administrative expenses (excluding depreciation and amortisation) amounted to US$12.1 million (2015: US$8.8 million). In 2016, savings were achieved in salary and related taxes, while consulting services increased as a result of potential M&A transaction.

In 2016, interest income amounted to US$2.4 million (2015: US$2.7 million) resulting from surplus cash being held on short-term bank deposits and purchase of short-term interest-bearing bank bills of exchange. The decrease in Russian Rouble nominated interest income was a result of depreciation of Russian Rouble against US dollar during the period.

In 2016, income tax expense of US$11.3 million (2015: US$13.6 million) comprised an income tax charge of US$12.0 million (2015: US$14.0 million) and a deferred tax credit of US$0.7 million (2015: US$0.4 million). The basic corporate income tax rate in the Russian Federation is 20%. In 2016, there were no income tax exemptions available for subsidiaries incorporated in the Russian Federation.

It should be noted that in accordance with IFRS a foreign exchange loss of US$2.7 million (2015: US$1.0 million) has been included in our net profit arising from the revaluation of foreign currency monetary items (cash and cash equivalents, accounts receivable and payable, other assets) using the closing rate at the reporting date. In 2015, the exchange rate increased from 56.2584 Rouble/US$ as of 31 December 2014 to 72.8827 Rouble /US$ as of 31 December 2015. The foreign exchange gain arising on US dollar denominated cash held by Russian subsidiaries was offset by foreign exchange loss attributable to the intercompany loan, which is expected to be settled to fund repayments of the Group's external debt and is not considered to be as permanent as equity (Note 5). The foreign exchange loss recognised in 2016 was a result of the exchange rate decrease from 72.8827 Rouble/US$ as of 31 December 2015 to 60.6569 Rouble/US$ as 31 December 2016. During 2016, the foreign exchange loss arising on US dollar denominated cash held by Russian subsidiaries was partially offset by foreign exchange gain attributable to the intercompany loan, which is expected to be settled to fund repayments of the Group's external debt and is not considered to be as permanent as equity (Note 5). During both periods the exchange rate endured a substantial volatility: in 2015 it fluctuated between the highest rate of 72.8827 Rouble/US$ achieved on 31 December 2015 and the lowest rate of 49.1777 Rouble/US$ achieved on 20 May 2015; while in 2016 the highest rate of 83.5913 Rouble/US$ was achieved on 22 January 2016 and the lowest rate of 60.273 Rouble/US$ was achieved on 30 December 2016. A foreign exchange gain of US$63.8 million (2015: foreign exchange loss of US$84.8 million) has been recognised in other comprehensive income as part of the translation reserve.

As a result of the above, in 2016 we reported a profit after tax of US$40.5 million compared to a profit of US$65.2 million in 2015.

Financial Position

We ended the period with US$146.5 million of cash and cash equivalents and outstanding borrowings of US$7.7 million (31 December 2015: US$64.6 million and US$38.6 million, respectively). The entire outstanding borrowings relate to the current portion of the loan principal. According to the repayment schedule, it has been repaid in March 2017.

The 2016 additions to the property, plant and equipment of US$5.6 million included US$0.5 million of capitalised interest, with the remaining amount attributable to the drilling of oil wells and further development of general infield infrastructure in Exillon WS and Exillon TP. This was partially offset by depreciation and depletion of US$16.6 million, while the positive effect was enhanced by the translation difference of US$56.6 million, due to the appreciation of the Russian Rouble against the US dollar at the reporting date (the exchange rate was 72.8827 Rouble/US$ as of 31 December 2015 and 60.6569 Rouble/US$ as of 31 December 2016). There is no tax relief related to the capitalised borrowing costs (Note 17).

Cash Flow

Operating cash flow before working capital changes amounted to the inflow of US$71.1 million in 2016 compared to the inflow of US$100.0 million in 2015. Net cash generated from operating activities in 2016 increased to US$107.4 million compared to a US$51.5 million inflow in 2015. The main reason for the increase in net operating cash flows is the working capital movements, which had an overall total negative effect in 2015 and a strong positive effect in 2016. This is mostly explained by a cash reimbursement of US$26.8 million received in April 2016 for mineral extraction tax, which was receivable as of 31 December 2015 due to the tax exemption applied in 2015. The positive effect was also improved by a decrease in inventory balances and an increase in taxes payable and in trade and other payables.

Capital expenditure during the year was US$9.1 million (2015: US$39.1 million), including drilling of wells and the development of infield infrastructure.

Cash flow used in financing activities was US$32.1 million (2015: US$32.9 million). The loan principal of US$30.8 million has been repaid in compliance with the repayment schedule. We also paid US$1.8 million of loan interest, of which US$0.6 million was capitalised. The interest of US$0.1 million was paid on early advances received for export sales.

Corporate Social Responsibility

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 for the sustainable development of the communities, in which we operate and for all of our stakeholders, it is a key to the sustainable growth and development of our business. CSR continues to be a key strategic issue for us and a regular agenda item at our Board and management meetings.

CSR Oversight and Implementation

In 2016, the members of the committee were Natalya Shternberg (Chairman of the CSR Committee), Sergey Koshelenko (Chairman of the Board of Directors) and Chief Executive Officer. On 24 March 2016, Alexander Suchkov resigned as Director of Exillon and Dmitry Margelov was appointed as Chief Executive Officer and member of the Board of Directors. The newly appointed Chief Executive Officer has also replaced Alexander Suchkov as a member of the CSR Committee.

In compliance with the terms of reference, the CSR committee met twice in 2016 with all members attending both meetings. The committee is responsible for reviewing and making recommendations to the Board with respect to the Group's CSR policies and their implementation. The CSR committee is directing CSR activities across the Group and monitoring CSR best practice developments. The CSR committee is also responsible for reviewing management's investigation of health, safety and environmental incidents and accidents that occur in order to assess whether policy improvements are required. The ultimate responsibility for approving CSR policies remained with the Board, and management was charged with implementing such policies. The terms of reference of the CSR committee are available on request.

We are committed to embedding the principles of sound corporate social responsibility throughout our businesses. We adopted a revised, clearer and shorter statement of business practice for the guidance of employees. Employees are made aware of the statement at the time of employment and are required annually to acknowledge in writing that they have once again reviewed it. We have a Whistle-blower Policy that encourages the detection and reporting of malpractice. We recognise that incidents of workplace fraud, wrongdoing or mismanagement are possible in any business and we are committed to ensuring that any such malpractice is prevented from happening and immediately dealt with if it does arise. We encourage 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, designated members of local management who report to the General Director of their respective companies manage Health, Safety and Environment ("HSE") at Exillon WS and Exillon TP.

Health and Safety

Exillon Energy plc is subject to a wide range of Russian Federal regulations relating to health and safety, notably the Federal Law "On Industrial Safety of Hazardous Industrial Facilities" and various parts of the Russian Labour Code. We comply with GOST standards[6] 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 firefighting 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, our Health, Safety and Environment

[6] GOST standards are technical standards originally developed for use in the Soviet Union and now maintained by the EuroAsian Council for Standardisation, Metrology and Certification, a regional standards organisation operating under the auspice of the Commonwealth of Independent States.

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. Currently there are no significant recommendations arising from these audits.

In 2016, we once again reported no fatalities and no work-related injuries. Our Lost Time Injury Frequency Rate for 2016 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. We did not pay any compensation claims in 2016.

In 2016, social contributions for compulsory medical insurance were withheld from all of our employees of Exillon TP and Exillon WS and were payable directly to the relevant state funds.

Environment

Exillon Energy recognises the importance of protecting the environment in all of our activities and aims to fulfil 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 the decommissioning of operational facilities and land remediation.

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 is continuously monitoring the environmental impact of all aspects of our activities. Environmental protection and hazard control measures include:

- 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, coastal slopes
- Transporting sewage to treatment facilities
- Installation of equipment for storing dangerous refuse
- Forsage-1 industrial waste furnaces
- Training managers and staff in environmental protection and hazard control
- Recycling of domestic waste
- Installation of power generators utilising gas that otherwise would be flared

According to the changes in environmental regulations, which became effective on 1 January 2012, oil producers are permitted to flare 5 percent or less of the gas associated with production. The volumes exceeding this limit are taxable at the increased rates. To minimise penalties we continue constructing new gas utilisation facilities as well as selling the portion of associated gas. Due to these measures, we have achieved a low sustainable level in expenses for gas flaring penalties, which amounted to US$0.1 million in 2016 and US$0.2 million in 2015 (please see Note 7 to the Consolidated Financial Statements on page 69).

Total expenses on environmental protection in 2016 approximated US$0.6 million (2015: US$0.75 million), of which US$0.09 million was spent at Exillon TP (2015: US$0.12 million) and US$0.51 million was spent at Exillon WS (2015: US$0.63 million).

Employees

At the end of 2016, we employed 370 staff, of whom 257 were employed by Exillon WS and 113 by Exillon TP.

Our success depends to a large degree on our ability to recruit, motivate and retain senior management and highly skilled employees in a competitive job market. We support our 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. Other training deals with fire fighting, first aid dressing, oil spill responses, and labour and industrial safety.

Exillon TP and Exillon WS provide support for their employees at times of marriage, births, funerals, and other major events.

Gender Diversity

Exillon is generally supportive of gender diversity in the workplace. However, as a young and still small organisation, it is too soon to establish meaningful medium-term quantitative targets for women on our Board of Directors. We will however make every effort, reflecting our current scale and consistent with our core objective to sustain and generate shareholder value, to recruit and train suitably qualified women at every level of the organization.

The Board of Directors is composed of five members, one of whom is a woman. We have approximately 370 employees of whom 77 are female, making up 21% of our workforce.

Directors' Report

The Board of Directors of Exillon Energy plc

As of 26 April 2017, Exillon Energy's Directors include:

Sergey Koshelenko
Non-Executive Chairman

Mr. Koshelenko was appointed to the Board as a Non-Executive director on 20 January 2014 and subsequently became Chairman on 21 March 2014. Mr. Koshelenko has more than 20 years of experience in investment and banking industries and is currently a member of the Board of Directors of OPIN (Onexim Group) and Globex Capital. Prior to this, Mr. Koshelenko held the following positions: the Deputy CEO of VEB Capital LLC (Investment Company of Vnesheconombank), a member of the Board of Directors of Expert RA, Chairman of the Board of the International Financial Club Bank, Deputy Chairman of ROSBANK, Deputy Head of the Investment Banking Department of VTB, Director of Credit Suisse First Boston. Mr. Koshelenko has a degree in International Economic Relations from the State Finance Academy.

Dmitry Margelov
Chief Executive Officer

Mr. Margelov became Chief Executive Officer of Exillon on 24 March 2016. Mr. Margelov has extensive experience in oil and gas, corporate finance and mineral mining sectors. Before joining Exillon as Deputy CEO he served as advisor to the Chairman of the Board of Directors of JSC RusOil, a rapidly developing oil and gas company based in Moscow. Prior to joining the oil and gas sector, Mr. Margelov held a variety of senior positions at Gazprombank and was responsible for fund raising and business development for foreign mineral mining projects; he also has broad experience in tax and legal advising and executed several major M&A transactions as an independent consultant. Mr. Margelov holds a master's degree with honours in Law and Finance from Moscow State University of International Affairs (MGIMO).

Alexander Markovtsev
Senior Independent Non-Executive Director

Mr. Markovtsev was appointed to the Board on 28 May 2014. Mr. Markovtsev has more than 15 years of working experience as a lawyer with major international law firms. During this time he has specialised in transaction support in the oil and gas sector, having advised on numerous significant M&A transactions. He has also advised extensively on various issues relating to corporate governance and corporate social responsibility. Mr. Markovtsev has a degree with honours from the Moscow State Law Academy, and earned his doctorate in 2014.

Roman Kudryashov
Independent Non-Executive Director

Mr. Kudryashov was appointed to the Board on 28 May 2014. Mr. Kudryashov has worked for more than 20 years in finance. Most recently he served as head of Verno Private Equity Fund. Prior to joining Verno, Mr. Kudryashov held a variety of senior positions at Sberbank, including CFO, member of the Investment Committee and member of the Board of Directors. During his extensive career in finance, Mr. Kudryashov also held senior positions at Martinico B.V., Petrocommerce Bank and JPMorgan, dealing with business restructuring, investment operations and other financial issues. Mr. Kudryashov holds an MBA degree from Wharton Business School, University of Pennsylvania.

Natalya Shternberg
Independent Non-Executive Director

Ms. Shternberg was appointed to the Board on 28 May 2014. Ms. Shternberg has considerable experience in the oil and gas industry, having held senior positions over 20 years period at a variety of oil and gas companies such as Souz Petrolium SA, Summa Group, Star Oil, Baltic Oil Invest Ltd., Yakutsk Fuel and Energy Company (YATEC) and Soyuz Petroleum SA (affiliated to Primorsk and Novorossiysk Port) crude oil and petroleum products trading company. Ms. Shternberg is currently a member of the Board of Directors of Soyuz Bunkering Group (Hong Kong, Dubai, Singapore, Rotterdam). Ms. Shternberg holds a PhD in sociology from the Lomonosov Moscow State University.

Introduction

The Directors present their Annual Report and Consolidated Financial Statements to shareholders for the financial year ended 31 December 2016.

Exillon Energy plc (the "Company") is the holding company of the Group and all its issued ordinary shares were admitted to listing on the main market of the London Stock Exchange on 17 December 2009. The Company has also listed its shares on the Warsaw Stock Exchange to broaden the range of investors who are able to buy Exillon.

The Corporate Governance Statement forms part of the Directors' Report.

Principal Activities

Our principal activity is oil production with operations located in two oil-rich regions of northern Russia, Timan-Pechora and West Siberia.

Business Review

A review of our business, principal risks and uncertainties, principal activities and future development can be found on the pages listed below and are incorporated into this report by reference.

- Chief Executive Officer's Statement on pages 3 to 4
- Business Review on pages 5 to 15 incorporating the Operational Review on pages 5 to 7 and the Financial Review on pages 10 to 12 and the CSR Report which includes information on employees, environmental and social matters on pages 13 to 15
- Key Performance Indicators on pages 8 to 9
- Principal risks and uncertainties on pages 21 to 24

Duties and disclosure in accordance with good practice are described in the Corporate Governance Report on pages 33 to 38, which also sets out the Company's compliance with the provisions of section 7.2 of the Disclosure & Transparency Rules of the Financial Conduct Authority. Shareholders who wish to read the full version of the UK Corporate Governance Code ("Governance Code") are directed to the Financial Reporting Council's website: www.frc.org.uk

Treasury policy

Our treasury policy can be found on the pages listed below and are incorporated into this report by reference.

- Financial Review on pages 10 to 12
- Note 24 to the Consolidated Financial Statements on page 77
- Note 28 to the Consolidated Financial Statements on pages 79 to 83

Results and Dividends

The Consolidated Financial Statements for the year ended 31 December 2016 are as set out on pages 54 to 57. We declared no dividend for the year ended 31 December 2016 (2015: nil). It is the Directors' current intention that we will not pay a dividend for the foreseeable future in order to conserve cash resources for future investments in the business.

Directors

The Directors who served in office during the financial year and through the date of Director's Report were as follows:

Sergey Koshelenko
Alexander Markovtsev
Roman Kudryashov
Natalya Shternberg
Dmitry Margelov (appointed on 24 March 2016)
Alexander Suchkov (appointed on 20 January 2014 and resigned on 24 March 2016)

Further details about the Directors and their roles are given in the Corporate Governance Report on pages 33 to 38. Details of the Directors' remuneration and their interests in the Company shares are set out in the Remuneration Report on pages 26 to 32.

Appointment and Replacement of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. Each Director appointed by the Board or by the Company holds office only until the next AGM and is then eligible for appointment by the shareholders. All directors submit themselves to reappointment at the forthcoming AGM according to the provision of the Articles of Association. Although the UK Corporate Governance Code set the requirement of annual re-election of directors only for FTSE 350 Companies, it encourages all premium listed companies to put directors up for annual re-election. Despite the fact that the Company was not included in the FTSE 350 throughout the year, it complies with the dominant practice.

Details of the Directors' service contracts, including the arrangements for compensation for loss of office, are disclosed in the Remuneration Report on page 28.

Powers of the Directors

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

Share Capital and Shareholders' Restrictions

We have one class of share capital that is divided into 161,510,911 ordinary shares (2015: 161,510,911) 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 25 to the Consolidated Financial Statements on page 77.

Isle of Man law and the Company's Articles of Association govern the rights and obligations attached to these shares. A special resolution of the general meeting of shareholders is required to amend the Company's Articles of Association. Ordinary shareholders are entitled to receive notice and to attend and speak at any of our general meetings.

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 Conduct Authority whereby certain Directors, officers and our employees require Company's approval 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 or she 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 our 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. We do not know of any agreements between holders of shares, 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 the holders 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 of Association and the authority to issue and buy back shares is renewed by shareholders each year at the Annual General Meeting. We were authorised by a shareholder resolution passed on 23 June 2016 to purchase up to 10% of our 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.

We did not purchase any shares during the year.

Employee Share Plan

We established an employee benefit plan ("EBP") by which shares may be awarded to Executive Directors 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.

Substantial shareholdings

As of 31 December 2016, the significant interests in the voting rights of our 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
Seneal International Agency Ltd	48,437,122	29.99%	Direct
Sinclare Holdings Limited	43,114,588	26.69%	Direct
VTB bank	22,321,462	13.82%	Direct
OJSC JSCB International Financial Club	9,505,354	5.89%	Direct

As of 26 April 2017, the significant interests in the voting rights of our 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
Seneal International Agency Ltd	48,437,122	29.99%	Direct
Sinclare Holdings Limited	43,114,588	26.69%	Direct
VTB bank	22,321,462	13.82%	Direct
OJSC JSCB International Financial Club	9,505,354	5.89%	Direct

Events Since Reporting Date

The events, which took place after the reporting date and subject to disclosure, are set out in Note 30 to the Consolidated Financial Statements on page 84.

Principal Risks and Uncertainties

In 2016, the Board had overall responsibility for ensuring that risks were managed effectively, while the Audit Committee monitored the effectiveness of our internal control system. The information on the committee is set out on page 39 in the Audit Committee Report. The day-to-day responsibility for managing risk and maintaining our system of internal control lies jointly with the Chief Executive Officer and the Head of Financial Department. In 2016, the Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Plans to mitigate known risks and the effectiveness of and progress in implementing these plans are reviewed regularly in accordance with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Despite our best efforts to factor these known risks into our business strategy, inevitably risks will exist of which we are currently unaware.

Principal Risks and Uncertainties

Risk	Mitigation / control
Economic risks:	
Substantial and/or extended decline in the prices for crude oil.	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 are linked to the average global oil prices and decline to zero as the oil price decreases to US$15/bbl. In 2016, global oil prices showed substantial volatility and remained relatively low that resulted in the decrease of Group's profits. The negative effect on revenue was partially offset by the simultaneous reduction of mineral extraction tax, due to lower average crude oil prices used in the tax calculation in 2016 as compared to 2015. Decrease in production volumes and Russian Rouble depreciation, which reduced US dollar equivalent of mineral extraction tax, have also contributed to the significant tax reduction. In 2016, the effect of lower average crude oil prices on export duty was limited, because of reduced portion of export in our sales mix. Additionally, we are continuously developing our cost control system. In 2016, we continued to apply certain mineral extraction tax exemptions by Exillon TP and Exillon WS. In 2016, a continued decline in oil prices indicated potential impairment of oil and gas properties. The relevant assets were tested for impairment; with the conclusion made that there was no impairment to be recognised.
Fluctuations in currency exchange rates materially and adversely affecting our financial results and condition.	Our revenues from the sale of crude oil are linked to US dollars through global oil prices, while the great majority of our costs are denominated in Roubles. Accordingly, the real appreciation of the Rouble against the US dollar may negatively affect our profit, but we anticipate that such appreciation will most likely be the result of high crude oil prices, which would neutralise the effect. In 2016, the significant depreciation of Rouble against US dollar has decreased our costs (effective annual average rate of exchange was 60.9579 Rouble/US$ in 2015 and 67.0349 Rouble/US$ in 2016), most of which are denominated in Roubles, and has partially neutralised the negative effect of extended decline in oil prices.
Continued high levels of inflation in Russia.	High levels of inflation in Russia could increase our costs. We are continuously developing our cost control system in order to decrease our expenses, where it is appropriate. We also anticipate that in future high levels of inflation in Russia, and consequently expenses growth, will be balanced by Rouble depreciation and/or increase in revenue as a result of higher oil prices compared to those as at the end of the year.
Financial risks:	
Potential significant capital expenditures that may be required to increase production levels and overall efficiency, and any inability to finance these and other expenditures.	We have in place detailed budgets to cover immediate capital expenditures needs and long-term business plans to provide for continuous development of production facilities.

Risk	Mitigation / control
Regulatory risks:	
Suspension, restriction, termination or lack of extension to our exploration and production licences issued by the Russian authorities.	As part of the reorganisation undertaken in 2012 our licences were transferred among our subsidiaries which involved the relevant regional authorities re-issuing these licences. We believe that the successful reissuance of these licences by authorities evidences their validity. Our licences are subject to periodic review by the regional authorities and as part of the most recent reviews, the authorities indicated that we comply with the terms of our licences.
Potential claims and liabilities under environmental, health, safety and other laws and regulations.	In the last three years, the authorities have not imposed significant fines on Exillon WS and Exillon TP or instructed them to improve their procedures in relation to any health, safety and other laws and regulations. According to the changes in environmental regulations, which became effective on 1 January 2012, Exillon as an oil producer is permitted to flare 5 percent or less of the gas associated with oil production. The volumes exceeding this limit are taxable at the increased rates. Due to enhanced level of gas utilisation in 2015 and 2016, we have already achieved a low sustainable level in gas flaring penalties. To minimise relevant tax payments in the future we continue the construction of new gas utilisation facilities to provide for increasing volume of associated gas as a result of future oil production growth.
Under-development of the Russian legal system and Russian legislation creating an uncertain environment for investment and business activity.	Our legal teams monitor current legislation and proposed changes with a view to incorporating these into our work practices.
Potential tax audits by the Russian tax authorities, resulting in additional tax liabilities.	We are committed to complying with all the provisions of the Tax Code and are confident that the tax filings are compliant with the current tax legislation.
Frequent changes to Russian tax law and practice.	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. However, we are committed to complying with all the provisions of the Tax Code.
Operational risks:	
Operational risks of drilling and the introduction of new technology, leading to losses and failure to achieve planned production targets.	All projects are closely monitored to ensure project deliveries against plan and to enable actions to be taken to maintain progress. Project finances are monitored against budget to minimise overruns. Drilling operations are closely monitored.
Drilling, exploration and production risks and hazards which may prevent us from realising profits resulting in substantial losses.	Our core technical and operational team have extensive experience gained from their work on a wide variety of projects in Russia.

Risk	Mitigation / control
Poor condition of Russian physical infrastructure leading to disruption of normal business activity.	We monitor the situation on an ongoing basis, and have contingency plans in place which are regularly updated.
Third party provision of some services, including transportation services.	Our assets are located in well developed regions, which means that services are available on commercially reasonable terms from a number of providers.
Transportation of produced crude oil via a single pipeline system operated by an external provider – Transneft.	Transneft is controlled by the Russian Federation. In addition, our oil is of high quality that makes it attractive to transport, refinery and pipeline operators. Dependence on Transneft services is partially eliminated by the terms of agreements with some customers, which set the self-collection of crude oil directly from the infield oil filling station.
Variable weather conditions at our oil fields which may limit the production during certain times of the year.	Exillon has contingency plans in place to minimize the impact of weather conditions, and these are regularly tested.
Other risks:	
Intense competition within the oil industry and adverse effects by global economic conditions.	We have developed a strategy to compete effectively within the region. We constantly monitor our performance and current global economic conditions and adjust our strategy accordingly.
Forced liquidation of some companies in the Group as a result of negative net assets.	All companies in the Group with negative net assets settle their liabilities on timely basis, such as liabilities for tax payments, salaries, accounts with suppliers and contractors, etc. As long as these companies meet their payment obligations, they are not subject to the compulsory liquidation.
Social, political and economic instability in the Russian Federation leading to a material adverse effect on operations, financial conditions and prospects.	We monitor on an ongoing basis and in close liaison with on ground teams the social, political and economic situation in Russia. In addition, we have in place contingency plans, which are regularly tested.
Crime and corruption hindering the Company's ability to conduct business effectively leading to a material adverse effect on our financial condition and results of operations.	We have adopted a statement for business guidance of employees. All new starters and existing employees are made aware of this policy and are required to annually certify that they have reviewed it. We also have a Whistle-blower policy to enable concerns about poor practice to be voiced.
Dependence on senior management personnel and on maintaining a highly qualified skilled workforce.	We have in place an appropriate succession plan, which takes into account the development of executives and senior management. In addition, we have in place appropriate remuneration incentives that seek to enable us to attract, motivate and retain talented executives and simultaneously to align executive and shareholder interests.
Failure to manage the Company's growth or to execute or integrate acquisitions.	All acquisitions are subject to thorough due diligence in order to deliver an integration plan to achieve the objectives of the acquisition.
Changes in the foreign policy of the Russian Government and changes in its key global relationships leading to an adverse effect on the Russian political and economic environment in general.	We monitor the situation on an ongoing basis, and have contingency plans in place which are regularly updated.

Risk	Mitigation / control
Potential difficulties in enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions preventing the Group or investors from obtaining effective redress in court proceedings.	There can be no assurance that court decisions will be enforced or that governmental authorities will not exercise their discretion. However, our legal team monitor all developments and is equipped to respond to any such failure to enforce decisions or respond to claims from the Government.
Foreign and court judgments not being recognised and enforceable against the Group's Russian subsidiaries.	There can be no assurance that foreign court judgments will be enforceable against the Group's Russian subsidiaries and investors should seek advice accordingly.
Increased presence of the Russian state within the private sector as a consequence of the international financial crisis and the resulting downturn in Russian economy. Expropriation or nationalisation of any of the Group's or subsidiaries' assets without fair compensation, leading to a material adverse effect on the Group's business, prospects, financial condition and results of operations.	We monitor the situation on an ongoing basis, and have contingency plans in place which are regularly updated.
Shareholder liability under Russian legislation leading to the Company becoming liable for the obligations of its Russian subsidiaries.	There can be no assurance that Exillon will not become liable for the obligations of its Russian subsidiaries. However, our legal team will take all reasonable steps to prevent Exillon becoming liable for obligations of its subsidiaries.

Viability Statement

Taking into account the Group's current position and principal risks, the Directors have assessed the prospects of the Group over the period of three years, which is the Group's planning period. The Directors believe that an assessment period of three years is appropriate based on management's reasonable expectations of the position and performance of the Group over this period, taking account of medium-term business plan. The principal economic risks (as indicated in the table above) are those, which mainly affect the Group's solvency and liquidity. The magnitude of these economic risks has increased significantly since the last quarter of 2014 and remained high during 2015 and 2016, while the rest of the risks remained at approximately the same level. In particular, substantial and extended decline in the prices for crude oil and fluctuations in currency exchange rates could threaten the Group's viability. Please see the mitigating actions in the table above.

The key assumptions included in the forecast were oil price and exchange rate. The Directors' assessment included a review of the financial impact of the most severe but plausible scenarios that could threaten the viability of the Group and the likely effectiveness of the potential mitigations that management reasonably believes would be available to the Group over this period. Directors believe that no reasonably possible change in these key assumptions would critically effect the Group's viability over the assessment period. It is expected that cash flows from operating activities to be sufficient to finance the current levels of production, although production increase and further development might require the external funding after the repayment of the existing loan facility.

The Directors believe that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

Significant Agreement – Change of control

At the date of this report, there are no circumstances connected with significant agreements to which we are a party that will take effect, alter or terminate upon a change of control following a takeover bid. During 2016, the exception related to a loan facility agreement for US$100 million. The principal consequences of a change of control on this agreement were that the loan facility would be repayable upon request by the lender. The loan has been fully repaid on 14 March 2017.

Key Relationships

We enjoy stable relationships with the suppliers of essential services. The agreement with AK Transneft JSC for oil transport services is critical to our business.

Licences are also crucial to our operations, and therefore our relationships with the Russian Government departments responsible for issuing licences are important.

Statement on Disclosure of Information to Auditors

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

1. so far as the Director is aware, there is no relevant audit information of which our auditors are unaware; and
2. 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 our auditors are aware of the information.

Going Concern

The Directors have considered our business, budget, cash flow forecast, trading estimates, contractual arrangements, committed financing, exposure to contingent liabilities, financial covenant calculation, the principal risks and uncertainties and the viability statement. Having considered the above matters, the Directors have a reasonable expectation that the Group has adequate resources to continue operational existence and meet its liabilities as they fall due for the foreseeable future, being at least 12 months from the date of approval of the consolidated financial statements. For this reason the Directors continue to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

This report was approved by the Board of Directors on 26 April 2017.

Signed on behalf of the Board.
Dmitry Margelov
Chief Executive Officer

Remuneration Report

Introduction

This report sets out information about the remuneration of the Company Directors and the work of the Remuneration Committee for the year ended 31 December 2016.

This report will be subject to an advisory shareholder vote at our forthcoming annual general meeting.

Part 1 – Unaudited Information

Remuneration Committee

The members of the Remuneration Committee are Alexander Markovtsev (Chairman of the Remuneration Committee), Natalya Shternberg and Roman Kudryashov, all of whom are Independent Non-Executive Directors.

In compliance with the terms of reference, the committee met twice in 2016. The terms of reference of the Remuneration Committee are available on request. 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 Chairman, the Executive Directors, 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. No Director may be involved in deciding their own remuneration.

The main responsibilities of the Committee are to:

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

The Chairman of the Board, the Chief Executive Officer (if any), Deputy Chief Executive Officer (if any), members of senior management and external advisers may be invited to attend meetings of the Remuneration Committee, but do not take part in the decision making.

Advisers

The Remuneration Committee has not, to date, appointed any advisers to assist it in formulating our remuneration policy given the scale of our business and the need to observe Russian market practices.

Remuneration Policy

Our remuneration policy seeks to enable us to attract, motivate and retain talented executives to help drive the future growth and performance of the business.

In 2016, remuneration of senior executives consisted of basic salary without cash bonuses. Market forces necessarily influence salary levels, most significantly at the time of recruitment, and by the need to aim for parity of compensation of employees with comparable responsibilities. The details on the service agreements with the senior executives are set out on page 28.

The remuneration policy seeks:

- To align executive and shareholder interests.
- To provide competitive rewards assessed against the relevant market to attract, motivate and retain talented executives.
- To use share awards to retain employees as well as to conserve cash for use in fulfilling our business plan.

In determining our remuneration policy, the Remuneration Committee takes into account the particular business context in which we operate, the geography of our operations, the relevant talent market for each executive and best practice guidelines set by institutional shareholder bodies.

We complied with all the relevant provisions set out in the Corporate Governance Code throughout 2016 except for the fact that total executive directors' remuneration was fixed and was not structured so as to link an appropriate portion to corporate and individual performance as required by Schedule A to the UK Corporate Governance Code.

The reason for non-compliance was that under the special circumstances of Russian market conditions and the difficulty of recruiting qualified personnel, the Remuneration Committee concluded that no combination of possible performance conditions were able to satisfy the dual purposes of setting robust targets for the employees concerned while at the same time providing them with a meaningful incentive.

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, if the Participant is still the Company employee ("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 Company dividends 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, 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.

Shares subject to Restricted or Conditional Share Awards that are forfeited by employees remain in the Employee Benefit Trust and are available to be subject to new Awards.

During the year, no Restricted Share Awards or Conditional Share Awards were granted. There are no unvested outstanding Restricted Share Awards or Conditional Share Awards to employees or directors at the end of the reporting period.

Timing of Grant of Awards

The Remuneration Committee may grant Awards at any time during the period of six weeks following the announcement of our results for any period, or at such other time as the Remuneration Committee considers that exceptional circumstances exist which justify an Award of shares.

Performance Measures

Restricted Share Awards will be granted based on 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, if the Participant is still the Company employee on the date of vesting. On vesting, the employment restriction attached 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, Estera Trust (Jersey) Limited, for the benefit of employees. The Trustees have the power to acquire ordinary shares for the purpose of satisfying awards that we may grant in future under the Employee Share Plan. On Listing, the Trustees subscribed for 3,765,624 Company shares. Currently the Employee Benefit Trust contains 1,195,702 shares (2015: 1,195,702 shares).

Annual Bonus

There is no current annual bonus structure for Executive Directors, but the Remuneration Committee may determine a structure in due course, which it deems to be appropriate for the business. Such a structure may be developed in conjunction with the 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, under 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 only in lieu of the notice period.

On 24 March 2016, Alexander Suchkov resigned his position as Chief Executive Officer of Exillon. The payment of US$100 thousand to the outgoing director was approved by resolution of the Remuneration Committee. Dmitry Margelov, Deputy Chief Executive Officer, has been appointed as the new Chief Executive Officer of Exillon to replace Alexander Suchkov.

At present, the Company has one Executive Director.

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

Director	Position	Appointment date	Notice period	Salary, current or at time of termination (p.a.)	Resignation Date
Dmitry Margelov	Chief Executive Officer	24 March 2016	Twelve months from the employee; three months from the employer	US$240,000*	n/a
Alexander Suchkov	Chief Executive Officer	20 January 2014	Twelve months from the employee; three months from the employer	US$500,000	24 March 2016

* On 29 June 2016, the salary was amended from US$500,000 p.a. to US$240,000 p.a. by resolution of the Remuneration Committee (with effective date from 1 July 2016), without other changes of the service agreement's terms.

Benefits-in-Kind

Under the service agreement, a Chief Executive Officer is entitled to medical, travel and evacuation insurance in accordance with our Company rules and policies relating to expenses in effect from time to time. As part of a cost reduction programme Mr. Suchkov and Mr. Margelov agreed not to benefit from the insurance in 2016.

Pensions

We do 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 (including the Chairman) consists of fees that are payable 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. We do not have service contracts with the Non-Executive Directors; however, we have letters of appointment with each Non-Executive Director.

Non-Executive Directors' Letters of Appointment

We have signed letters of appointment with Sergey Koshelenko (Non-Executive Chairman of the Board), Alexander Markovtsev (Senior Independent Director), Roman Kudryashov (Independent Director) and Natalya Shternberg (Independent Director). Although they were each appointed for an initial period of three years, they will submit themselves to annual re-election in accordance with the Articles of Association.

Unless otherwise determined, neither the Company nor the Director 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. No additional fees have been provided for the performance of duties of Senior Independent Director or a committee chairperson.

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.
Sergey Koshelenko	20 January 2014 (renewed on 29 June 2016)	3 months	3 years	US$84,000*
Alexander Markovtsev	28 May 2014 (renewed on 29 June 2016)	3 months	3 years	US$60,000**
Roman Kudryashov	28 May 2014 (renewed on 29 June 2016)	3 months	3 years	US$60,000**
Natalya Shternberg	28 May 2014 (renewed on 29 June 2016)	3 months	3 years	US$60,000**

* On 29 June 2016, the fees were amended from 60,000 British Pounds p.a. to US$84,000 p.a. by resolution of the Board of Directors (with effective date from 1 July 2016).

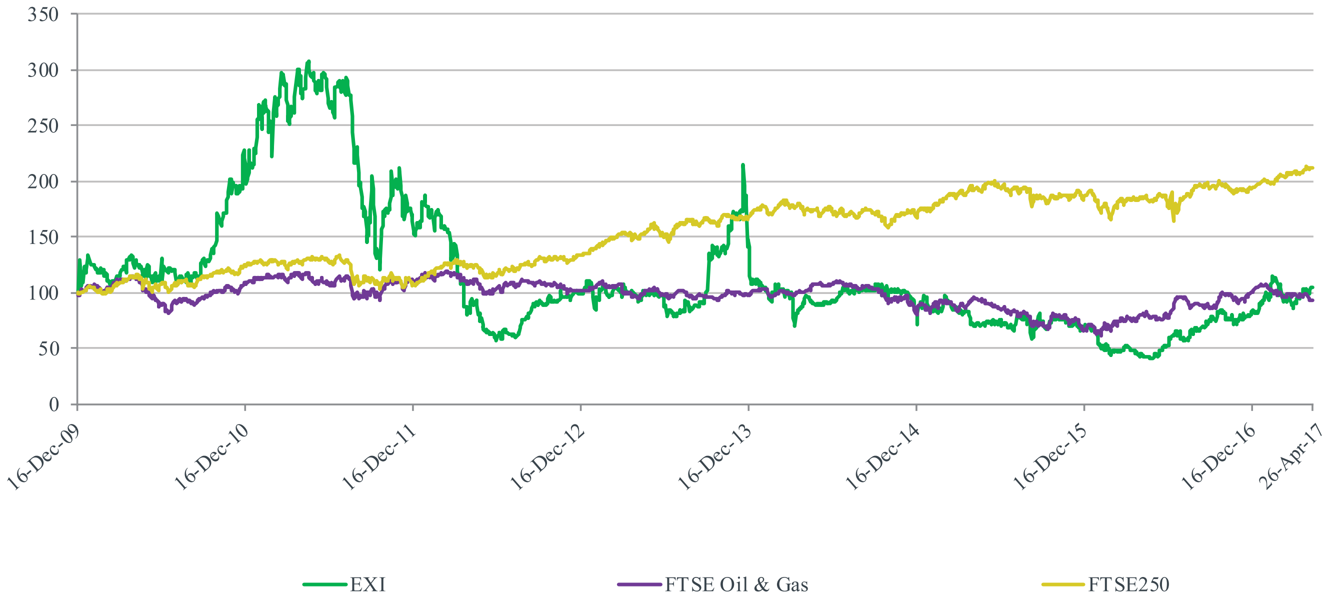
** On 29 June 2016, the fees were amended from 60,000 British Pounds p.a. to US$60,000 p.a. by resolution of the Board of Directors (with effective date from 1 July 2016).

External Appointments

It is the Board's policy to allow Executive Directors to accept directorships of other quoted companies provided that they have obtained the consent of the Company Chairman. 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 page 16.

Performance Review: Share Price



Part 2 – Unaudited Information

Directors' remuneration for the period from 1 January 2016 to 31 December 2016

Salary, fees and other benefits

US$ '000	Salary/ Fees	Compensation for loss of office	Benefits-in-Kind	Total 2016	Total 2015
Current Directors:					
Sergey Koshelenko	84,696	-	-	84,696	91,602
Dmitry Margelov	245,000*	-	-	245,000	-
Alexander Markovtsev	72,696	-	-	72,696	91,602
Roman Kudryashov	72,696	-	-	72,696	91,602
Natalya Shternberg	72,696	-	-	72,696	91,602
Former Directors:					
Alexander Suchkov	114,247	100,000	-	214,247	500,000
Total	**662,031**	**100,000**	**-**	**762,031**	**866,408**

* Excluding salary for holding the office as Deputy Chief Executive Officer for the period from 1 January to 23 March 2016, which amounted to $26,747 thousand.

The fees of Non-Executive Directors were nominated in British pounds for the period from 1 January to 30 June 2016 and were translated to US dollars using the actual exchange rates at the date of payment.

Former Directors:

There were no other payments made to any former director in 2016 and 2015, including consultancy agreements.

Directors' Interests in Ordinary Shares

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

	1 January 2016 or date of appointment if later (unaudited)	31 December 2016 or date of resignation if earlier (unaudited)
Sergey Koshelenko	-	-
Dmitry Margelov	-	-
Roman Kudryashov	-	-
Alexander Markovtsev	-	-
Natalya Shternberg	-	-
Alexander Suchkov	-	-

There have been no changes in the interests up to 26 April 2017.

This report was approved by the Board of Directors on 26 April 2017.

Signed on behalf of the Board.
Dmitry Margelov
Chief Executive Officer

Corporate Governance Report

Introduction

The Board is committed to good corporate governance practices. We implemented our governance procedures and processes following our listing in December 2009. We are subject to the UK Corporate Governance Code ("Governance Code"). The Governance Code is available from the Financial Reporting Council's website www.frc.org.uk.

This report describes how we have applied the principles set out in the Governance Code throughout 2016. The disclosures required by DTR 7.2.6 (Takeovers Directive Disclosures) are included in the Directors' Report.

The Audit Committee Report and Remuneration Report form part of the Corporate Governance Report.

Statement of Compliance

It is the Board's intention to comply with the relevant provisions of the Governance Code in all material respects. The Board considers that it complied with all relevant provisions set out in the Governance Code throughout 2016, except for the non-compliance in relation to the structure of executive directors' remuneration and the requirements of Schedule A to the Code, as disclosed in the Remuneration Report on page 27 (Code Provision D.1.1).

The formal evaluation of the Board was undertaken in 2016, as explained below.

Directors

Board of Directors

In 2016, the Board comprised Non-executive Chairman Sergey Koshelenko, Chief Executive Officer and three Independent Non-Executive Directors. On 24 March 2016, Alexander Suchkov resigned his position as Director of Exillon and Dmitry Margelov was appointed as Chief Executive Officer and member of the Board of Directors. Alexander Markovtsev has been appointed the Senior Independent Director. The other two Non-Executive Independent Directors are Roman Kudryashov and Natalya Shternberg.

Biographical details of all Directors at the date of this report are set out on page 16. The Board is responsible for setting our 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 for its decision including our 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 our operations, to ensure that they remain briefed on the latest developments and are able to make fully informed decisions. The Board met seven times during 2016, with all meetings held by telephone conferencing.

All Directors have access to the advice and services of the Company Secretary, who is responsible to ensure fulfillment of required procedures by the Board and compliance with applicable rules and regulations.

Bridgehouse Company Secretaries Ltd, a Limited Liability Company incorporated in the United Kingdom, is the Company Secretary of Exillon Energy plc. In respect of the statutory aspects of the role under Isle of Man law, the Company Secretary 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 its designated nominee. The Board is monitoring the provision of the secretarial duties and will take any action as appropriate to ensure that all requirements are met. In accordance with the Articles and compliance with the Code, the appointment and the removal of the Company Secretary is a matter for the Board as a whole.

All Directors may take independent professional advice at the Company's expense 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. We maintain Directors' and Officers' Liability Insurance and indemnity cover, the level of which is reviewed annually.

Chairman, Chief Executive Officer, and Senior Independent Director

Different individuals hold the roles of the Chairman and Chief Executive Officer 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 our strategy, and overseeing the Board's decision-making process. The key responsibilities of the Chief Executive Officer are managing our business, proposing and developing our 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.

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

Board Balance and Independence

During 2016, the Board comprised a Non-Executive Chairman, Chief Executive Officer and three independent Non-Executive directors (including the Senior Independent Director) and therefore met the requirements of the Governance Code for the board balance.

Following the resignation described above and appointment of the new Chief Executive Officer, the Board continued to meet the requirements of the Governance Code for the board balance.

In 2016, the Board had considered the guidance criteria on independence of Non-Executive Directors under Provision B.1.1 of the Governance Code. In the opinion of the Board, the three Non-Executive Directors were independent throughout 2016.

The Board has also established a Conflicts Committee of independent Directors to consider and, if appropriate, approve related party transactions (in relation to any Director). A description of the Conflicts Committee can be found below. It therefore considers that no single Director can dominate decision-making.

Appointments to the Board and Re-Election

On 24 March 2016, Alexander Suchkov resigned his position as Chief Executive Officer of the Company and Dmitry Margelov was promoted from his position as Deputy of Chief Executive Officer to the position of Chief Executive Officer and member of the Board of Directors. Mr. Margelov was recommended to the Exillon's Board by Seneal International Agency Ltd, which has held a 29.99% interest in the Company's share capital since December 2013 and is ultimately controlled by Alexei Khotin. The Nomination Committee and the Board have carefully considered Mr. Margelov's solid experience in oil and gas and in corporate finance, including in his current position at Exillon, and unanimously approved the appointment. In the Board's opinion, Mr. Margelov's deep knowledge of the Company will help to ensure seamless continuity of management and business processes.

All Directors will submit themselves to annual election in 2017. While they are not required to do so under the laws of the Isle of Man, this is provided for in the Company's Articles of Association and is in compliance with the dominant practice followed by premium listed companies, notwithstanding their size, to comply with the requirement of the Corporate Governance Code for FTSE 350 companies to put directors up for annual re-election. The terms for the re-appointment of Directors are referred to more fully on page 18 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 page 16.

Information and Professional Development

All new directors appointed in 2014 and 2016 and then serving received a briefing of their duties, responsibilities and liabilities as a director of a public listed company. Directors were encouraged to keep abreast of developments and attend training courses to assist them with their duties. The Chairman ensured that new directors received a full, formal and tailored induction on joining the board through training provided by Baker & McKenzie LLP. The Chairman also regularly reviews and agrees with each Director their training and development needs.

In addition to the formal meetings of the Board, the Chairman and Chief Executive Officer maintain frequent contact with each other and the other Board Directors to discuss any issues of concern they may have relating to our business or as regards their area of responsibility and to keep all Directors fully briefed on ongoing matters relating to our operations.

Board Performance and evaluation

An annual performance evaluation of the Board, its Committees, the Chairman and individual Directors was undertaken for the results of 2016 via a questionnaire. The dedicated team at Bridgehouse Company Secretaries Ltd, our Company Secretary, facilitated the process.

Key findings of the Board evaluation by the Directors included ensuring an effective strategy process that focussed on the long term and which acknowledged the important role of the Board in this process. Also, continued focus on succession for the Board and building on a collaborative and inclusive environment, and which could be partly achieved by devolving more monitoring tasks to committees and management.

It was concluded that the Board and its Committees are of the right size and that its members, including the Chairman, have the balance of skills, independence, experience and diversity appropriate for the Company and that they were performing satisfactorily individually and as a unit throughout 2016. The process included the Non-executive Directors, led by the Senior Independent Director, and without the Chief Executive Officer being present, conferring to evaluate the Chairman's performance in leading the Board and in chairing meetings to conduct the Board's business.

Board Committees

The following table sets out individual attendance by the relevant members at the meetings of the Board and its Committees:

		Committee Meetings		
	Board Meetings	Audit	Remuneration	Nomination
Sergey Koshelenko	5	-	-	1
Dmitry Margelov	4	-	-	-
Alexander Markovtsev	7	3	2	-
Roman Kudryashov	7	3	2	1
Natalya Shternberg	7	3	2	1

Audit Committee

The information on the committee is set out on page 39 in the Audit Committee Report.

Remuneration Committee

Full details of the role and composition of the Remuneration Committee, the remuneration policy of the Company and its compliance with the UK Corporate Governance Code provisions relating to remuneration are set out in the Remuneration Report on pages 26 to 27.

Nomination Committee

The members of the Nomination Committee are Sergey Koshelenko (Chairman of the Nominations Committee), Roman Kudryashov and Natalya Shternberg. The majority of members of the committee are Independent Non-Executive directors.

According to the terms of reference, the committee should meet not less than twice a year. The committee met in March 2016 to consider the appointment of the new Chief Executive Officer. Although the committee did not hold other meetings during the year, the members were discussing and determining the matters within their responsibilities. The Nomination Committee's terms of reference are to review regularly the structure, size and composition (including the balance of skills, experience, independence and knowledge) of the Board compared to its current position and make its recommendations to the Board with regard to any changes. The Board's policy on gender diversity is disclosed on page 15 in the Corporate Social Responsibility report. The Nomination Committee also considers the future composition of the Board, taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the Board. The terms of reference of the Nomination Committee are available on request.

The committee also makes recommendations to the Board about the membership of the Audit and Remuneration Committees.

Corporate Social Responsibility Committee

The information on the committee is set out on page 13 in the Corporate Social Responsibility report.

The Conflicts Committee

The members of the Conflicts Committee are Natalya Shternberg (Chairman of the Conflicts Committee), Alexander Markovtsev and Roman Kudryashov. All members of the Conflicts Committee are considered by the Board to be independent.

In 2016, the Conflicts Committee met immediately before and/or after each meeting of the Board, if it had business to consider, with all relevant members attending all meetings. There were no matters to be formally resolved by the Conflicts Committee. The role of the Conflicts Committee is 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 the schedule of matters reserved for the Board. The Conflicts Committee also considers and makes recommendations to the Board with respect to modifications to the Group's related party transaction policy and the conflicts of interest procedures set out in the Company's Articles of Association.

The service agreement of the Chief Executive Officer and the letter of appointment with the Chairman of the Board, both of whom were recommended to the Exillon's Board by our significant shareholder, regulate the ongoing relationship with the significant shareholder and helping ensure that transactions and relationships between the Company and the significant shareholder are conducted at arm's length and on a commercial basis. The Chief Executive Officer and the Chairman of the Board are prohibited to vote on or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction, litigation, arbitration, settlement or any proposal whatsoever to which the Company or any of its subsidiaries is or is to be a party with Mr Khotin, Seneal International Agency Ltd or any other company, partnership, fund or other entity ultimately controlled by Mr Khotin. They also have no personal authority to enter into, or commit to enter into, the arrangements indicated above, except with the prior approval of the Board.

Going Concern

A statement on the Directors' position regarding our business as going concern is contained in the Directors' Report on page 25.

Share Capital Structure

Our share capital structure is provided in the Directors' report on page 18.

Shareholder Relations

The Chairman of the Board and the Chief Executive Officer are responsible for discussing of strategy and governance issues with major shareholders and for ensuring the effective communication of shareholders' views to the Board as a whole. Board members seek to keep in touch with major shareholders opinion through direct face-to-face meetings and analysts' reports. The forthcoming Annual General Meeting of the Company will be an opportunity to communicate with shareholders and the Board welcomes their participation.

Notice of the Annual General Meeting will be sent to shareholders well in advance of the meeting. The Board directors will attend the AGM as required by the UK Corporate Governance Code. The voting results will be made available on our website following the meeting.

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

This report was approved by the Board of Directors on 26 April 2017.

Signed on behalf of the Board.
Dmitry Margelov
Chief Executive Officer

AUDIT COMMITTEE REPORT

Introduction

This report provides details on the activities of the Audit Committee during the 2016 financial year, and particularly on the role of the Audit Committee, on behalf of the Board, in ensuring that the annual report, taken as a whole, is fair, balanced and understandable.

This report details how the Audit Committee has discharged its responsibilities in relation to three areas highlighted being:

- addressing significant financial statement reporting issues;
- assessing external audit effectiveness;
- appointing the external auditor and providing safeguards on non-audit services.

Composition of the Audit Committee

The members of the Audit Committee are Roman Kudryashov (Chairman of the Audit Committee), Natalya Shternberg and Alexander Markovtsev. All members of the Audit Committee are considered by the Board to be independent. The Chairman of the committee has recent and relevant financial knowledge and experience. The Audit Committee as a whole have competence relevant to the oil production sector, in which the Company operates.

Roles and responsibility of the Audit Committee

The duties of the Audit Committee include:

- to ensure that the Company's accounting and financial policies and controls are proper, effective and adequate;
- to monitor the integrity of financial statements and any formal announcement relating to our financial performance, reviewing significant financial reporting issues and the basis for significant estimates and judgments;
- to review the effectiveness of our system of internal control and risk management systems;
- to keep under review the need for establishing an internal audit function; if such a function is established, then to monitor and review its effectiveness;
- to make recommendations to the Board on the appointment, reappointment, or removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements;
- to keep under review the nature and the extent of non-audit services provided by the external auditors;
- to review arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters; and
- to report to the Board on how it has discharged its responsibilities.

The duties of the Committee are incorporated in the terms of reference, which are available on request.

Activities in 2016 and 2017

The Audit Committee met three times in 2016 and once in 2017. During these meetings the Committee:

- reviewed the interim and year end results;
- in accordance with the request from the Board, considered the annual report and Consolidated Financial Statements for the year ended 31 December 2016 and provided advice that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The conclusion was made on the basis that the description of the business agrees with the Audit Committee's own knowledge and understanding, with significant changes from prior periods being highlighted and supported by relevant context and not obscured by immaterial details, the consistent measures of progress are used over time, the principal risks and uncertainties reflect the issues that concerned the Audit Committee, the discussion of performance properly reflects the developments of the year with appropriate balance provided between positive and negative factors, and that there is consistency provided between all areas of the narrative and the financial statements;
- reviewed the viability statement. The Committee examined and discussed the key assumptions used in the forecast and the period of assessment and was comfortable with them. In particular, the committee reviewed the level of crude oil price and agreed that it was in accordance with the recent market forecasts. The Committee also debated and agreed on the appropriateness and completeness of principal risks considered in the statement;
- considered if the going concern basis of accounting was appropriate in preparing the Consolidated Financial Statements. The Committee considered and discussed with the management the Company's budget, cash flow forecast, trading estimates, contractual arrangements, committed financing, exposure to contingent liabilities, financial covenant calculation, the principal risks and uncertainties and the viability statement. Based on the outcome of the above consideration the Committee concluded that the adoption of going concern basis of accounting was appropriate in preparing the Consolidated Financial Statements;
- received and considered reports from the external auditor in respect of their review of the interim results, the audit plan for year and the results of the annual audit. These reports included the scope of the interim review and annual audit, the approach to be adopted by the auditor to address and conclude upon key estimates and other key audit areas, the basis on which the auditor assesses materiality, the terms of engagement for the auditor and an ongoing assessment of the impact of future accounting developments on the Company;
- considered the effectiveness and independence of the external audit and recommended to the Board the reappointment of Ernst & Young LLC as external auditor;
- considered the review of material business risks, including review of internal control processes used to identify and monitor principal risks and uncertainties;
- considered the appropriateness of the systems and controls in place with regard to related parties transactions;
- carried out an annual review of the Audit Committee performance.

The Company's auditors were invited to attend all meetings during the year, including the meetings held after review of interim results, at the planning stage before the audit and after the audit at the reporting stage. In 2016, the Chairman of the Board, the Chief Executive Officer, other Directors and representatives from the finance function were invited to attend all or part of the meetings, as and when appropriate. At least once a year, the Committee must meet the Company's external auditors without the executive directors and senior management being present.

There was no internal audit function in place in 2016. A decision was made not to employ an internal auditor, due to the Company's limited size as well as cost saving reasons. The functions of internal auditor are provided by the sound system of internal control described below.

Significant issues considered in relation to the Consolidated Financial Statements

The Committee and subsequently the Board reviewed accounting and reporting issues that arose through reports from and discussion with management and the external auditor, and considered the following significant issues in relation to the Consolidated Financial Statements.

Risk of improper revenue recognition

Revenue recognition is considered to be material to the Company, although the nature of the recognised revenue is not considered complex. The Committee reviewed the consistency of application of accounting policy with respect to revenue recognition; the reconciliation to management accounts for each operating segment prepared by management team and the additional procedures performed by the external auditor.

Risk of management override of controls over financial accounting and reporting

The Committee reviewed delegation of authority policies; a monthly comparison of management accounts (under local GAAP) to the approved budget and a twice-yearly comparison of IFRS figures to management accounts together with the explanation of differences prepared by management and its consistency with the disclosed operational and financial performance reviews in the half-yearly and annual reports. The Committee also considered additional procedures performed by the external auditors to address significant risks.

Compliance with license agreements

Russian oil and gas producers are subject to a number of rules, requirements and license agreement conditions. Violation of a license agreement can lead to fines and, in extreme cases, to license revocation. The Committee considered management's assessment of the status of compliance with license agreements and the related system of controls. The Committee also considered the external auditors update on the analysis of compliance with license agreements.

Risk of related party transactions not being appropriately accounted for and/or disclosed

The Committee reviewed an updated list of related parties and assessed its completeness. The Committee also considered additional procedures performed by the external auditors to address significant risk for non-disclosure of related party transactions, including external research and journal entry testing. The Committee concluded that related party transactions were appropriately accounted for and disclosed in the Consolidated Financial Statements.

Going concern

Management provided the Audit Committee with a paper on the ability of the Group to continue as a going concern. This paper considered the future profitability of the Group, forecast of future cash flows, contractual arrangements, committed financing and exposure to contingent liabilities. The key judgments, assumptions and estimates underpinning this review were discussed and considered. In particular, the Committee examined macroeconomic assumptions, such as oil price and exchange rate, and application of mineral tax exemptions. Following the review, the Audit Committee was able to conclude that the adoption of the going concern principle was justified for the foreseeable future.

The impact of estimation of the quantity of oil and gas reserves on depletion and impairment assessment

The Committee reviewed updated reserves valuation report dated 30 June 2016 and prepared by Miller and Lents Ltd, independent engineering consultants. The Committee challenged and duly discussed change in assumptions including oil prices, exchange rates, operating expenses, drilling programme and development capital costs in respect of each operating segment. Based on the review, the Committee was able to conclude that the assumptions used for the oil and gas reserves report reflect the Company's future development plans and current economic situation. It was ensured that the updated reserves and resources estimates were appropriately used in impairment and depletion calculation. The Committee also reviewed the consistency of the policy applied to the accrual of depletion for oil and gas properties, using the unit-of-production method, and concluded that it was appropriate.

Impairment of current and non-current assets

Management performed the assessment of impairment for oil and gas properties, since recent facts and circumstances have indicated potential impairment (the continued decline and significant volatility in oil price). Management provided the Audit Committee with a paper supporting the carrying value of the relevant assets in each cash-generating unit of the Group. The key assumptions and estimates underpinning the model, including oil price and the discount rate used, were challenged and discussed by the Audit Committee. Based on the work performed, the Committee was able to conclude that no impairment was necessary to the oil and gas properties as at 31 December 2016. The Committee also concluded that no reasonably possible change in any of the key assumptions would cause the recoverable amount to be below the carrying value of any cash-generating unit.

The Committee reviewed an analysis on the recoverability of current assets provided by management, with particular attention applied to trade and other receivables, prepayments and advance payments for property, plant and equipment. The Committee duly discussed the change in the balances during the financial year and credit quality of underlying counterparties. The Committee also considered additional procedures performed by the external auditors and concluded that there is no further provision required in excess of the allowance for doubtful debts.

Debt covenants compliance

In March 2012, the Company has amended its long-term debt agreement with Credit Suisse International and entered into a new $100 million loan facility. Under the terms of the debt agreement, the Company is subject to certain financial and operational debt covenants. The Committee examined the calculations of the covenants for the year and concluded that they complied with the loan agreement. The loan has been fully repaid on 14 March 2017.

Current tax risks

The Committee reviewed the significant judgments applied by the management to the recognition of tax liabilities and agreed on its compliance with the tax legislation.

Accrual of expenses related to potential M&A transaction

In the second half of 2016, the Company has incurred certain professional service expenses with respect to potential M&A transaction. The Committee reviewed relevant accrued expenses for the completeness and accuracy and concluded that the amount agrees to its own knowledge of the transaction.

Appointment of External Auditor

The Audit Committee has not undertaken a tendering exercise in 2016. However, it has conducted a review of the auditor's effectiveness, independence and objectivity. In making its assessment of the effectiveness of the external audit, the Audit Committee reviewed the composition of the engagement team, the scope of the annual audit, areas of audit focus and the approach to be adopted by the auditor as well as the results of the tests of internal controls. Subsequently the external audit findings and the management's team responses to these findings have been taken into consideration.

The Audit Committee also reviewed the independence and objectivity of the external auditor, accepting that both had been maintained throughout the audit process for the financial year. In its review the committee considered the policies and procedures implemented by the external auditor, such as rotation of partners and staff in senior positions, independent partner reviews and internal quality reviews. It also considered and confirmed the absence of any financial or other interest of the external auditor in the Company.

The Audit Committee, on behalf of the Directors, concluded that Ernst & Young LLC is effective, independent and objective. Consequently, the Directors will recommend to Shareholders the reappointment of Ernst & Young LLC as auditor at the forthcoming AGM and seek authority for the Directors to agree the external auditor's remuneration. The Committee's ability of making such a recommendation is not restricted by any contractual obligation.

The last competitive audit tender took place in 2012 when Ernst & Young LLC was appointed as auditor of Exillon.

Non-Audit Services

The Audit Committee has established a policy on the provision of non-audit services by the external auditor other than the half-yearly review. The policy sets out non-acceptable non-audit services, such as appraisal, reconstruction of financial accounts and any accounting services. The only acceptable non-audit services to be provided by the external auditor are consulting services. Specific approval from the Audit committee is required for any new engagement involving consulting services, notwithstanding fee size, before the external auditor can be contracted.

In 2016, non-audit services provided by the external auditor included tax consulting services and consulting services in relation to potential M&A transaction. The Audit Committee will monitor in future the types of non-audit work that will be undertaken by the external auditors to ensure that their objectivity and independence is not compromised. The external auditor maintains safeguards to ensure the objectivity and independence of its service teams. These safeguards include the use of separate teams where appropriate and the review of prospective assignments to ensure compliance with regulations.

The fees analysis incurred for the financial year is provided in Note 11 to the Consolidated Financial Statements on page 71.

Internal Control

The Board has overall responsibility for our system of internal control, which includes risk management, and the Board is responsible for reviewing the effectiveness of the system of internal control. In 2016, the Board has delegated the responsibility for reviewing the effectiveness of its internal control systems to the Audit Committee. The Audit Committee has reviewed these systems, including reviewing risks, policies and processes for tendering, fraud and authorisation of expenditure, on a regular basis. Where the Committee was not satisfied with, or wherever it considered action or improvement was required concerning any aspect of risk management and internal control, financial reporting, or audit-related activities, it promptly reported these concerns to the Board. The day-to-day responsibility for managing risk and the maintenance of our system of internal control has been delegated to 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. An ongoing process for identifying, evaluating and managing the significant risks has been in place throughout the reporting year and up to the date of approval of the annual report. The Board regularly reviews this process, with no significant failings identified within the reporting period.

The Board regularly deals with the identification, evaluation and management of the significant risks, which we face. It reviews with management all material controls including economic, financial, regulatory, operational and other controls and risk management systems. During 2016, we continue to follow the enhanced approval procedure based on the compliance with the detailed operational budgets for all payments and reimbursement of all expenses, including those in relation to third parties as well as all directors and employees. Due consideration of internal controls has been recorded in the minutes of the Board and the Audit Committee. We have followed current guidance on internal control issued by the Financial Reporting Council (the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting). The Audit Committee was assisting the Board in discharging its review responsibilities throughout 2016. A summary of the key risks which we face and mitigating actions are described on pages 21 to 24.

The Group's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead and a three-year rolling plan. The Board reviews and approves them. Performance is monitored and relevant action taken throughout the year using the monthly reporting of key performance indicators, updated forecasts for the year together with information on the key risk areas.

A budgetary process and authorisation levels regulate capital and operating expenditures. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Commercial, legal and financial due diligence work is carried out if a business is to be acquired. Reviews are carried out for all acquisitions during the acquisition period to monitor expenditure; major overruns are investigated.

Responsibility for maintaining an effective control environment for financial reporting has been delegated to the Head of Financial Department. Managers 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. The 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 Disclosure and Transparency Rules, and the Listing Rules of the United Kingdom's Financial Conduct Authority ("FCA"). Data consolidated into our financial statements is reconciled to the underlying financial systems and management accounts. A review of the consolidated data is undertaken by the Head of Financial Department to ensure that our true position and results are reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions. The Audit Committee reviewed and discussed half-year and annual financial statements for the 2016 financial year with management and our external auditor 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 requirements.

The Board has ensured that we introduce appropriate levels of risk management and internal control for companies listed on the London Stock Exchange.

This report was approved by the Board of Directors on 26 April 2017.

Signed on behalf of the Board.
Dmitry Margelov
Chief Executive Officer

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 Conduct Authority, the directors have prepared the 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 the Group's affairs and of its profit or loss 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 we will continue in business.

The directors are responsible for keeping reliable accounting records, which correctly explain the transactions of the company and which enable the financial position of the company to be determined with reasonable accuracy. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 page 16, 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 profit or loss of the Group taken as a whole;
- the Directors' Report contained on pages 16 to 25 includes a fair review of the development and performance of the business and position of the Group taken as a whole, together with a description of principal risks and uncertainties that the Group faces; and
- the annual report and the Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board.
Dmitry Margelov
Chief Executive Officer
26 April 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EXILLON ENERGY PLC

Our opinion on the financial statements

In our opinion:

- Exillon Energy plc's ("The Company", together with its subsidiaries – "The Group") consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs).

What we have audited

Exillon Energy plc's consolidated financial statements comprise:

- consolidated statement of financial position as at 31 December 2016;
- consolidated statement of comprehensive income for the year then ended;
- consolidated statement of changes in equity for the year then ended;
- consolidated statement of cash flow for the year then ended;
- related notes 1 to 30 to the consolidated financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs.

Overview of our audit approach

Risks of material misstatement	• risk of improper revenue recognition; • risk of management override of control over financial accounting and reporting; • risk of related party transactions not being appropriately accounted for and/or disclosed; • the impact of estimation of the quantity of oil and gas reserves on depletion and impairment assessment; • impairment of current and non-current assets.
Audit scope	• we performed an audit of the complete financial information of two components and audit procedures on specific balances for a further two components; • the components where we performed full or specific audit procedures accounted for 100% of profit before tax, 100% of revenue and 100% of total assets; • our scope focused on key locations in Western Siberia (Exillon WS), Timan Pechora (Exillon TP) and two locations in the Isle of Man. These were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.
Materiality	• we used the overall Group materiality of US$2,500,000 which represents 5% of profit before tax.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Risk of improper revenue recognition (as described on page 41 of the report of the audit committee). There is a risk that revenue may be deliberately overstated through inappropriate or fraudulent financial reporting. Management focuses on revenues as a key performance indicator which could create an incentive for revenues to be recognized before the risks and rewards have been transferred. We consider the aspects of revenue recognition that are most susceptible to the fraud risk. We carefully consider the significant accounts/disclosures and assertions that are affected by the identified fraud risk and plan our audit responses to address those specific assertions.	We identified and tested controls over the sales process, performed enquiries of management, analysed in detail sales contracts with customers, understood revenue recognition. We evaluated whether accounting revenue was recognised in accordance with contract terms, tested a sample of sales contracts, and performed analytical review of revenue, EBITDA, net income for each in scope location by contracts, customers, sales types (monthly comparison of actual amounts to budget and prior period, gross margin analysis, comparison to market prices). In addition, we performed sales cut off procedures.	Based on our procedures we identified no matters to report to the Audit Committee.

Risk of management override of controls over financial accounting and reporting (as described on page 41 of the report of the audit committee). As is the case for almost all companies, management is set certain performance targets. There is pressure on management to meet financial targets set up by the Board of directors or management, including sales, production or profitability incentive goals.	Our audit included a combination of testing of entity level controls, internal controls over financial reporting, analytical procedures and detailed tests of transactions. We evaluated the risk of management override and considered the actions management has taken to respond of the risk. We considered, among other things: Code of conduct, effective and independent oversight by the Audit Committee and the Group's risk assessment process to evaluate entity level controls. We performed analytical tests of revenue, EBITDA, net income for each in scope location by contracts, customers, sales types and performed journal entry testing at all locations (including unusual transactions, journal entries with unusual description or correspondence, round numbers, non-business related, entries that occurred close to the end of the reporting period).	Based on our procedures we identified certain transactions (related to the advances issued for the potential acquisitions of subsidiaries, certain items of fixed assets, and the office buildings that had been subsequently refunded back) which we drew to the attention of the Audit Committee.
Risk of related party transactions not being appropriately accounted for and/ or disclosed (as described on page 41 of the report of the audit committee). Transactions with related parties are disclosed in Note 27 of the consolidated financial statements. In course of our audit procedures we put special emphasis on transactions with related parties.	We identified and tested controls over the identification and disclosure of related party transactions, ensured the list of related parties is being updated and approved by the Group's Board, performed journal entry testing at all locations. We conducted external research and performed inquiries for all new suppliers and customers the Group transacted within 2016 to identify potential related parties. We remained alert throughout the audit with regard to the identification and disclosure of related parties and transactions.	Based on our procedures we consider that the disclosure of related parties is reasonable and complete.

The impact of estimation of the quantity of oil and gas reserves on depletion and impairment assessment (as described on page 41 of the report of the audit committee). Oil and gas reserves are key elements in the Group's investment decision-making process. Changes in oil and gas reserves, particularly proved and probable reserves, will affect unit-of-production depreciation and impairment charges. The information of total reserves is disclosed in the Annual report 2016.	We verified the oil and gas reserves were properly allocated to cash generating units. We ensured that the updated reserves and resources estimates were appropriately considered in impairment and depletion calculation. During the audit we made management inquiries (including chief geologist) to confirm that no significant changes in reserves volumes occurred after independent experts reserves report date. We audited 2016 sales volumes, analysed budgets, production reports, third party transportation and storage statements, and investment programs. We challenged the management's assumptions in estimating oil and gas reserves were based on supportable evidence (including observable market and industry average data) and qualified, independent, reputable experts were engaged by the Group as appropriate. We assessed the competence and objectivity of experts engaged by the Group to satisfy ourselves they were appropriately qualified to carry out the volumes estimation.	Based on our procedures we consider that the reserves estimations are reasonable for use in the impairment testing and calculation of DD&A.
Impairment of current and non-current assets (as described on page 42 of the report of the audit committee). Changes in oil prices can have a significant effect on the carrying value of the Group's assets. A drop in prices has immediate impact on the Group's operations and cash flows. Management has identified indicators of impairment related to significant crude oil price decline in 2016. In accordance with IAS 36, Impairment of assets, the Group performed impairment analysis of its oil and gas assets as of 31 December 2016. Weakening economic conditions may also negatively affect the Group's customers and suppliers resulting in impairment of the Group's current assets.	We challenged impairment models of the Group's non-current assets. In particular, we performed the following procedures: • examined the methodology used by management to assess the carrying value of non-current assets assigned to cash-generating units, to determine its compliance with accounting standards; • assessed specific inputs to the determination of the discount rate. Such inputs were benchmarked against rates observable in the markets in which the Group operates; • evaluated estimates of future cash flows and considered whether these were appropriate in light of future price assumptions and cost budgets; • assessed the centrally-derived oil and gas price assumptions by reference to external market data and assess the suitability of the revised assumptions • checked the mathematical accuracy of the impairment models.	We concurred with management that no impairment existed as of 31 December 2016.

	We ensured the impairment analysis is reasonable and consistent with other information and records of the Group, including the hydrocarbon reserve report. We performed procedures to confirm recoverability of the current assets. We confirmed that advances issued for the potential acquisitions of subsidiaries and items of fixed assets were refunded in full before 31 December 2016, except for those where the Group received the title and assets were recognised. We verified the recoverability of trade and other receivables by analysing subsequent cash receipts. We ensured that adequate provision has been made for doubtful debtors.	

The risks described above are the same as we reported in 2015, except we extended the risk of impairment to the current assets. In 2015 we identified impairment risk related to the non-current assets only.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

In assessing the risk of material misstatement to the Group's consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the reporting components of the Group, we selected three key locations: in Western Siberia (Exillon WS), Timan Pechora (Exillon TP) and the Isle of Man, which represent the principal business units within the Group.

Of the two key locations selected, we performed an audit of the complete financial information of two components ("full scope components") – Exillon WS and Exillon TP – which were selected based on their size or risk characteristics. For the remaining component ("specific scope components") we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The Group audit team interacted regularly with the Exillon WS and Exillon TP component teams where appropriate, during the various stages of the audit, reviewed key working papers and took responsibility for the scope and direction of the audit process.

The reporting components where we performed audit procedures accounted for 100% (2015: 100%) of the Group's profit before tax, 100% (2015: 100%) of the Group's revenue and 100% (2015: 100%) of the Group's total assets. For the current year, the full scope components contributed 117% (2015: 105%) of the Group's profit before tax, 100% (2015: 100%) of the Group's revenue and 90% (2015: 89%) of the Group's total assets. The specific scope components contributed -16% (2015: -5%) of the Group's profit before tax and 10% (2015: 11%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.

For the remaining components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group's consolidated financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$2,500,000 (2015: US$3,943,000), which is 5% of profit before tax (2015: 5% of profit before tax). We believe that profit before tax provides us with the most appropriate measure upon which to calculate materiality being one of the key performance indicators used by the shareholders.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2015: 75%) of our planning materiality, namely US$1,875,000 (2015: US$2,957,000). We have set performance materiality at this percentage as we believe that there is no high risk of material misstatements and that aggregate amount of identified misstatements would not exceed 25% of materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$1,594,000 to US$1,031,000 (2015: US$2,513,000 to US$591,000).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$125,000 (2015: US$197,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated 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 and the parent company'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. In addition, we read all the financial and non-financial information in the Exillon Energy plc Annual Report 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 45, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and 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 is made solely to the Company's members, as a body, in accordance with our engagement letter dated 29 July 2016. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Paul Francis Duffy (Registered Auditor)
for and on behalf of Ernst & Young LLC
Isle of Man

26 April 2017

Notes:

1. The maintenance and integrity of the Exillon Energy plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Financial Statements

For the year ended 31 December 2016

Consolidated statement of comprehensive income

		For the year ended 31 December	
	Note	2016	2015
		$'000	$'000
Revenue	6	**126,972**	197,739
Cost of sales	7	**(52,204)**	(73,125)
GROSS PROFIT		74,768	124,614
Selling expenses	8	**(9,633)**	(37,102)
Administrative expenses	9	**(12,564)**	(9,203)
Foreign exchange loss		**(2,728)**	(987)
Other income	10	**2,335**	1,892
Other expense	10	**(675)**	(271)
OPERATING PROFIT		51,503	78,943
Finance income	13	**2,388**	2,707
Finance cost	14	**(2,096)**	(2,799)
PROFIT BEFORE INCOME TAX		51,795	78,851
Income tax expense	15	**(11,284)**	(13,617)
NET PROFIT FOR THE YEAR		40,511	65,234
OTHER COMPREHENSIVE INCOME/(EXPENSE):			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**65,043**	(86,428)
Income tax effect		**(1,242)**	1,668
Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods		**63,801**	**(84,760)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		104,312	(19,526)
Profit per share for profit attributable to the equity holders of the Company			
– Basic ($)	16	**0.25**	0.41
– Diluted ($)	16	**0.25**	0.41

The notes on pages 58 to 84 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	As at 31 December 2016 $'000	2015 $'000
ASSETS:			
Non-current assets:			
Property, plant and equipment	17	**392,733**	347,757
Intangible assets		**50**	42
Deferred income tax assets	15	**328**	595
		393,111	348,394
Current assets:			
Inventories	18	**2,488**	2,155
Trade and other receivables	19	**4,787**	33,806
Income tax receivable		**516**	408
Other current assets	20	**738**	1,265
Cash and cash equivalents	21	**146,529**	64,595
		155,058	102,229
TOTAL ASSETS		548,169	450,623
LIABILITIES AND EQUITY:			
Equity:			
Share capital	25	**1**	1
Share premium	25	**272,116**	272,116
Other invested capital		**68,536**	68,536
Retained earnings		**391,037**	350,526
Translation reserve		**(269,325)**	(333,126)
		462,365	358,053
Non-current liabilities:			
Provision for decommissioning	22	**10,351**	7,799
Deferred income tax liabilities	15	**28,067**	23,595
Long-term borrowings	24	**-**	7,692
		38,418	39,086
Current liabilities:			
Trade and other payables	23	**28,840**	15,874
Other taxes payable		**8,425**	2,125
Income tax payable		**2,405**	4,604
Short-term borrowings	24	**7,716**	30,881
		47,386	53,484
TOTAL LIABILITIES AND EQUITY		548,169	450,623

The notes on pages 58 to 84 are an integral part of these consolidated financial statements.

The financial statements on pages 54 to 57 were authorised for issue by the board of directors on 26 April 2017 and were signed on its behalf.

Dmitry Margelov
Chief Executive Officer

Consolidated statement of changes in equity

	Share capital	Share premium	Other invested capital	Retained earnings	Translation reserve	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2015	**1**	**272,116**	**68,536**	**285,292**	**(248,366)**	**377,579**
Comprehensive income						
Net profit for the year	-	-	-	65,234	-	**65,234**
Other comprehensive loss						
Translation difference	-	-	-	-	(84,760)	**(84,760)**
Total comprehensive income/(loss)	-	-	-	65,234	(84,760)	(19,526)
Balance at 31 December 2015	**1**	**272,116**	**68,536**	**350,526**	**(333,126)**	**358,053**
Comprehensive income						
Net profit for the year	-	-	-	40,511	-	**40,511**
Other comprehensive income						
Translation difference	-	-	-	-	63,801	**63,801**
Total comprehensive income	-	-	-	40,511	63,801	104,312
Balance at 31 December 2016	**1**	**272,116**	**68,536**	**391,037**	**(269,325)**	**462,365**

The notes on pages 58 to 84 are an integral part of these consolidated financial statements.

Consolidated statement of cash flow

		For the year ended 31 December	
	Note	2016	2015
		$'000	$'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**51,795**	78,851
Adjustments for:			
Depreciation, depletion and amortisation	17	**16,637**	19,849
(Gain)/loss on disposal of property, plant and equipment	10	**(31)**	59
Finance income	13	**(2,388)**	(2,707)
Finance cost	14	**2,096**	2,799
Foreign exchange loss		**2,728**	987
Unused vacation accrual	7, 9	**271**	482
Bad debt expense	10	**9**	47
Other non-cash adjustments		**-**	(341)
Operating cash flow before working capital changes		**71,117**	**100,026**
Changes in working capital:			
Decrease in inventories		**103**	866
Decrease/(increase) in trade and other receivables*		**28,588**	(40,437)
Increase in trade and other payables		**11,452**	1,928
Increase/(decrease) in taxes payable		**6,105**	(9,637)
Cash generated from operations		**117,365**	**52,746**
Interest received		**2,266**	4,146
Income tax paid		**(12,188)**	(5,376)
Net cash generated from operating activities		**107,443**	**51,516**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(9,062)**	(39,069)
Interest paid (capitalised portion)		**(569)**	(1,829)
Amounts deposited in advance of potential acquisitions of subsidiaries**		**(109,384)**	(98,094)
Repayments of amounts deposited in advance of potential acquisitions of subsidiaries**		**113,685**	98,094
Advance payment for property, plant and equipment		**(86,208)**	-
Refund of advance payment for property, plant and equipment		**94,698**	-
Proceeds from sale of property, plant and equipment		**692**	-
Net cash generated from/(used in) investing activities		**3,852**	**(40,898)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of loan	24	**(30,769)**	(30,769)
Interest paid		**(1,360)**	(2,138)
Net cash used in financing activities		**(32,129)**	**(32,907)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**79,166**	**(22,289)**
Translation difference		**2,768**	(7,659)
Cash and cash equivalents at beginning of the year		**64,595**	94,543
Cash and cash equivalents at end of the year		**146,529**	**64,595**

* In 2016, the Company received a cash reimbursement in the amount of $26,847 thousand for mineral extraction tax; in addition $4,543 thousand has been offset against taxes payable (Notes 7 and 19).

**The transactions did not proceed. The difference between amounts deposited and repayments relates to foreign exchange gain.

Total interest paid for 2016 comprised $1,929 thousand (2015: $3,967 thousand).

The notes on pages 58 to 84 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. BACKGROUND

The principal activity of Exillon Energy plc (the "Company" or the "Parent") and its subsidiaries (together "the Group") is exploration, development and production of oil. 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 provided in Note 29.

Exillon Energy plc 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.

The Group's operations are conducted primarily through its operating segments, 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"). 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 where required 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 28 to the financial statements includes 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 reasonable changes in trading performance (including oil price), show that the Company can operate with its current cash holding. The assessment was performed with consideration of Company's business, budget, cash flow forecast, trading estimates, contractual arrangements, committed financing and exposure to contingent liabilities, financial covenant calculation, the principal risks and uncertainties and the viability statement.

Having considered the above matters, the Directors have a reasonable expectation that the Group has adequate resources to continue operational existence and meet its liabilities as they fall due for the foreseeable future, being at least 12 months from the date of approval of the consolidated financial statements. For this reason the Directors continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED STANDARDS

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

- IFRS 16 Leases – Replacement of IAS 17 (effective on or after 1 January 2019)

  The new standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. It is anticipated that these changes will have an impact on financial position and performance, since the Group leases apartments for offices, oil wells and associated land plots (Note 26). The Group does not expect to adopt IFRS 16 before 1 January 2019 and has not yet completed its evaluation of the effect of adoption of this standard.

- IFRS 9 Financial instruments – Replacement of IAS 39 (effective on or after 1 January 2018)

  The IASB completed the final element of its comprehensive response to the financial crisis with the publication of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities; a single, forward-looking "expected loss" impairment model; and a substantially-reformed approach to hedge accounting. The Group does not expect to adopt IFRS 9 before 1 January 2018 and has not yet completed its evaluation of the effect of adoption of this standard.

- IFRS 15 Revenue from Contracts with Customers (effective on or after 1 January 2018)

  The new standard removes inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework; provides a single revenue recognition model which will improve comparability over a range of industries, companies and geographical boundaries; and simplifies the preparation of financial statements by reducing the number of requirements to which preparers must refer. The Group does not expect to adopt IFRS 15 before 1 January 2018 and has not yet completed its evaluation of the effect of adoption of this standard.

- IAS 7 Disclosure Initiative – Amendments to IAS 7 (effective on or after 1 January 2017)

  The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments affect presentation only and are not expected to impact the Group's financial position or performance.

During the year ended 31 December 2016 the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amendments effective on or after 1 January 2016:

- IAS 1 Disclosure Initiative – Amendments to IAS 1

  The amendments clarify, rather than significantly change, existing IAS 1 requirements. In most cases the proposed amendments respond to overly prescriptive interpretations of the wording in IAS 1 and relate to the following: materiality, order of the notes, subtotals, accounting policies and disaggregation. These amendments affect presentation only and have no impact on the Group's financial position or performance.

Other new standards, interpretations and amendments effective as of 1 January 2016 are not relevant to the Group and have no impact neither on the Group's financial position and performance nor presentation of the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The Group's consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date when control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are 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 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 reporting date. All differences are taken to the statement of comprehensive income.

Loans issued to the foreign subsidiaries, the settlement of which is neither planned nor likely to occur in the foreseeable future, form part of the Company's net investment in those subsidiaries. They do not include trade receivables or trade payables. In the consolidated financial statements exchange differences arising on those loans are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

On consolidation, assets and liabilities denominated in foreign currencies are translated into US dollars at closing rates of exchange. Results of operations and cash flows of subsidiaries are translated into US dollars at average rates of exchange. The Group uses average monthly rates published by Central Bank of the Russian Federation 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 translation reserve.

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

	As of or for the year ended 31 December	
	2016	**2015**
Closing rates of exchange	**60.6569**	72.8827
Effective annual average rates of exchange	**67.0349**	60.9579

Business combinations – The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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 and impairment.

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. Furthermore, such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met:

- When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

- Staff costs and other operating expenses directly attributable to 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.

Current repair, upkeep and maintenance expenses are recognised in the consolidated statement of comprehensive income as incurred.

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, etc.) 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 carried in the statement of financial position 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 ***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) and other costs necessary to obtain access to proved and probable reserves.

Borrowing costs directly attributable to the construction of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset, when the recognition criteria for an asset are met.

The entity is developing its oilfields in accordance with the development plan prescribed by the hydrocarbon licence requirements, and has taken out borrowings that can only be used for that specific purpose.

The qualifying asset is defined as the total capital expenditures to be spent on the development of oilfields, in accordance with the oilfields' development programme prescribed by the respective hydrocarbon licence conditions. The development programme is completed in stages. Therefore, as construction on part of the oil fields is completed, that part may move from the development to production stage. Once part of the qualifying asset is completed and is capable of being used, borrowing costs cease to be capitalised on that part.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. As the Group has taken out specific borrowings, the borrowing costs net of the interest income received on any amounts borrowed and not yet invested in the qualifying asset are capitalised.

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 with shorter useful life than the lifetime of the field (roads, pipelines, pumps, etc.), in which case the straight-line method is applied.

I. Producing wells are depleted over Proved and Probable (2P) reserves on a field-by-field basis.

II. Capitalised future decommissioning costs attributable to wells are depleted over Proved and Probable (2P) reserves on a field-by-field basis; capitalised future decommissioning costs related to production facilities (roads, pipelines, oil treatment facilities, etc.) are depleted over total Proved and Probable (2P) reserves aggregated by operating segments, including only the fields in production.

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.

IV. Exploration and evaluation assets transferred to account "Oil and Gas Properties" are depleted over Proved and Probable (2P) reserves on a field-by-field basis, when the field is in production.

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 historical 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, equipment and transport	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. A cash-generating unit has been identified as an oil field.

Recoverable amount is the higher of fair value less costs of disposal 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 of disposal. As the company is in the development phase, recoverable amount is based on fair value less costs of disposal with the reference to 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 in its statement of financial position 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. Bank deposits (or similar high-liquid investments) with longer maturity are also included into cash equivalents if, and only if, an early termination without loss of interest is available in compliance with a legally enforceable right set by a deposit agreement.

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.

Effective interest method

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

The primary factor 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.

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 cost using the effective interest method. The existing borrowing is treated as a "specific borrowing" for the purposes of capitalisation of borrowing costs on qualifying assets (see policy on "Property, plant and equipment").

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.

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.

Where the Group is a lessor in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the Group to the lessee, the total rental income is accounted for on a straight-line basis over the lease terms and is included in 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 current income tax 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.

Current income tax 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 reporting date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities are recognized for all taxable 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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

Share capital – Ordinary shares are classified as equity. The difference between the nominal value of the shares and the issue price is recorded as share premium.

Share issuance costs – Costs that are directly attributable to the issue of new shares such as broker commissions, settlement fees, legal and other expenses are deducted from equity. Costs that related jointly to more than one transaction are allocated between the share premium account and statement of comprehensive income in proportion to the number of new shares issued compared to the existing number of shares. The costs allocated to the listing of existing shares are expensed in profit or loss.

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 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.

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.

Revenues are measured at the fair value of the consideration received or receivable, net of value added tax ("VAT") and discounts. 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 judgments and critical accounting estimates are set out below:

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 in a time period between 2025 and 2038. These provisions have been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believes 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 2016, undiscounted value of estimated future cash outflows is estimated at $5,951 thousand (2015: $5,007 thousand);
- Expected timing of future cash outflows – the majority of the expenditure is expected to take place in a range between 2026 and 2038 (2015: between 2026 and 2038);
- Discount rate (based on long-term maturity Russian government bonds) – 9% per annum (2015: 9%);
- Inflation rate (based on the external analysts forecasts) – 4-7% per annum (2015: 4-8%).

If the discount rate had increased by 1% to 10% at 31 December 2016, the decommissioning liability would have been $406 thousand lower (2015: $306 thousand lower).

Exillon WS:

- As at 31 December 2016, undiscounted value of estimated future cash outflows is estimated at $11,161 thousand (2015: $8,978 thousand);
- Expected timing of future cash outflows – the majority of the expenditure is expected to take place in 2025 (2015: 2025);
- Discount rate (based on long-term maturity Russian government bonds) – 9% per annum (2015: 9%);
- Inflation rate (based on the external analysts forecasts) – 4-7% per annum (2015: 4-8%).

If the discount rate had increased by 1% to 10% at 31 December 2016, the decommissioning liability would have been $606 thousand lower (2015: $506 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 depletion 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 depletion charges (assuming constant production) and reduce profit.

Proved and Probable reserve estimates of the Group as of 30 June 2016 were based on the reports prepared by Miller and Lents Ltd, independent engineering consultants, adjusted by production for the second half of 2016.

As at 31 December 2016, the net carrying amount of oil and gas properties and related cost of production licence was $296,163 thousand (2015: $253,675 thousand).

Taxation

The Group is subject to income tax and other taxes. Significant judgment is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation incorporated in the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit matters based on estimates on whether additional tax will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

Net investment in foreign operations

Loans issued to foreign subsidiaries, the settlement of which is neither planned nor likely to occur in the foreseeable future, form part of the Group's net investment in those subsidiaries. In 2014 the Group transferred $43.0 million from Exillon Finance LLC to Kayumneft JSC through an intercompany loan. The Group did not consider that repayment of this intercompany loan was likely to occur in the foreseeable future. The intercompany loan formed a part of the Group's net investment in Kayumneft JSC. Foreign exchange differences on the intercompany loan and the corresponding tax effect were recognised in other comprehensive income.

In light of continued decline in oil prices and significant weakening of Russian Rouble leading to the decrease in the Group's profits, in June 2015 management reassessed the judgement and determined that this intercompany loan was expected to be settled to fund repayments of the Group's external debt. Accordingly, from that date, a foreign exchange loss of $11,899 thousand on the intercompany loan has been recognized in profit or loss in 2015. During the year ended 31 December 2016, a foreign exchange gain of $4,809 thousand on the intercompany loan has been recognized in profit or loss.

Impairment

The carrying value of the Group's assets can be significantly affected by change in oil prices. The drastic drop in oil price during the last quarter of 2014 and throughout the following years of 2015 and 2016 has indicated potential impairment of oil and gas properties. For the assessment purposes oil and gas assets were grouped into cash-generating units (being Group's oil fields), while other property, plant and equipment assets were allocated to oil fields according to their reserve share in the total portfolio. The recoverable amount for each cash-generating unit was determined based on the future cash flows to be obtained from the proved and probable reserves of the relevant oil field discounted to their present value. The projection of cash flows was made for the period covering 2035, being the expected period to extract currently estimated reserves. With reference to the performed analysis management was able to conclude that in each cash-generating unit the recoverable amount (based on fair value less costs of disposal) exceeds carrying amount of assets, and therefore there is no impairment to be recognised as of 31 December 2016 (31 December 2015: nil).

Key assumptions used in assessment of impairment are set out below:

- exchange rate: 60.6569 Russian Roubles per 1 US dollar (actual rate as of 31 December 2016);
- oil price: $32.5 / bbl for domestic sales in 2017, with 100% of crude oil to be sold through domestic market. The assumption for 2017 was made with the reference to actually achieved prices during the first quarter 2017; growth rate of 10% (nominal) was applied to oil price in 2018, 2019 and 2020, which is in-line with the recent market forecasts. Growth rate conservatively estimated at nil after the end of the four year forecast, due to the current increased uncertainty in future oil price movements. Oil price after 2020: $43.3 / bbl for domestic sales;
- discount rate: 10% per annum (post-tax).

Management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to be below the carrying value of any cash-generating unit.

6. SEGMENTAL ANALYSIS

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

Exillon Energy plc manages its business through two operating segments, Exillon TP and Exillon WS.

- Exillon TP: upstream business 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: upstream business based in Western Siberia in the Russian Federation. The revenue is derived from extraction and sale of crude oil.

No operating segments have been aggregated to form the above reportable operating segments.

Segmental information for the Group for the year ended 31 December 2016 is presented below:

	Exillon TP	Exillon WS	Unallocated	Total
	$'000	$'000	$'000	$'000
Gross segment revenue	27,882	99,090	-	**126,972**
Inter-segment revenues	-	-	-	-
Revenue	27,882	99,090	-	**126,972**
Mineral extraction tax	(11,007)	(7,728)	-	**(18,735)**
Export duties	-	(2,984)	-	**(2,984)**
Transportation services – Transneft	-	(1,600)	-	**(1,600)**
Net back	16,875	86,778	-	**103,653**
EBITDA	**7,307**	**69,863**	**(6,333)**	**70,837**
Depreciation and depletion	5,862	10,422	353	**16,637**
Finance income	(370)	(2,018)	-	**(2,388)**
Finance cost	203	707	1,186	**2,096**
Operating profit/(loss)	1,172	52,204	(1,873)	**51,503**
Capital Expenditure	**321**	**8,741**	**-**	**9,062**

Segmental information for the Group for the year ended 31 December 2015 is presented below:

	Exillon TP	Exillon WS	Unallocated	Total
	$'000	$'000	$'000	$'000
Gross segment revenue	35,038	169,465	-	**204,503**
Inter-segment revenues	-	(6,764)	-	**(6,764)**
Revenue	35,038	162,701	-	**197,739**
Mineral extraction tax	(15,321)	(11,757)	-	**(27,078)**
Export duties	-	(25,984)	-	**(25,984)**
Transportation services – Transneft	-	(6,209)	-	**(6,209)**
Net back	19,717	118,751	-	**138,468**
EBITDA	**9,039**	**93,021**	**(1,693)**	**100,367**
Depreciation and depletion	6,231	13,353	265	**19,849**
Finance income	(119)	(2,588)	-	**(2,707)**
Finance cost	124	872	1,803	**2,799**
Operating profit/(loss)	3,919	91,473	(16,449)	**78,943**
Capital Expenditure	**1,471**	**26,998**	**10,600**	**39,069**

The transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Unallocated category represents costs of corporate companies that are managed at the Group level.

Management assesses performance of the operating segments based on EBITDA which is calculated as follows: operating result plus depletion and depreciation, plus/minus foreign exchange gains/(losses) and plus/minus other significant one-off income/(expenses).

Net back is defined as revenue less direct and indirect government taxation. The indicator is calculated as revenue less

Mineral Extraction Tax, Export Duty and Transneft transportation services.

Reconciliation of profit/(loss) before income tax to EBITDA for the year ended 31 December 2016 is presented below:

	Exillon TP	Exillon WS	Unallocated	Total
	$'000	$'000	$'000	$'000
Profit/(loss) before income tax	1,339	53,515	(3,059)	**51,795**
Finance income	(370)	(2,018)	-	**(2,388)**
Finance cost	203	707	1,186	**2,096**
Foreign exchange (gain)/loss	280	7,261	(4,813)	**2,728**
Gain on disposal of property, plant and equipment	(7)	(24)	-	**(31)**
Depreciation and depletion	5,862	10,422	353	**16,637**
EBITDA	7,307	69,863	(6,333)	70,837

Reconciliation of profit/(loss) before income tax to EBITDA for the year ended 31 December 2015 is presented below:

	Exillon TP	Exillon WS	Unallocated	Total
	$'000	$'000	$'000	$'000
Profit/(loss) before income tax	3,914	93,189	(18,252)	**78,851**
Finance income	(119)	(2,588)	-	**(2,707)**
Finance cost	124	872	1,803	**2,799**
Foreign exchange (gain)/loss	(1,165)	(12,339)	14,491	**987**
Exploration and evaluation expenses	-	529	-	**529**
Loss on disposal of property, plant and equipment	54	5	-	**59**
Depreciation and depletion	6,231	13,353	265	**19,849**
EBITDA	9,039	93,021	(1,693)	100,367

Activities by geographical areas

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

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Domestic sales		
Russian Federation	**112,895**	118,407
Export sales		
Italy	**14,077**	11,649
Netherlands	-	35,933
Romania	-	12,128
Turkey	-	9,519
Greece	-	7,028
Spain	-	3,075
	14,077	79,332
Total	126,972	197,739

In 2016, the Group earned revenues each equal or exceeding 10% of Group's revenues from three major customers: $27,810 thousand (attributable to domestic sales reported by Exillon TP), $14,077 thousand and $45,634 thousand (attributable to export and domestic sales reported by Exillon WS, respectively).

In 2015, the Group earned revenues each equal or exceeding 10% of Group's revenues from three major customers: $26,044 thousand (attributable to domestic sales), $59,821 thousand and $19,511 thousand (both attributable to export sales), reported by Exillon WS segment.

As at 31 December 2016, non-current assets located outside the Russian Federation amounted to $9,982 thousand (31 December 2015: $10,335 thousand), being the carrying value of the aircraft, which was purchased in 2015 and subsequently leased to an unrelated third party for a period of ten years.

7. COST OF SALES

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Mineral extraction tax	**18,735**	27,078
Depreciation and depletion	**16,210**	19,486
Current repair of property, plant and equipment	**4,319**	3,676
Salary and related taxes	**3,866**	5,669
Operating lease	**3,125**	2,828
Licence maintenance cost	**2,300**	3,140
Taxes other than income tax	**2,176**	2,605
Materials	**1,209**	1,480
Unused vacation accrual	**185**	326
Gas flaring penalties	**79**	224
Purchased crude oil	**-**	6,079
Exploration and evaluation expenses	**-**	529
Oil treatment and infield transportation	**-**	5
Total	52,204	73,125

In 2016 and 2015, Exillon WS applied 0% mineral extraction tax rate to the oil produced from a certain oil reservoir, which includes oil production from the majority of oil wells located at EWS I and EWS II oil fields. The tax exemption for this oil reservoir was introduced in the second part of 2015 (with effective date from 1 January 2015). The tax exemption amounted to $35,700 thousand for the year ended 31 December 2016 and $51,380 thousand for the year ended 31 December 2015.

In 2016 and 2015, Exillon TP applied reducing factors to the mineral extraction tax rate, which reflect the specific characteristics of oil production from ETP V and ETP VI oil fields. The tax exemption amounted to $908 thousand for the year ended 31 December 2016 and $2,093 thousand for the year ended 31 December 2015.

8. SELLING EXPENSES

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Export duties	**2,984**	25,984
Transportation services - trucking to Transneft	**3,555**	3,679
Transportation services – Transneft	**1,600**	6,209
Crude oil custody transfer metering system	**1,481**	986
Other expenses	**13**	244
Total	9,633	37,102

9. ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Consulting services	**7,062**	2,296
Salary and related taxes	**3,695**	4,717
Depreciation and amortisation	**427**	363
Operating lease	**344**	282
Secretary services	**189**	80
Communication services	**108**	151
Banking services	**102**	297
Unused vacation accrual	**86**	156
Insurance	**79**	80
Software	**69**	62
Business travel	**58**	118
Annual fees to LSE and WSE	**31**	22
Current office maintenance	**22**	36
Accounting fees	**-**	151
Recruiting services	**-**	1
Other expenses	**292**	391
Total	12,564	9,203

Consulting services on a potential M&A transaction comprised $5,494 thousand and were included in other payables as of 31 December 2016 (Note 23). These costs related to corporate companies and were not tax deductible.

10. OTHER INCOME/(EXPENSE)

		For the year ended 31 December	
	Note	2016	2015
		$'000	$'000
Other income			
Rental income on aircraft		**1,560**	1,172
Rendering of services for oil production		**502**	-
Write-off of provision for decommissioning	22	**95**	-
Gain on disposal of property, plant and equipment		**31**	-
Penalties received		**18**	379
Other income		**129**	341
Total other income		2,335	1,892
Other expense			
Penalties paid		**(249)**	(159)
Fines for other taxes		**(394)**	(106)
Bad debt expense		**(9)**	(47)
Loss on disposal of property, plant and equipment		**-**	(59)
Other expense		**(189)**	(120)
Reversal of fines for other taxes		**166**	220
Total other expense		(675)	(271)

11. 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	
	2016	2015
	$'000	$'000
Audit services		
Audit and audit-related services	**303**	310
Non-audit services		
Consulting services in relation to potential M&A transaction	**1,605**	-
Tax consulting services	**34**	-
Total	**1,942**	**310**

Audit and audit-related fees relate to the review of interim financial statements and audit of annual financial statements.

12. EMPLOYEE COSTS

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Wages and salaries	**6,173**	8,362
Social tax	**1,388**	2,023
Total	**7,561**	**10,385**

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	
	2016	2015
Exillon TP	**176**	170
Exillon WS	**292**	336
Total	**468**	**506**

13. FINANCE INCOME

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Interest income on cash in bank	**2,388**	**2,270**
Interest income on loan issued	-	437
Total	**2,388**	**2,707**

14. FINANCE COST

		For the year ended 31 December	
	Note	2016	2015
		$'000	$'000
Interest expense on borrowings	17	**1,186**	1,803
Unwinding of the present value discount on provision for decommissioning	22	**796**	700
Interest expense on early advances received for export sales		**114**	296
Total		**2,096**	**2,799**

Under the terms of export sales contracts the customers are obliged to effect payment for the dispatched crude oil within 30 days from the date of delivery. In case of making an early payment by mutual agreement of the parties, the Group pays interest on the amount of the early advance received from a customer for the period from the date of the early advance through the 30th day after the date of delivery. The interest is charged at LIBOR plus 4.75%.

15. INCOME TAXES

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Current tax	**12,038**	14,030
Deferred tax	**(754)**	(413)
Income tax expense	11,284	13,617

The income tax rate applicable to the major part of the Group's income is 20% (2015: 20%), being the statutory income tax rate in the Russian Federation. In 2015, Exillon WS applied a 17% income tax rate due to the decreased regional budget component of income tax. The tax exemption was granted by local tax authorities. The availability of tax reductions for subsequent periods and the applicable tax rates are determined annually after the end of reporting period and linked to a certain level of capital expenditures incurred during the period at the Khanty-Mansiysk Region of the Russian Federation. In 2016, the tax exemption was not granted to Exillon WS, due to insufficient level of relevant capital expenditures. A rate of 20% was used in the calculation of deferred income tax for Exillon WS, due to uncertainty about the intention of local authorities to continue the granting of tax exemptions. There are no income tax exemptions available for other subsidiaries incorporated in the Russian Federation.

Reconciliation between the expected and the actual taxation charge is provided below:

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Profit before income tax	**51,795**	78,851
Theoretical tax charge at statutory rate 20%	**10,359**	15,770
- Effect of 0% tax rate for Cyprus, BVI and Isle of Man	**547**	(847)
- Effect of other non-deductible items	**378**	669
- Effect of 17% tax rate for Exillon WS	-	(1,975)
Income tax expense	11,284	13,617

Deferred taxation

Differences between carrying values of assets and liabilities in IFRS and statutory tax accounts 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 2015	Charged/(credited) to profit or loss	Translation difference	31 December 2016
	$'000	$'000	$'000	$'000
Tax effect of deductible temporary differences and tax loss carry forwards				
Provision for decommissioning	(1,562)	(177)	(332)	**(2,071)**
Provision for unused vacation	(49)	18	3	**(28)**
Tax loss carry forward	(544)	(435)	(155)	**(1,134)**
Other	(205)	178	(27)	**(54)**
Gross deferred tax asset	(2,360)	(416)	(511)	(3,287)
Tax effect of taxable temporary differences				
Property, plant and equipment	25,360	(338)	6,004	**31,026**
Gross deferred tax liability	25,360	(338)	6,004	31,026
Net deferred tax liability	23,000	(754)	5,493	27,739
Reflected in the statement of financial position as follows:				
Deferred tax assets	595			328
Deferred tax liabilities	23,595			28,067

The tax effect of the movements in the temporary differences for the year ended 31 December 2015 are:

	31 December 2014	Charged/(credited) to profit or loss	Translation difference	31 December 2015
	$'000	$'000	$'000	$'000
Tax effect of deductible temporary differences and tax loss carry forwards				
Provision for decommissioning	(1,276)	(688)	402	**(1,562)**
Provision for unused vacation	(42)	(22)	15	**(49)**
Tax loss carry forward	(493)	(155)	104	**(544)**
Other	(494)	204	85	**(205)**
Gross deferred tax asset	**(2,305)**	**(661)**	**606**	**(2,360)**
Tax effect of taxable temporary differences				
Property, plant and equipment	33,976	248	(8,864)	**25,360**
Gross deferred tax liability	**33,976**	**248**	**(8,864)**	**25,360**
Net deferred tax liability	**31,671**	**(413)**	**(8,258)**	**23,000**
Reflected in the statement of financial position as follows:				
Deferred tax assets	522			595
Deferred tax liabilities	32,193			23,595

The Group estimates that $178 thousand (2015: $146 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 for the period from 1 January 2017 to 31 December 2020, the tax base for the current year may not be reduced by losses incurred in prior periods by more than 50 per cent. Tax losses related to 2008-2016 periods could be offset against gains in the order in which they were incurred. The Group anticipate that total deferred tax assets recognised for tax losses will be utilised against relevant taxable profits in future. In addition, the Group estimates that no gross deferred tax liabilities relating to property plant and equipment will be reversed within 12 months from the financial position date (2015: $580 thousand). The Group estimates that all other deductible and taxable temporary differences will reverse after 12 months from the financial position date.

At 31 December 2016, the aggregate amount of temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, was $200,287 thousand (2015: $132,499 thousand).

16. EARNINGS PER SHARE

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

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

	For the year ended 31 December	
	2016	2015
Net profit attributable to equity shareholders of the Company	**40,511**	65,234
Number of shares:		
Weighted average number of ordinary shares	**160,315,209**	160,315,209
Adjustments for:		
Shares additionally issued for share awards	-	-
Weighted average number of ordinary shares for diluted earnings per share	**160,315,209**	160,315,209
Basic ($)	**0.25**	**0.41**
Diluted ($)	**0.25**	**0.41**

17. PROPERTY, PLANT AND EQUIPMENT

	Note	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							
31 December 2014		357,850	723	77,525	31,872	12,924	**480,894**
Additions		5,731	-	-	10,604	25,649	**41,984**
Transferred from construction in progress		5,639	-	4,912	985	(11,536)	-
Disposals		(172)	-	-	-	(804)	**(976)**
Change in estimates	22	1,578	-	-	-	-	**1,578**
Translation difference		(66,624)	(165)	(11,955)	(5,876)	(12,060)	**(96,680)**
31 December 2015		304,002	558	70,482	37,585	14,173	426,800
Additions		810	-	-	53	4,780	**5,643**
Transferred from construction in progress		8,436	-	52	1,165	(9,653)	-
Disposals		(10)	-	(12)	(228)	(653)	**(903)**
Change in estimates	22	93	-	-	-	-	**93**
Translation difference		48,187	113	8,429	4,253	7,342	**68,324**
31 December 2016		361,518	671	78,951	42,828	15,989	499,957
Accumulated depreciation and depletion							
31 December 2014		(47,002)	-	(10,878)	(14,707)	-	(72,587)
Charge for the period		(11,072)	-	(5,574)	(3,203)	-	**(19,849)**
Disposals		81	-	-	-	-	**81**
Translation difference		7,666	-	3,017	2,629	-	**13,312**
31 December 2015		(50,327)	-	(13,435)	(15,281)	-	(79,043)
Charge for the period		(8,382)	-	(5,368)	(2,887)	-	**(16,637)**
Disposals		10	-	1	179		**190**
Translation difference		(6,656)	-	(2,891)	(2,187)	-	**(11,734)**
31 December 2016		(65,355)	-	(21,693)	(20,176)	-	(107,224)
Net book value							
31 December 2014		310,848	723	66,647	17,165	12,924	408,307
31 December 2015		253,675	558	57,047	22,304	14,173	347,757
31 December 2016		296,163	671	57,258	22,652	15,989	392,733

Decommissioning costs of $6,942 thousand and $5,608 thousand were included within the cost of oil and gas properties as of 31 December 2016 and 2015, respectively. Change in estimates relates to the change in the assumptions used in estimation of decommissioning costs (Note 5).

Cumulative capitalized borrowing costs of $19,808 thousand and $19,267 thousand were included in the cost of oil and gas properties as of 31 December 2016 and 2015, respectively. Total borrowing costs incurred during the year ended 31 December 2016 amounted to $1,727 thousand of which $541 thousand was capitalised (31 December 2015: $3,590 thousand of which $1,787 thousand was capitalized). There is no tax relief related to the capitalised borrowing costs.

Exploration and evaluation assets as of 31 December 2016 and 2015 comprise the ETP VII licence acquired in December 2011. Construction in progress relates to the construction of infield infrastructure and drilling of oil wells commenced in 2015 and 2016.

In 2015, the Group purchased an aircraft for $10,600 thousand, which was subsequently leased to an unrelated third party for a period of ten years at a monthly lease payment of $130 thousand, with the retained right to use the aircraft for the Company's needs on commercial payment terms.

Minimum lease payments were as follows:

	As at 31 December	
	2016	2015
	$'000	$'000
Within one year	**1,560**	1,560
Two to five years	**6,240**	6,240
Later than five years	**5,070**	6,630
Total	12,870	14,430

18. INVENTORIES

	As at 31 December	
	2016	2015
	$'000	$'000
Crude oil	**1,166**	865
Spare parts	**731**	652
Fuel	**221**	219
Chemicals	**370**	419
Total	2,488	2,155

Inventories included no obsolete or slow-moving items as of 31 December 2016 (2015: nil).

19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	$'000	$'000
Trade receivables	**1,673**	557
Allowance for doubtful debts	**(31)**	(26)
Net trade receivables	**1,642**	531
Other receivables (net of provision of $5 thousand (2015: $3 thousand))	**2,003**	1,434
Taxes recoverable	**947**	31,796
Interest receivable on bank deposits	**195**	45
Current trade and other receivables	4,787	33,806

Trade receivables are non-interest bearing. In determining the recoverability of a trade receivable, the Group 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.

At 31 December 2015, taxes recoverable included $31,390 thousand of mineral extraction tax for crude oil, which was receivable due to the tax exemptions applied to the oil produced from the certain Group's oil fields (Note 7). In April 2016, Exillon WS received a cash reimbursement in the amount of $26,847 thousand. The remaining amount of $4,543 thousand has been offset against taxes payable (of which $3,751 thousand offset against income tax and $792 thousand against VAT).

20. OTHER ASSETS

	As at 31 December	
	2016	2015
	$'000	$'000
Prepayments (net of provision of $450 thousand (2015: $367 thousand))	**615**	852
Prepaid expenses	**123**	413
Current other assets	738	1,265

21. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	$'000	$'000
Cash on deposit (contractual interest rate 10.25 – 12.25 % p.a.)	**112,601**	3,074
Cash on deposit (contractual interest rate 1.5 - 2 % p.a.)	**3,850**	26,732
Bank bills of exchange (contractual interest rate 2.5 – 3.5 % p.a.)	**26,322**	26,322
Bank bills of exchange (contractual interest rate 7% p.a.)	-	531
Cash in bank (8 % p.a.)	**1,263**	4,937
Cash in bank (0.3 % p.a.)	**34**	1,112
Cash in bank (interest-free)	**2,459**	1,887
Total	**146,529**	**64,595**

22. PROVISION FOR DECOMMISSIONING

		As at 31 December	
		2016	2015
	Note	$'000	$'000
Balance at the beginning of the year		**7,799**	6,374
Change in estimates	17	**93**	1,578
Additions		**74**	1,128
Write-off	10	**(95)**	-
Unwinding of the present value discount	14	**796**	700
Translation difference		**1,684**	(1,981)
Balance at the end of the year		**10,351**	**7,799**

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 between 2025 and 2038 (Note 5). They depend on the estimated lives of the wells, the scale of any possible contamination and the timing and extent of corrective actions.

The unwinding of the discount related to future site restoration and abandonment reserve is included within finance costs.

23. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	$'000	$'000
Trade payables	**10,403**	7,306
Advances received	**9,815**	6,825
Salary payable	**679**	812
Other payables	**7,943**	931
Current trade and other payables	**28,840**	**15,874**

Trade and other payables are non-interest bearing. At 31 December 2016, advances of $9,815 thousand (2015: $6,825 thousand) relate to the receipts from customers for the sales in January 2017 (2015: January 2016).

24. BORROWINGS

	As at 31 December	
	2016	2015
	$'000	$'000
Credit Suisse	**7,716**	38,573
Less: current portion	**(7,716)**	(30,881)
Long-term portion	**-**	**7,692**

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 was charged at LIBOR plus 7%.

In March 2012 the existing loan facility was replaced by a $100 million loan facility with a term of 5 years. The loan bears an interest rate at LIBOR plus 6% and is repayable in equal quarterly instalments with the first repayment made in March 2014. The interest is payable quarterly with the first payment made in June 2012. During the year ended 31 December 2016 principal of $30,769 thousand has been repaid in compliance with the repayment schedule. The loan has been fully repaid on 14 March 2017.

The loan is secured by a pledge of the 100% shares of certain Group's subsidiaries (Note 29): Ucatex Oil LLC, Kayumneft JSC, Nem Oil CJSC, Komi Resources CJSC, Ucatex Ugra LLC, Actionbrook Limited, Claybrook Limited, Diamondbridge Limited, Lanach Limited, Halescope Limited, Vitalaction Limited, Corewell Limited, Touchscope Limited, Silo Holdings Limited and Exillon Finance Limited.

The loan is also secured with future revenue under export contracts.

25. SHARE CAPITAL

The issued share capital of the Company at the date of these consolidated financial statements is as follows:

	Number (allotted and called up)	Share capital	Share Premium
		$'000	$'000
As at 31 December 2014	**161,510,911**	**1**	**272,116**
Issuance of shares	-	-	-
As at 31 December 2015	**161,510,911**	**1**	**272,116**
Issuance of shares	-	-	-
As at 31 December 2016	**161,510,911**	**1**	**272,116**

The total number of allotted ordinary shares is 161,510,911 with a par value of $0.0000125 each. As of 31 December 2016 shares issued include 1,195,702 shares (2015: 1,195,702 shares), which are not paid and held by the EBT within the Group for further allocation to employees.

26. COMMITMENTS AND CONTINGENCIES

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

	As at 31 December	
	2016	2015
Nature of contract:	$'000	$'000
Construction of wells and infield infrastructure	**5,931**	6,659
Oil reserves development work	**494**	773
Other	**191**	123
Total	**6,616**	**7,555**

Leases – the Group leases three oil wells and associated land plots from government agencies in the Russian Federation. The initial terms on two leases have expired as at 31 December 2016, while the third contract will expire in 2017. 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 $76 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 expiry of relevant subsoil licences, in a range between 2025 and 2027, with relevant minimum lease payments included in the table below.

The Group also leases apartments for offices at Exillon WS and Exillon TP. The office lease contracts are renewed annually. At the present time the annual payments arising on the leases are approximately $382 thousand.

Minimum lease payments were as follows:

	As at 31 December	
	2016	2015
	$'000	$'000
Within one year	**458**	411
Two to five years	**490**	301
Later than five years	**450**	1,207
Total	**1,398**	**1,919**

Operating environment in Russia – Most of the operations of the Company are carried in the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The Rouble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

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. 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.

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.

Export duty is reviewed by the Russian government on a monthly basis and is based on a formula that takes into account the average Urals price prevailing in the market between 15th and 14th of the two months prior to the month of delivering the crude oil.

Mineral extraction tax for crude oil is calculated by multiplying the extracted quantity of dewatered, desalted and stabilised oil by the base rate per tonne of crude oil produced and by the adjustment ratios that reflect changes in average Urals price and changes in the Rouble/US dollar exchange rate during the month of oil production; and the specific characteristics of oil production from the subject field. In January 2016 the base rate was increased to Rouble 857 per tonne of crude oil from Rouble 766 per tonne in 2015.

Overall, management believes that the Group has paid or accrued all taxes that are applicable. For taxes where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

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.

According to the changes enacted in the Russian Federation from 2012, the utilisation of associated gas emissions for subsoil licence holders was set up at the rate of 95% of total produced gas; while a 5% target limit was introduced for gas flaring. Pollution tax is payable at the increased rates on flaring gas volumes exceeding this limit. Currently the Group continues the development of infield infrastructure to enable the use of associated gas as fuel for internal purposes. This will enable the Group to achieve the preset rate of utilisation with a subsequent reduction of pollution tax payments.

27. TRANSACTIONS WITH RELATED PARTIES

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 cash and cash equivalents balances and interest receivable on bank deposits:

	As at 31 December	
	2016	2015
	$'000	$'000
Other related party:		
Bank Ugra		
Cash and cash equivalents	**146,346**	64,493
Interest receivable on bank deposits	**195**	-
Total	**146,541**	**64,493**

On 30 December 2015, the Company purchased bank bills of exchange from Bank Ugra for the total amount of $26,322 thousand bearing interest of 2.5% per annum. On 26 October 2016, the interest rate was increased to 3.5% per annum. As at 31 December 2016 and 2015, bank bills of exchange were included within cash and cash equivalents in the consolidated statement of financial position.

Transactions with related parties during the period were as follows:

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Other related party:		
Bank Ugra		
Interest income	**2,387**	64
Bank services	**(84)**	(1)
Total	**2,303**	**63**

Bank Ugra became a related party to the Company on 25 December 2015, when Mr. Khotin (having a significant influence over Exillon as an ultimate controlling party of Seneal International Agency Ltd, which held a 29.99% interest in the Company's share capital), obtained control over the bank. The disclosure for the year ended 31 December 2015 in the above table is covering the period from that date to 31 December 2015.

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 and includes only basic salary. Total compensation to key management personnel included in administrative expenses in the consolidated statement of comprehensive income was $1,172 thousand for the year ended 31 December 2016, including compensation for loss of office of $100 thousand to the outgoing director (2015: $1,330 thousand).

28. 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. Dividend policy is disclosed in the Directors' Report on page 17.

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

The gearing ratios at 31 December 2016 and 2015 were as follows:

	Note	As at 31 December 2016 $'000	2015 $'000
Total borrowings	24	**7,716**	38,573
Less: cash and cash equivalents	21	**(146,529)**	(64,595)
Total net cash		**(138,813)**	(26,022)
Total equity		**462,365**	358,053
Total capital		**323,552**	332,031
Gearing ratio		**(43%)**	**(8%)**

Under the terms of the loan agreement (Note 24), the Group was subject to three financial covenants and a number of general covenants. The financial covenants were tested on a rolling six month basis from June 2012. The Group has complied with these covenants during 2016. The loan has been fully repaid on 14 March 2017.

Major categories of financial instruments – The Group has various financial assets such as trade and other accounts receivable, cash and cash equivalents and interest receivable on bank deposits. The Group's principal financial liabilities comprise borrowings, trade and other accounts payable, advances received and salary payable.

	Note	As at 31 December 2016 $'000	2015 $'000
Financial assets			
Cash and cash equivalents	21	**146,529**	64,595
Trade and other receivables	19	**3,645**	1,965
Interest receivable on bank deposits	19	**195**	45
Total financial assets		**150,369**	**66,605**
Financial liabilities			
Trade and other payables	23	**18,346**	8,237
Advances received	23	**9,815**	6,825
Salary payable	23	**679**	812
Borrowings	24	**7,716**	38,573
Total financial liabilities		**36,556**	**54,447**

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

Interest rate risk – Interest rate risk arises from long-term borrowings and short-term deposits.

Group's borrowings are exposed to interest rate risk, which could impact profit or loss. If the interest rate had increased by 100 base points at the end of the reporting year, total borrowing costs would have been $77 thousand higher (2015: $385 thousand). The analysis was applied to the outstanding principal of borrowings at the financial position dates. The zero rate of income tax was applicable to the analysis.

Short-term bank deposits bear no significant interest rate risk due to short maturity. Long-term deposits are not exposed to interest rate risk due to the fact that the fixed interest rates are charged for the entire duration of the deposits.

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. 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.

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. In 2016, the Group used a prepayment scheme for domestic customers. The export sales are based on post-payment scheme secured with a letter of credit. There is an option for the early payment by mutual agreement of the parties, in which case the Group pays interest on the amount of the early advance received from a customer (Note 14). The Group only transacts with entities that demonstrate strong financial ability or are 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 major part of cash is held on short-term deposits placed in financial institutions incorporated in the Russian Federation, which provide premium deposit rates. The financial ability of financial institutions and overall market circumstances are continuously monitored by management based on the information provided by independent rating agencies or other publicly available financial information.

		As at 31 December	
	Note	2016	2015
		$'000	$'000
Cash and cash equivalents			
Counterparties with external credit rating:			
BBB+ (russian agencies)*		**146,346**	-
A1 (Moody's)		**115**	-
A2 (Moody's)		**37**	61
Ba1 (Moody's)*		**31**	-
A (russian agencies)*		**-**	64,493
Aaa(rus)* (Fitch)		**-**	41
Total cash and cash equivalents	**21**	**146,529**	**64,595**

* The ratings are attributable to the banks incorporated in the Russian Federation.

As of 31 December 2016, cash and cash equivalents amounted to $146,346 thousand were held in one financial institution; with the interest receivable of $195 thousand (Note 19) attributable to the deposits at the same financial institution (31 December 2015: cash and cash equivalents of $64,493 thousand and the interest receivable of $45 thousand).

The maximum exposure to credit risk is the carrying amount of financial assets of $150,369 thousand as of 31 December 2016 (2015: $66,605 thousand).

Trade and other receivables included no amounts past due, but not impaired as of 31 December 2016 (2015: nil).

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

	Note	As at 31 December	
		2016	2015
		$'000	$'000
Balance at the beginning of the year		**396**	468
Bad debt expense	**10**	**9**	47
Translation difference		**81**	(119)
Balance at the end of the year		**486**	**396**

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 2016 and 2015 is as follows:

	As at 31 December 2016			
	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	18,346	-	-	-
Salary payable	679	-	-	-
Borrowings	7,693	-	-	-
Interest payable	134	-	-	-
	26,852	**-**	**-**	**-**

	As at 31 December 2015			
	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	8,237	-	-	-
Salary payable	812	-	-	-
Borrowings	7,692	23,077	7,693	-
Interest payable	634	1,150	125	-
	17,375	24,227	7,818	-

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 2016.

Advances received are excluded from the tables above, because these advances relate to the receipts from customers for the sales and, while classified as current liabilities, are not expected to be repaid in cash.

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. In 2016, the Group continued to keep a portion of cash and cash equivalents in US dollars, in order to provide for servicing of the existing borrowing, which is denominated in US dollars (Note 24).

The carrying amount of the Group's monetary assets and liabilities that are denominated in a different currency to the functional currency of the operation where held, as at the reporting date are as follows:

	As at 31 December 2016				
	USD (functional currency RUR)	RUR (functional currency USD)	EUR (functional currency USD)	GBP (functional currency USD)	Total
	$'000	$'000	$'000	$'000	$'000
Long-term loans issued	-	147,951	20	-	**147,971**
Trade and other receivables	-	1	-	-	**1**
Interest receivable on bank deposits	166	-	-	-	**166**
Prepayments	43	-	-	-	**43**
Cash and cash equivalents	29,393	33	-	68	**29,494**
Total monetary assets	29,602	147,985	20	68	177,675
Long-term borrowings	38,386	76,726	20	-	**115,132**
Trade and other payables	318	-	143	105	**566**
Total monetary liabilities	38,704	76,726	163	105	115,698
Net financial position	(9,102)	71,259	(143)	(37)	61,977

	As at 31 December 2015				
	USD (functional currency RUR)	RUR (functional currency USD)	EUR (functional currency USD)	GBP (functional currency USD)	Total
	$'000	$'000	$'000	$'000	$'000
Long-term loans issued	-	111,151	21	-	**111,172**
Trade and other receivables	158	1	-	-	**159**
Interest receivable on bank deposits	24	-	-	-	**24**
Prepayments	41	-	-	-	**41**
Cash and cash equivalents	54,272	17	-	8	**54,297**
Total monetary assets	54,495	111,169	21	8	165,693
Long-term borrowings	70,977	54,895	21	-	**125,893**
Advances received	155	-	-	-	**155**
Trade and other payables	501	-	16	66	**583**
Total monetary liabilities	71,633	54,895	37	66	126,631
Net financial position	(17,138)	56,274	(16)	(58)	39,062

At 31 December 2016 and 2015, the major part of Long-term loans issued and Long-term borrowings consist of foreign currency denominated inter-company balances, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which form part of the Company's net investment in its foreign subsidiaries. At 31 December 2016 Long-term borrowing of $7,693 thousand (31 December 2015: $38,462 thousand) was expected to be settled to fund repayments of the Group's external debt (Note 5, Net investments in foreign operations).

The table below details the Group's sensitivity to strengthening of the Russian Rouble, EUR and GBP against the US dollar by 20.00%, 10.00% and 6.00% as at 31 December 2016, respectively (2015: 13.00%, 12.50% and 4.50%, respectively). The analysis was applied to monetary items of the US dollar functional currency subsidiaries of the Group at the financial statement dates on a post tax base (zero % tax rate applies).

	RUR – impact as at 31 December		EUR – impact as at 31 December		GBP – impact as at 31 December	
	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000
Other comprehensive income	**17,806**	8,406	**-**	-	**-**	-
Profit or loss	**8**	3	**(14)**	(2)	**(2)**	(3)
Total	17,814	8,409	(14)	(2)	(2)	(3)

The table below details the Group's sensitivity to weakening of the Russian Rouble, EUR and GBP against the US dollar by 20.00%, 10.00% and 18.00% as at 31 December 2016, respectively (2015: 29.00%, 12.50% and 13.00%, respectively). The analysis was applied to monetary items of the US dollar functional currency subsidiaries of the Group at the financial statement dates on a post tax base (zero % tax rate applies).

	RUR – impact as at 31 December		EUR – impact as at 31 December		GBP – impact as at 31 December	
	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000
Other comprehensive income	**(11,871)**	(12,647)	**-**	-	**-**	-
Profit or loss	**(6)**	(4)	**14**	2	**7**	8
Total	(11,877)	(12,651)	14	2	7	8

The table below details the Group's sensitivity to strengthening of the US dollar against the Russian Rouble by 20.00% as at 31 December 2016 (2015: 40.00%). The analysis was applied to monetary items of the Russian Rouble functional currency subsidiaries of the Group at the financial statement dates on a post 20% income tax basis.

	USD – impact as at 31 December	
	2016	2015
	$'000	$'000
Other comprehensive income	**(4,911)**	(10,405)
Profit or loss	**3,455**	4,920
Total	(1,456)	(5,485)

The table below details the Group's sensitivity to weakening of the US dollar against the Russian Rouble by 20.00% as at 31 December 2016 (2015: 13.00%). The analysis was applied to monetary items of the Russian Rouble functional currency subsidiaries of the Group at the financial statement dates on a post 20% income tax basis.

	USD – impact as at 31 December	
	2016	2015
	$'000	$'000
Other comprehensive income	**4,911**	3,382
Profit or loss	**(3,455)**	(1,599)
Total	1,456	1,782

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 based on observable market data (observable inputs) (Level 2).

29. CONTROLLED ENTITIES

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

			Ownership/ proportion of ordinary shares as at 31 December	
Name	Country of incorporation	Principal activity	2016	2015
Kayumneft JSC	Russian Federation	Subsoil user	100%	100%
Nem Oil CJSC	Russian Federation	Subsoil user	100%	100%
Komi Resources CJSC	Russian Federation	Subsoil user	100%	100%
Aslador Oil CJSC	Russian Federation	Subsoil user	100%	100%
Ucatex Oil LLC	Russian Federation	Operator company	100%	100%
Ucatex Ugra LLC	Russian Federation	Operator company	100%	100%
Setera LLC	Russian Federation	Administration	100%	100%
Silo Holdings LLC	BVI	Oil trading	100%	100%
Actionbrook Limited	Cyprus	Administration	100%	100%
Claybrook Limited	Cyprus	Administration	100%	100%
Diamondbridge Limited	Cyprus	Administration	100%	100%
Lanach Limited	Cyprus	Administration	100%	100%
Halescope Limited	Cyprus	Administration	100%	100%
Vitalaction Limited	Cyprus	Administration	100%	100%
Corewell Limited	Cyprus	Administration	100%	100%
Touchscope Limited	Cyprus	Administration	100%	100%
Lexgrove Limited	Cyprus	Administration	100%	100%
Plusgrove Limited	Cyprus	Administration	100%	100%
Exillon Finance LLC	Isle of Man	Treasury	100%	100%

30. SUBSEQUENT EVENTS

In January-February 2017 the Company made advance payments for a total amount of $97,774 thousand in relation to a potential purchase of office buildings. The transaction did not proceed and the amount was refunded in full in March 2017.

On 7 April 2017 Kayumneft JSC entered into facility agreements with Gazprombank JSC for an aggregate principal amount of up to $206,000 thousand. The proceeds of the borrowings will be used for general corporate purposes. The facility agreements provide a competitive interest rate above LIBOR. Exillon Energy plc and its subsidiaries guarantee and secure the obligations of Kayumneft JSC under the facility agreements.

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