

GCM Global Energy Plc
ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended
31 December 2016



Company Registration No. 06382557

GCM Global Energy Plc

COMPANY INFORMATION

DIRECTORS

A Zhuchenko
R Dubrovskaya
M Kalyuzhny

SECRETARY

MW Law Services Limited

REGISTERED OFFICE

Second Floor
11 Pilgrim Street
London
EC4V 6RN

AUDITOR

RSM UK Audit LLP
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

GCM Global Energy Plc

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2016. In this report GCM Global Energy plc and its subsidiaries are referred to as "the Group" or "GCM".

PRINCIPAL ACTIVITIES

The Group's principal activities are focussed on the development of a potash production plant in Belarus.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

On the 17 June 2016 OAO ASB Belarusbank and China Development Bank (CDB) signed an agreement for \$1.4 billion loan facility which enabled OAO ASB Belarusbank to sign an equivalent loan agreement with Slavkali FLLC, the Group's Belarusian subsidiary, to finance the construction of the potash production plant in Belarus.

The first drawdown under the above loan agreement was made in December 2016 and signalled the beginning of the construction of the potash production plant, which is now the main focus of the Group. Production is expected to commence in 2022.

RISK MANAGEMENT

Risk management is central to how the Group runs its business and is fundamental to value creation and delivery of substantial returns to shareholders. It is an integral part of the business model and is a Board level responsibility. GCM approach to risk management aims to identify key risks as early as possible and to either reduce or remove those risks.

The group's principal risks and uncertainties are currently those detailed below.

Macroeconomic environment	In 2016, the global economy was shaped by a number of political events, most notably the UK's decision to vote in favour of leaving the European Union, Donald Trump's win in the United States presidential election, the rejection of constitutional reforms in Italy and a series of terrorist incidents across Europe. However, with global growth in 2016 at the lowest rate since 2009, some signs of improvement have begun to appear. Trade and manufacturing output growth have picked up from a very low level, helped by firmer domestic demand growth in Asia and Europe. Only a small improvement is in prospect for 2018, taking global GDP growth to 3.6%. With modest additional pressures in labour and product markets, inflation is likely to remain subdued in the major economies, provided commodity prices do not strengthen further.
Commodity price risk	<p>Brent crude made a material recovery in the second half of 2016, breaching \$50/bbl by year end after having traded between \$25 and \$30 for much of the first quarter of 2016. At the end of November 2016 OPEC agreed its first supply cut in eight years. In China, the liberalisation of the refining sector, falling domestic production and opportunistic crude purchasing for strategic reserves proved supportive for the oil prices in 2016 and require careful monitoring going forward. The World Bank is forecasting oil price of \$55/bbl for 2017 and \$59.90/bbl for 2018.</p> <p>The outlook for Potash prices is linked to future demand, which may be impacted by global economic outlook referred to above. Potash prices have declined significantly over the past decade, which may give an opportunity for price increases ahead of the commencement of the Group's potash production in 2022.</p>

GCM Global Energy Plc

STRATEGIC REPORT

Interest rate and liquidity risk	The outlook in Europe continues to be challenging; in March 2016 the ECB announced a significant package to ease monetary policy, shifting the focus away from rate cuts to quantitative and credit easing, a process which the ECB has confirmed will be continuing throughout 2017. GCM has various creditors providing liquidity and financing to the group. Where possible, GCM endeavours to limit its exposure to interest rate risk through structuring credit facilities using a fixed interest rate, or using interest rate derivatives to hedge exposure and gain visibility on financing costs going forward.
Foreign Exchange risk	The GCM Group has ongoing operations in a number of geographic regions. As a result, the group is exposed to movements in various currencies which can impact the underlying costs and revenues. The Group seeks to mitigate these risks by monitoring the regional economic situation and maintaining currency reserves as necessary.
Political Risk	Business operations in overseas locations carry certain elements of risk relating to unexpected changes in regulatory and legal climates which could significantly impact GCM's business. As a mitigating factor, GCM continues to nurture, develop and grow its relationships with senior government officials and business leaders in the regions where it conducts its operations.
Environmental risk	The Group understands its responsibility to maintain and manage its obligations to minimise environmental impact. GCM is committed to working with local governments and other agencies to ensure safe procedures and operations in order to remain in good standing in all communities in which the Group operates.

On behalf of the Board



R Dubrovskaya
Director

30 June 2017

GCM Global Energy Plc

DIRECTORS' REPORT

The Directors present their report and the financial statements of the Company and the Group for the year ended 31 December 2016.

DIRECTORS

The following directors have held office since 1 January 2016:

A Zhuchenko
R Dubrovskaya
M Kalyuzhny

(appointed 28 November 2016)

DIVIDENDS

No interim dividend was paid during the year. During the year ended 31 December 2015, the Directors distributed interim dividends of \$2.42 per share totalling \$40,497,978. The payment of these dividends in 2015 was satisfied via set off against the shareholder loan receivable of \$40,497,978.

No final dividend is proposed for the year (2015: \$nil).

BRANCHES OUTSIDE THE UK

During the year, the Company established a branch in Minsk.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to Corporate Social Responsibility and has implemented a number of policies across the following areas:

- Equal opportunities across the Group;
- Health and Safety; and
- Environmental impact and recovery

RISKS ASSOCIATED WITH THE GROUP

These are described in the Strategic Report on pages 2-3 and as part of the Financial Instruments disclosure in note 4.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company has agreed that it shall to the maximum extent permitted by law, but subject to any limitation imposed by law and in particular sections 232 and 234 of the Companies Act 2006, indemnify the directors against all liabilities, costs and expenses (including any legal and other reasonable professional costs and expenses) incurred by them directly arising from or in connection with the execution and discharge of their duties as directors of the Company.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors, in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

GCM Global Energy Plc

DIRECTORS' REPORT

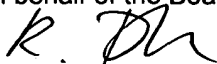
GOING CONCERN

The directors have considered the appropriateness of the going concern basis in the preparation of these financial statements and are satisfied that the company and the group are going concerns. The statement headed "Going Concern" on page 16 sets out certain factors considered by the directors in making this assessment.

AUDITOR

RSM UK Audit LLP, Chartered Accountants, has indicated its willingness to continue in office.

On behalf of the Board



R Dubrovskaya
Director

30 June 2017

GCM Global Energy Plc

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors have elected under company law to prepare group and company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing the group and company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GCM GLOBAL ENERGY PLC

Opinion on financial statements

We have audited the group and parent company financial statements ("the financial statements") on pages 9 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and, based on the work undertaken in the course of our audit, the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GCM GLOBAL ENERGY PLC

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 6, 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 (APB's) Ethical Standards for Auditors.

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

RSM UK Audit LLP

RICHARD COATES (Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

30 June 2017

GCM Global Energy Plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 \$'000	2015 \$'000
Revenue	8	1,060	10,091
		<u>1,060</u>	<u>10,091</u>
Employee costs	7	(3,128)	(3,780)
Distribution and administration expenses		(3,972)	(4,297)
Depreciation and amortisation		(84)	(73)
Loss on foreign exchange		(475)	(166)
		<u>(7,659)</u>	<u>(8,316)</u>
(Loss)/profit before finance costs and taxation		<u>(6,599)</u>	<u>1,775</u>
Finance costs	9	(736)	(69)
(Loss)/profit before taxation		<u>(7,335)</u>	<u>1,706</u>
Taxation	10	(9)	-
(Loss)/profit for the year from continuing operations		<u>(7,344)</u>	<u>1,706</u>
Profit for the year from discontinued operations	28	-	21,001
Total (loss)/profit for the year		<u>(7,344)</u>	<u>22,707</u>
Other comprehensive income			
Currency translation differences		-	9,074
Total comprehensive income for the year		<u>(7,344)</u>	<u>31,781</u>
(Loss)/profit for the year attributable to:			
Owner of the parent		(7,057)	21,076
Non-controlling interest		(287)	1,631
		<u>(7,344)</u>	<u>22,707</u>
Total comprehensive income for the year attributable to:			
Owners of the parent		(7,057)	30,150
Non-controlling interest		(287)	1,631
		<u>(7,344)</u>	<u>31,781</u>
Total comprehensive income for the year arising from:			
Continuing operations		(7,344)	10,780
Discontinued operations		-	21,001
		<u>(7,344)</u>	<u>31,781</u>

The notes and accounting policies on pages 16 to 42 form an integral part of these consolidated financial statements.

GCM Global Energy Plc
STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

Company registration number 06382557

	Notes	Group 2016 \$'000	Group 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
ASSETS					
Non-current assets					
Intangible assets	11	3,259	3,184	-	-
Property, plant and equipment	12	76,527	72,361	246	133
Investment in subsidiaries	14	-	-	1,989	1,989
Loans and other receivables	13	31,800	160,086	75,084	235,498
Total non-current assets		111,586	235,631	77,319	237,620
Current assets					
Inventories	15	15	4	-	-
Trade and other receivables	16	987	1,178	665	1,178
Cash and cash equivalents	17	93,393	7,072	397	5,961
Total current assets		94,395	8,254	1,062	7,139
TOTAL ASSETS		205,981	243,885	78,381	244,759
LIABILITIES					
Current liabilities					
Trade and other payables	18	2,814	969	688	767
Financial lease liabilities	20	38	-	38	-
Current tax liabilities		9	-	-	-
Total current liabilities		2,861	969	726	767
Non-current liabilities					
Borrowings	19	129,392	2,362	-	-
Financial lease liabilities	20	69	-	69	-
Total non-current liabilities		129,461	2,362	69	-
TOTAL LIABILITIES		132,322	3,331	795	767
NET ASSETS		73,659	240,554	77,586	243,992

GCM Global Energy Plc
STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

Company registration number 06382557

	Notes	Group 2016 \$'000	Group 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
EQUITY					
Equity attributable to owners of the parent					
Called up share capital	21	29,312	29,312	29,312	29,312
Translation reserve		(3,441)	(3,441)	-	-
Retained earnings		48,075	214,683	48,274	214,680
Total equity attributable to owners of the parent		73,946	240,554	77,586	243,992
Non-controlling interests		(287)	-	-	-
TOTAL EQUITY		73,659	240,554	77,586	243,992

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own statement of comprehensive income for the year. The Company reported a loss for the financial year ended 31 December 2016 of \$6.855m (2015: profit \$14.133m).

The financial statements on pages 9 to 42 were approved by the board of directors and authorised for issue on 30 June 2017 and are signed on its behalf by:



R Dubrovskaya
 Director

The notes and accounting policies on pages 16 to 42 form an integral part of these consolidated financial statements

GCM Global Energy Plc

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

GROUP	Attributable to the equity owners of the parent					
	Share capital \$'000	Translation reserve \$'000	Retained Earnings \$'000	Total \$'000	Non-controlling interest \$'000	Total \$'000
AT 1 JANUARY 2015	29,312	(12,515)	234,104	250,901	9,765	260,666
Profit for the year	-	-	21,076	21,076	1,631	22,707
Other comprehensive income for the year	-	9,074	-	9,074	-	9,074
Total comprehensive income for the year	-	9,074	21,076	30,150	1,631	31,781
Transactions with owners:						
Dividends	-	-	(40,497)	(40,497)	-	(40,497)
Disposal of subsidiaries	-	-	-	-	(11,396)	(11,396)
Total transactions with owners in their capacity as owners	-	-	(40,497)	(40,497)	(11,396)	(51,893)
AT 31 DECEMBER 2015	29,312	(3,441)	214,683	240,554	-	240,554
Loss for the year	-	-	(7,057)	(7,057)	(287)	(7,344)
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	(7,057)	(7,057)	(287)	(7,344)
<i>Transactions with owners:</i>						
Capital restructure (see note 26)	-	-	(159,551)	(159,551)	-	(159,551)
Total transactions with owners in their capacity as owners	-	-	(159,551)	(159,551)	-	(159,551)
AT 31 DECEMBER 2016	29,312	(3,441)	48,075	73,946	(287)	73,659

The notes and accounting policies on pages 16 to 42 form an integral part of these consolidated financial statements.

GCM Global Energy Plc

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

COMPANY	Share capital \$'000	Retained earnings \$'000	Total \$'000
AT 1 JANUARY 2015	29,312	241,045	270,357
Profit for the financial year	-	14,133	14,133
Dividends to the owner	-	(40,498)	(40,498)
AT 31 DECEMBER 2015	<u>29,312</u>	<u>214,680</u>	<u>243,992</u>
Loss for the financial year	-	(6,855)	(6,855)
Capital restructure (see note 26)	-	(159,551)	(159,551)
AT 31 DECEMBER 2016	<u>29,312</u>	<u>48,274</u>	<u>77,586</u>

The notes and accounting policies on pages 16 to 42 form an integral part of these consolidated financial statements.

GCM Global Energy Plc
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	<i>Notes</i>	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	23	(5,020)	(10,166)
Income taxes paid		(1)	(17)
Net cash used in operating activities		<u>(5,021)</u>	<u>(10,183)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds of subsidiary disposals, net of cash transferred		-	(229)
Purchase of property, plant and equipment		(35,282)	(412)
Purchase of intangible assets		(71)	(293)
Interest received		431	3,368
Dividends received from joint venture		-	9,703
Net cash (outflow)/inflow from investing activities		<u>(34,922)</u>	<u>12,137</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		127,088	817
Finance lease payments		(38)	-
Interest paid		(786)	(1)
Dividends paid to non-controlling interest		-	(677)
Net cash inflow from financing activities		<u>126,264</u>	<u>139</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		86,321	2,093
OPENING CASH AND CASH EQUIVALENTS		7,072	4,979
CLOSING CASH AND CASH EQUIVALENTS	17	<u>93,393</u>	<u>7,072</u>

The notes and accounting policies on pages 16 to 42 form an integral part of these consolidated financial statements.

GCM Global Energy Plc
COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	<i>Notes</i>	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	23	(6,160)	(8,528)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(40)	(54)
Dividends from subsidiaries		-	9,703
Interest received		402	3,365
Net cash flow generated from investing activities		362	13,014
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan repayment/(advance)		272	(1,404)
Finance lease payments		(38)	-
Net cash flow generated from/(used in) financing activities		234	(1,404)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,564)	3,082
OPENING CASH AND CASH EQUIVALENTS		5,961	3,060
Effect of foreign exchange rate changes		-	(181)
CLOSING CASH AND CASH EQUIVALENTS	17	397	5,961

The notes and accounting policies on pages 16 to 42 form an integral part of these consolidated financial statements.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1 GENERAL INFORMATION

GCM Global Energy Plc ("the Company") and its subsidiaries ("the Group") currently undertake the development of a potash production. The Group's activities are carried out internationally with the current focus being on Belarus. The Group's share of joint venture in Kazakhstan was sold in June 2015. The results relating to the joint venture have been classified as discontinued operations in the year to 31 December 2015 (see note 28).

The company is a privately owned public limited company, incorporated and domiciled in the UK. The company's registered office is 2nd Floor, 11 Pilgrim Street, London, EC4V 6RN.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below:

BASIS OF ACCOUNTING

The consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). The financial statements have been prepared on a historical cost basis.

GOING CONCERN

The directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. This has been determined by a review of forecast cash flows and expected trading performance for a period of at least 12 months from the date of approval of these financial statements and careful consideration of the commitments disclosed in note 25.

The group is primarily financed through bank and related party borrowings and there are a number of key measures in place that will allow the directors to manage the business and provide adequate liquidity. These are as follows:

- The ability to negotiate bank facilities with the existing third party providers of finance;
- The ability to borrow from other providers of funds, mainly private financial institutions or related parties; and
- Significant control and flexibility over the group's development plans and their timing that will allow it, if necessary, to conserve capital by delaying or eliminating capital expenditure.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit for the Group. Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are recognised in profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. When the fair value of identifiable net assets acquired exceeds the cost of the business combination, the excess (negative goodwill) is recognised directly in the Statement of Comprehensive Income. However, where subsidiaries or interests in joint ventures are acquired from companies under common control, negative goodwill arising on such acquisitions (net of any goodwill on other such transactions) is credited directly to equity as contributed capital.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those of the Group.

All intra-Group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting for joint arrangements

A joint arrangement is a contractual arrangement which gives two or more parties joint control. A joint arrangement is either a joint venture or a joint operation.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The group combines its share of assets, liabilities, revenue and expenses of joint arrangements with its own, after making appropriate adjustments to eliminate transactions between the group and the joint arrangement.

Investments in joint ventures are recognised in the financial statements using the equity method of accounting unless they fall to be classified as held for sale. They are initially carried at cost. The Group's share of post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition movements in other comprehensive income are recognised directly in other comprehensive income. The carrying value of the investment (including goodwill) is tested for impairment when there is objective evidence of impairment. Losses in excess of the Group's interest in those joint ventures are not recognised unless the Group has incurred obligations or made payments on behalf of the joint ventures.

Where a group company transacts with a joint venture of the Group, unrealised gains are eliminated to the extent of the Group's interest in the relevant associate or joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment. Where necessary, adjustments are made to the financial statements of joint ventures to bring the accounting policies used into line with those used by the Group.

FOREIGN CURRENCY TRANSLATION

The functional and presentational currency is the US\$ as this is the currency which mainly influences the sales price of the goods and services being delivered and the costs incurred in delivering them. The exchange rate between Sterling and the US\$ at 31 December 2016 was 1.2336 (2015: 1.4802), the official exchange rate between the Kazakhstan Tenge and the US\$ at 31 December 2016 was 333.29 (2015: 339.47), the exchange rate between Belarusian Ruble and the US\$ as at 31 December 2016 after the redenomination of 1:10,000 was 1.9585 (2015: 18,618.4).

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transactions are recorded in the functional currency of each reporting entity. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the profit or loss for the period, except for exchange differences on non-monetary assets and liabilities, where the changes in fair value are recognised in other comprehensive income. Other non-monetary assets and liabilities are kept at the rate of exchange prevailing on the date the transaction was recorded.

On consolidation, the assets and liabilities reported in functional currencies other than the US\$ are retranslated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences are recognised as other comprehensive income and in the Group's translation reserve.

Such translation differences are recognised as income or expenses in the period in which the operation is disposed.

EXPLORATION AND EVALUATION EXPENDITURE

The Group adopts the successful efforts method of accounting for exploration and evaluation expenditure.

(a) PRE-LICENCE EXPENDITURE

Any expenditure incurred relating to exploration and evaluation or similar activities prior to obtaining a development licence (or similar rights) are expensed as incurred.

(b) LICENCE COSTS

The cost of acquiring an exploration/development licence (or similar rights) are capitalised and classified as an intangible asset. Incidental costs relating to the acquisition of the licence are capitalised as part of the cost of acquisition.

(c) OTHER EXPENDITURE

Geological and geophysical costs and similar costs are capitalised as intangible assets. All capitalised costs are subject to a commercial, technological and management review each year to confirm the continued intention to develop and extract value from the discovery. When this is no longer the case, the capitalised costs are written off to profit or loss.

Intangible exploration and evaluation assets are not subject to amortisation.

PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment that are consumed in developing an intangible exploration and evaluation asset are subject to depreciation over their useful economic lives. The depreciation amount reflecting that consumption will be capitalised as part of the cost of developing the intangible exploration and evaluation asset.

Property, plant and equipment is recorded at cost which includes expenditure that is directly attributable to the acquisition of the items and depreciated over its useful economic life.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEPRECIATION

Land is not depreciated. Buildings and operating base facilities are depreciated on a straight-line basis over their estimated useful lives ranging from five to fifty-five years.

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of four to twenty years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds (if any) and the carrying amount of the asset and is recognised in profit or loss.

MAJOR MAINTENANCE AND REPAIRS

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. All other maintenance costs are expensed as incurred.

OTHER INTANGIBLE ASSETS

Other intangible assets include software and licences other than exploratory and development licences. Other intangibles are measured initially at purchase cost and amortised on a straight-line basis over their estimated useful lives, being between 5-7 years.

IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY PLANT AND EQUIPMENT

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated. Where the effect of the time value of money is material, the provision is based on the present value of future outflows, discounted at the pre-tax discount rate that reflects the risks specific to the liability.

INVENTORIES

Inventories, consisting primarily of spare parts, are stated at the lower of cost or net realisable value. Cost is determined on a weighted average basis and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Group has become a party to the contractual provisions of the instrument.

Financial assets

Trade receivables

Trade receivables are classified as loans and receivables and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence, (including customers with financial difficulties or in default on payments), that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Group with maturities of less than three months.

Bank overdrafts are presented within current liabilities.

Investments

Investments held by the parent company in subsidiaries are recorded at cost at the reporting date. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in profit or loss in the period they occur.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank and other borrowings

Interest-bearing bank and other loans and bank overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in profit or loss over the term of the instrument at the effective rate of interest.

Trade payables

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

LEASES

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments. Finance charges are allocated to each period so as to achieve a constant rate of interest.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discount, custom duties and sale taxes.

Revenue derived from the provision of services is recognised in the period during which such services were provided. Where a contract is not fully completed at the year end, revenue is recognised according to the percentage of the project completed during the year.

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

CURRENT AND DEFERRED INCOME TAX

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit that is reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is provided on temporary differences arising on acquisition that are categorised as Business Combinations.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

IFRS'S ISSUED BUT NOT YET EFFECTIVE

The following relevant standards and interpretations were in issue at the reporting date but are not yet effective. Management do not anticipate that these will have a significant impact on the financial statements.

- IFRS 9 Financial Instruments (amended July 2015) (effective for annual periods beginning on or after 1 January 2018). Replacement to IAS 39 and is built on a logical, single classification and measurement approach for financial assets which reflects both the business model in which they are operated and their cash flow characteristics. Also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.
- IFRS 15 Revenue from Contracts with Customers (amended May 2015) (effective for annual periods beginning on or after 1 January 2018). Introduces requirements for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Also results in enhanced disclosure about revenue and provides or improves guidance for transactions that were not previously addressed comprehensively and for multiple element arrangements.
- IFRS 16* Leases (effective for annual periods beginning on or after 1 January 2019). The new standard recognises a leased asset and a lease liability for almost all leases and requires them to be accounted for in a consistent manner. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease.

* Not yet endorsed by the EU.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Accounting for Shares held by Sberbank Investments Limited

As explained in notes 14 and 19, Sberbank Investments Limited ("Sberbank") subscribed for 33.6% of the ordinary shares of a subsidiary for \$130m. This arrangement has been accounted for as a loan from Sberbank as Sberbank has an option that can be exercised during a specific time period requiring the investment plus interest to be paid in exchange for the shares held. As a result, the Group has consolidated the subsidiary as if the Group held the beneficial interest of the 33.6% shares legally owned by Sberbank.

Accounting for Preference Shares In Russneft (Cyprus) Limited

As explained in note 26, the Company agreed to exchange loan notes due from Russneft (Cyprus) Limited, a related party, for redeemable preference shares in that company that are only redeemable at the option of Russneft (Cyprus) Limited, so consequently are accounted for as equity rather than a liability by Russneft (Cyprus) Limited.

As this transaction was undertaken by companies under common control, the reduction in value from the book value of the promissory notes of \$159.6m has been accounted for directly in equity and described as a capital restructure to reflect the nature of the transaction.

4 FINANCIAL RISK FACTORS

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group has in place risk management policies that seek to limit the adverse effects of commodity price risk and interest rate risk.

LIQUIDITY RISK

In order to manage liquidity risk it is the Group's policy to maintain committed facilities to ensure sufficient available surplus cash resources. The Group closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis through the use of cash flow forecasts to ensure that it has sufficient funds to meet the obligations of the Group as they fall due.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 FINANCIAL RISK FACTORS (continued)

The table below analyses the Group's financial liabilities into maturity groupings based on amounts outstanding at the balance sheet date up to the contractual maturity date.

Group 2016

	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Borrowings	-	-	-	129,392	129,392
Financial lease liabilities	19	19	69	-	107
Total	19	19	69	129,392	129,499

Group 2015

	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Trade and other payables	710	-	-	-	710
Borrowings	-	-	-	2,362	2,362
Total	710	-	-	2,362	3,072

Company 2016

	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Trade and other payables	582	-	-	-	582
Financial lease liabilities	19	19	69	-	107
Total	601	19	69	-	689

Company 2015

	Less than 6 months \$'000	Between 6 months and 1 year \$'000	Between 1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Trade and other payables	514	-	-	-	514
Total	514	-	-	-	514

FOREIGN CURRENCY RISK

The Group operates in several markets across the world and is exposed to foreign exchange risk arising from currency exposures; in particular with respect the Belarusian Rouble ('BYN'). The Functional Currency of all group companies as at 31 December 2016 was US dollars (2015: the Functional Currency of FLLC Slavkali was the Belarusian Rouble).

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 FINANCIAL RISK FACTORS (continued)

COMMODITY PRICE RISK

Commodity price risk is the risk that market prices for commodities will move adversely thereby potentially reducing expected margins.

The group's commodity risk relates to the future potash operations of the group. The potash operations have not yet started production.

CREDIT RISK

Credit risk predominantly arises from loans and other receivables, trade receivables and cash and cash equivalents.

The Group's credit risk exposure as at 31 December 2015 was mainly in relation to the related party promissory notes of \$154.3m. As disclosed in note 26, on January 5, 2016 the loan notes were converted into preference shares that are not redeemable at the option of the holder and thus the credit risk associated with this promissory note is no longer a risk.

The Group's maximum exposure to credit risk, gross of any collateral held, relating to its financial assets is equivalent to their carrying value as disclosed below. All financial assets have a fair value which is not materially different from their carrying value.

	Group 2016 \$'000	Group 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
<i>Maximum exposure to credit risk</i>				
Non-current loan receivable	-	159,443	-	159,443
Trade and other receivables (excluding VAT and prepayments)	104	487	94	487
Loans receivable from subsidiaries	-	-	75,084	76,055
Cash and cash equivalents	93,393	7,072	397	5,961
	<u>93,497</u>	<u>167,002</u>	<u>75,575</u>	<u>241,946</u>

The Group or the Company does not have any trade and other receivables that are past due at the reporting date but have not been provided for impairment.

The provision for credit losses of balances receivable is based on a review of balances determined to be impaired at the reporting date.

INTEREST RATE RISK

The Group's interest rate exposure arises mainly from its interest bearing borrowings. As at 31 December 2016 the Group had only fixed rate loans payable to eliminate exposure to interest rate cash flow risk.

The Group regularly reviews its funding arrangements to ensure they are competitive with the marketplace.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 FINANCIAL RISK FACTORS (continued)

The tables below shows the Group's non-derivative financial assets and liabilities split by those bearing fixed and floating rates and those that are non-interest bearing.

ASSETS

Group

2016	Fixed rate \$'000	Floating rate \$'000	Non-interest bearing \$'000	Total \$'000
Other non-current receivable	-	-	-	-
Trade and other receivables	-	-	104	104
Cash and cash equivalents	86,000	-	7,393	93,393
	<u>86,000</u>	<u>-</u>	<u>7,497</u>	<u>93,497</u>
2015	Fixed rate \$'000	Floating rate \$'000	Non-interest Bearing \$'000	Total \$'000
Trade and other receivables	154,321	-	5,122	159,443
Other loans receivable from related parties	-	-	487	487
Cash and cash equivalents	-	-	7,072	7,072
	<u>154,321</u>	<u>-</u>	<u>12,681</u>	<u>167,002</u>

Company

2016	Fixed rate \$'000	Floating rate \$'000	Non-interest bearing \$'000	Total \$'000
Trade and other receivables	-	-	94	94
Loans receivable from subsidiaries	-	-	75,084	75,084
Cash and cash equivalents	-	-	397	397
	<u>-</u>	<u>-</u>	<u>75,575</u>	<u>75,575</u>
2015	Fixed rate \$'000	Floating rate \$'000	Non-interest Bearing \$'000	Total \$'000
Trade and other receivables	-	-	487	487
Other loans receivable from related parties	154,321	-	5,122	159,443
Loans receivable from subsidiaries	-	-	76,055	76,055
Cash and cash equivalents	-	-	5,961	5,961
	<u>154,321</u>	<u>-</u>	<u>87,625</u>	<u>241,946</u>

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

4 FINANCIAL RISK FACTORS (continued)

LIABILITIES

Group

2016	Fixed rate \$'000	Floating rate \$'000	Non-interest Bearing \$'000	Total \$'000
Trade and other payables	-	-	2,674	2,674
Borrowings	123,709	5,600	83	129,392
Financial lease liabilities	107	-	-	107
	<u>123,816</u>	<u>5,600</u>	<u>2,757</u>	<u>132,173</u>
2015	Fixed rate \$'000	Floating rate \$'000	Non-interest bearing \$'000	Total \$'000
Trade and other payables	-	-	710	710
Borrowings	2,222	-	140	2,362
	<u>2,222</u>	<u>-</u>	<u>850</u>	<u>3,072</u>

No interest was charged on trade and other payables during 2016 or 2015.

The Company's trade and other payables as at 31 December 2016 were \$582,000 (2015: \$514,000) and were non-interest bearing.

CAPITAL MANAGEMENT

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade in the foreseeable future. The Group also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital.

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, contributed capital, translation reserve, retained earnings and net debt as noted below.

Net debt includes short and long-term borrowings net of cash and cash equivalents.

	2016 \$'000	2015 \$'000
Total debt	129,499	2,362
Less cash and cash equivalents	(93,393)	(7,072)
Net debt/(funds)	<u>36,106</u>	<u>(4,710)</u>
Total equity	<u>73,659</u>	<u>240,554</u>

The Group does not have any externally imposed capital requirements.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

5 DIVIDENDS

During the year ended 31 December 2015, the Directors recommended and distributed interim dividends of \$2.42 per share totalling \$40,497,978. The payment of these dividends was satisfied via set off against the shareholder loan receivable of \$40,497,978.

No interim dividend was paid during the year ended 31 December 2016 and no final dividend is proposed (2015: \$nil).

6 (LOSS)/PROFIT BEFORE TAXATION

	2016 \$'000	2015 \$'000
The following items have been charged in arriving at (loss)/profit before taxation:		
Amounts payable to RSM UK Audit LLP and their associates in respect of both audit and non-audit services:		
Audit services		
- Statutory audit of parent and consolidated accounts	125	141
- Auditing of the accounts of subsidiaries of the Group pursuant to legislation (including that of countries and territories outside Great Britain)	9	11
Other Services	-	15
Taxation services	79	168
Operating lease rentals - land and buildings	1,212	1,365
	<u>1,212</u>	<u>1,365</u>

7 EMPLOYEE COSTS

The table below sets out details of the Group's employment costs, including Directors.

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Wages and salaries	4,169	3,269	2,435	3,196
Social security costs	783	414	473	390
Pension costs - defined contribution plans	171	194	171	194
	<u>5,123</u>	<u>3,877</u>	<u>3,079</u>	<u>3,780</u>
Less: amounts capitalised within property plant and equipment	(1,995)	-	-	-
Less: amounts relating to discontinued operations	-	(97)	-	-
Total - continuing operations	<u>3,128</u>	<u>3,780</u>	<u>3,079</u>	<u>3,780</u>
The average monthly number of employees during the year comprises the following:				
	2016 No.	2015 No.	2016 No.	2015 No.
Technical and operations	51	31	-	-
Management and administration	24	30	22	19
Total	<u>75</u>	<u>61</u>	<u>22</u>	<u>19</u>

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

7 EMPLOYEE COSTS (continued)

KEY MANAGEMENT

The table below sets out details of the emoluments of the Group's key management who are the Directors.

	2016 \$'000	2015 \$'000
Short term benefits	777	1,201
Company contributions to personal pension schemes	47	65
	<u>824</u>	<u>1,266</u>

DIRECTORS' EMOLUMENTS

The table below sets out details of the emoluments of the Company's Directors.

	2016 \$'000	2015 \$'000
Directors' emoluments in respect of qualifying services	688	1,066
Company contributions to personal pension schemes	47	65
	<u>735</u>	<u>1,131</u>

The emoluments of the highest paid Director were as follows:

Emoluments in respect of qualifying services	360	394
Company contributions to personal pension schemes	26	25
	<u>386</u>	<u>419</u>

There are 2 directors in defined contribution personal pension schemes (2015: 2).

8 REVENUE

	2016 \$'000	2015 \$'000
Loan interest from related parties	116	9,298
Other interest	39	-
Rental income	692	785
Other income	213	8
	<u>1,060</u>	<u>10,091</u>

9 FINANCE COSTS

	2016 \$'000	2015 \$'000
Interest on other loans	730	69
Finance lease interest	6	-
	<u>736</u>	<u>69</u>

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

10 TAXATION

	2016 \$'000	2015 \$'000
Analysis of charge for the year:		
Current tax – overseas	9	-
Tax charge for the year	<u>9</u>	<u>-</u>
The tax for the year is less than the statutory rate of corporation tax in the UK. The differences are explained below:		
	2016 \$'000	2015 \$'000
(Loss)/profit before tax	(7,335)	1,706
(Loss)/profit before tax multiplied by the standard UK Corporation tax rate of 20% (2015: 20%)	<u>(1,467)</u>	<u>341</u>
Effects of:		
Expenses not deductible for tax purposes	216	119
Non-taxable transfer pricing adjustment	-	(46)
Use of losses not in deferred tax	1,173	(549)
Overseas losses unrelieved and other differences	87	135
Total taxation charge	<u>9</u>	<u>-</u>

At the year end, the Company and the Group has unused UK tax losses of \$33m (2015: \$27m) available for offset against future UK taxable profits. A deferred tax asset has not been recognised in respect of such losses where the timing of the realisation of the related tax benefit through future taxable profits is uncertain.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

11 INTANGIBLE ASSETS

Group	Exploration and evaluation assets \$'000	Software \$'000	Total \$'000
COST			
At 1 January 2015	8,248	-	8,248
Additions	293	-	293
Transfers to fixed assets (note 12)	(6,785)	-	(6,785)
Exchange differences	1,428	-	1,428
At 1 January 2016	3,184	-	3,184
Additions	-	75	75
At 31 December 2016	3,184	75	3,259
NET BOOK VALUE			
At 31 December 2016	3,184	75	3,259
At 31 December 2015	3,184	-	3,184
At 1 January 2015	8,248	-	8,248

The Group's exploration and evaluation asset relates to costs incurred in respect of the Lubansky deposit in Belarus.

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

12	PROPERTY, PLANT AND EQUIPMENT	Assets in the course of construction \$'000	Plant, machinery and vehicles \$'000	Total \$'000
	Group			
	COST			
	At 1 January 2015	55,921	1,531	57,452
	Additions	-	412	412
	Transfers from intangible assets (see note 11)	6,785	-	6,785
	Disposals	(160)	-	(160)
	On sale of subsidiary	-	(25)	(25)
	Currency translation differences	9,353	(112)	9,241
	At 1 January 2016	71,899	1,806	73,705
	Additions	3,954	356	4,310
	Disposals	-	(200)	(200)
	At 31 December 2016	75,853	1,962	77,815
	ACCUMULATED DEPRECIATION AND IMPAIRMENT			
	At 1 January 2015	-	1,319	1,319
	Charge for the year	-	73	73
	On disposal of subsidiary	-	(10)	(10)
	Currency translation differences	-	(38)	(38)
	At 1 January 2016	-	1,344	1,344
	Charge for the year	-	144	144
	Disposals	-	(200)	(200)
	At 31 December 2016	-	1,288	1,288
	NET BOOK VALUE			
	At 31 December 2016	75,853	674	76,527
	At 31 December 2015	71,899	462	72,361
	At 1 January 2015	55,477	212	56,133

The Group's asset in the course of construction relates to the Potash Mine in Belarus.

A depreciation charge for the year of \$84,000 (2015: \$73,000) is recognised in profit and loss and \$60,000 (2015: \$nil) is included in the cost of the asset in the course of construction.

GCM Global Energy Plc
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Leasehold property \$'000	Plant and machinery \$'000	Motor vehicles \$'000	Total \$'000
COST				
At 1 January 2015	11	493	840	1,344
Additions	-	45	-	45
At 1 January 2016	11	538	840	1,389
Additions	-	34	163	197
Disposals	-	-	(200)	(200)
At 31 December 2016	11	572	803	1,386
DEPRECIATION				
At 1 January 2015	2	451	762	1,215
Charge for the year	1	20	20	41
At 1 January 2016	3	471	782	1,256
Charge for the year	2	37	45	84
Disposals	-	-	(200)	(200)
At 31 December 2016	5	508	627	1,140
NET BOOK VALUE				
At 31 December 2016	6	64	176	246
At 31 December 2015	8	67	58	133
At 1 January 2015	9	42	78	129

13 NON-CURRENT LOANS AND OTHER RECEIVABLES

	2016 \$'000	2015 \$'000
Group		
Related party loan receivable and long-term interest (see note 26)	-	159,443
Advances for property, plant and equipment	31,548	418
VAT recoverable	252	225
	<u>31,800</u>	<u>160,086</u>
Company		
Related party loan receivable and long-term interest (see note 26)	-	159,443
Loan to subsidiary	75,084	76,055
	<u>75,084</u>	<u>235,498</u>

GCM Global Energy Plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

14 SUBSIDIARY UNDERTAKINGS

Company	\$'000
Cost	
At 1 January 2015	2,032
Disposals	(43)
At 31 December 2015	1,989
Additions	-
At 31 December 2016	1,989

All subsidiary undertakings have been consolidated in the Group financial statements. The proportion of voting rights in the subsidiary undertakings held directly by the Group does not differ from the proportion of ordinary shares held.

On 5 February 2016 the company acquired 100% of the issued ordinary shares of Slavoi Company Limited (formerly Naitari Holdings Limited) for total consideration of EUR 100. Slavoi Company Limited was incorporated on 26 January 2016 and its principal activity is to act as intermediate holding company beneath GCM Global Energy plc.

The Group's subsidiary undertakings at 31 December 2016 are listed below:

	Country of incorporation	Class of share capital held	Proportion held by Group	Nature of business
Continuing operations:				
GCM Global Energy Slavkali Limited	United Kingdom	Ordinary	100%	Intermediate holding company
GCM Global Energy Slavkali (Cyprus) Limited *	Cyprus	Ordinary	41.4%**	Intermediate holding company
Slavkali FLLC *	Belarus	Ordinary	41.4%**	Potash development
Slavoi Company Limited (formerly Naitari Holdings Limited)	Cyprus	Ordinary	100%	Intermediate holding company

* These subsidiaries are indirectly held with GCM Global Energy Slavkali Limited owning 41.4% of the shares in GCM Global Energy Slavkali (Cyprus) Limited and GCM Global Energy Slavkali (Cyprus) Limited owning 100% of the shares in Slavkali FLLC.

** During the year, GCM Global Energy Slavkali (Cyprus) Limited issued shares to Sberbank Investments Limited ("Sberbank") for \$130m (before costs) giving Sberbank 33.6% of that subsidiary's share capital and reducing the group's interest to 41.4%. The remaining 25% of the subsidiary's shares are owned by a related party and this holding of 25% is accounted for as a non-controlling interest in the Group's financial statements.

As the shareholders' agreement includes an option that either party can exercise so that GCM Global Energy Slavkali Limited acquires 100% of the shares held by Sberbank for \$130m plus interest at the rate of 15% per annum, this arrangement has been accounted for as a loan in the Group's consolidated financial statements and the Group has continued to account for GCM Global Energy Slavkali (Cyprus) Limited as a 75% owned subsidiary.

A member of the ultimate controlling party has signed an agreement with Sberbank to guarantee the obligations of GCM Global Energy Slavkali Limited and GCM Global Energy Slavkali (Cyprus) Limited under this agreement.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

15	INVENTORIES			2016	2015
	Group			\$'000	\$'000
	Spare parts and other materials			15	4
				<u> </u>	<u> </u>
16	TRADE AND OTHER RECEIVABLES				
		Group	Group	Company	Company
		2016	2015	2016	2015
		\$'000	\$'000	\$'000	\$'000
	Trade receivables	54	44	7	44
	Other receivables	364	116	52	111
	Prepayments	521	586	521	586
	Amounts owed by group companies	-	-	37	5
	Amounts owed by related parties	48	432	48	432
		<u>987</u>	<u>1,178</u>	<u>665</u>	<u>1,178</u>
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
17	CASH AND CASH EQUIVALENTS				
		Group	Group	Company	Company
		2016	2015	2016	2015
		\$'000	\$'000	\$'000	\$'000
	Cash at bank and in hand	93,393	7,072	397	5,961
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

The above cash and cash equivalents were denominated as follows:

	Group	Group	Company	Company
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
US dollar	93,018	2,746	61	1,646
Sterling	331	4,315	331	4,315
Euro	1	-	-	-
Belarus Roubles	43	11	5	-
	<u>93,393</u>	<u>7,072</u>	<u>397</u>	<u>5,961</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

18 TRADE AND OTHER PAYABLES

	Group 2016 \$'000	Group 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
Trade payables	1,868	85	139	-
Accruals and deferred income	760	615	431	514
Other payables	46	10	12	-
Social security and other taxation	140	259	106	253
	<u>2,814</u>	<u>969</u>	<u>688</u>	<u>767</u>

19 BORROWINGS

Group	Current 2016 \$'000	Non-current 2016 \$'000	Current 2015 \$'000	Non-current 2015 \$'000
Bank borrowings	-	125,338	-	-
Non-bank borrowings	-	4,054	-	2,362
	<u>-</u>	<u>129,392</u>	<u>-</u>	<u>2,362</u>

During the year, the Group signed a loan agreement with OJSC ASB Belarusbank for \$1.4bn as partial finance for the development of Group's Belarusian Potash Mine. This loan facility will be utilised as the development progresses with the first receipt under for \$5.6m being received at the end of 2016. This loan accrues interest at a rate of LIBOR plus 4% pa. Loan repayments commence in 2021 and continue to the final repayment date in 2031. The Belarusian subsidiary's assets in the course of construction have been pledged as security for the loan.

During the year, Sberbank Investments Limited ("Sberbank") subscribed for shares in GCM Global Energy Slavkali (Cyprus) Limited for \$130m (before costs) as partial finance for the Group's Belarusian Potash Mine that is being developed. As disclosed in note 14, this arrangement has been accounted for as a loan in the Group's financial statements as the Group is required to acquire the shares owned by Sberbank, if an option is exercised, for \$130m plus 15% interest per annum. The loan is stated in the financial statements net of arrangement fees of \$10.3m, which will be accounted for as loan arrangement fees. Interest will be accrued in the financial statements from 1 January 2017.

The non-bank borrowings from a connected party are denominated in US\$. The total amount includes \$0.08m (2015: \$0.14m) of accrued interest payable at a fixed interest rate of 3% (2015: 8%) per annum. The non-bank borrowings have a repayment date of 31 December 2030 (2015: 27 January 2025).

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

20 FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

Group and Company	2016 \$'000	2015 \$'000
Less than one year	38	-
Between two and five years	69	-
	<u>107</u>	<u>-</u>

21 SHARE CAPITAL

	Number	£'000	\$'000
Allotted, issued and fully paid			
Total issued at 31 December 2015 and 31 December 2016	16,748,812	16,749	29,312

22 RESERVES

Translation reserve

The translation reserve represents the exchange gains and losses that have arisen on the retranslation of overseas operations.

Retained earnings

The retained earnings represent the cumulative profit and loss less distributions to owners.

Non-controlling interest

This represents the share of the results and net assets attributable to minority shareholders in GCM Global Energy Slavkali (Cyprus) Limited.

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NOTES TO THE FINANCIAL STATEMENTS
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23 CASH GENERATED FROM/(ABSORBED BY) OPERATIONS

	Group 2016 \$'000	Group 2015 \$'000	Company 2016 \$'000	Company 2015 \$'000
(Loss)/profit before taxation including result of discontinued operations	(7,335)	22,707	(6,855)	14,133
Adjustments for:				
Depreciation and amortisation charge	84	73	84	41
Profit on sale/(loss) of subsidiaries and foreign exchange differences	16	(23,995)	(105)	43
Finance cost – net	583	69	577	(18,865)
Income from joint venture	-	(4,812)	-	-
Operating cash flows before movements in working capital	(6,652)	(5,958)	(6,299)	(4,648)
Changes in working capital:				
Inventories	(11)	(228)	-	-
Trade and other receivables	(206)	(3,396)	218	(3,598)
Trade and other payables	1,849	(584)	(79)	(282)
Cash outflow from operations	(5,020)	(10,166)	(6,160)	(8,528)

24 OPERATING LEASE COMMITMENTS

Group as lessee:

The minimum lease payments under non-cancellable operating leases are in aggregate as follows:

	2016 \$'000	2015 \$'000
Less than 1 year	1,206	1,385
1 to 2 years	1,206	1,385
2 to 5 years	2,716	4,154
Over 5 years	-	349
	5,128	7,273

Operating lease commitments relate to rental payments on the Group's and Company's offices.

Group as lessor:

Property rental income earned during the year was \$606k (2015: \$675k). At the year end, the Group had contracted with tenants, under non-cancellable leases, for the following aggregate future minimum lease payments:

	2016 \$'000	2015 \$'000
Less than one year	438	481
Between one and five years	617	942
	1,055	1,423

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NOTES TO THE FINANCIAL STATEMENTS

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25 COMMITMENTS AND CONTINGENCIES

Investment agreement

On 5 October 2012, the Company entered into an investment agreement with the Republic of Belarus to build a mining and processing complex for Potash in Belarus. The Company's total commitment under this investment agreement is \$1,522m over the period to 31 December 2020. On 17 June 2016 OJSC ASB Belarusbank and China Development Bank (CDB) have signed a full-funded credit agreement to the tune of \$1.4billion and on the same day, OJSC ASB Belarusbank signed an equivalent loan agreement with FLLC Slavakli, the Company's Belarusian subsidiary. The first transfer under the credit agreement was received at the end of 2016.

Pledge

During the year the related party loan receivable in note 13 of \$150.1m was pledged as security in connection with a bank loan facility of \$2.35bn advanced to the related party group. On 5 January 2016, the loan receivable has been converted into preference shares in the related party and therefore the pledge no longer exists. See note 26.

Guarantee

On 11 May 2012, the Company entered into an equity support guarantee agreement in connection with a \$70m loan facility to a related party company ("the borrower"). The guarantee provided by the Company is capped at \$30m and can be released when the borrower's average daily oil production reaches 13,000 barrels per day for a three month period. The Company was released from its obligations under this guarantee on 10 March 2016.

26 RELATED PARTY TRANSACTIONS

Disposal of Global Energy Cyprus

In February 2014, the group disposed of Global Energy Cyprus and its subsidiaries to a related party under common control. As consideration for the sale, the group received \$8.6m of cash and a promissory loan note with principal value of \$150.1m. On 6 May 2015 the group signed an amendment agreement regarding the promissory note whereby accrued long term interest receivable of \$4.3m at that date was converted into an additional promissory loan note to the same value. On 5 January 2016, the related party company's debts were restructured which resulting in the Group receiving 4,000 redeemable preference shares in the related party in exchange for the total debt at that date of \$159,550,546.

The redeemable preference shares are redeemable at the option of the related party company, so as a result of this debt restructuring, the balance of \$159,550,546 no longer meets the definition of a financial asset. As a result and to reflect the substance of this transaction, the balance of \$159,550,546 has been disclosed as a capital restructure in the statement of changes in equity.

At 31 December 2015 total principal of \$154.3m and accrued interest of \$5.5m remained outstanding, of which \$5.1m was included in the non-current receivable in note 13. The remaining interest of \$0.4m was included in other receivables in note 16 and was settled in the year ended 31 December 2016 along with the interest income of \$0.1m, which accrued in the period to the date of the debt restructure.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

26 RELATED PARTY TRANSACTIONS (continued)

Disposal of Trovidor Enterprises

On 17 June 2015 the group disposed of its interests in Trovidor Enterprises Limited and its share of the joint venture to a related party under common control. The disposal was for nominal consideration and the investment in joint venture and share of results to the date of disposal are included within the profit on discontinued operations for the year ended 31 December 2015. See note 28 for further details.

Other Related Party Transactions

During the year ended 31 December 2016, further shares were subscribed by a related party in Global Energy Slavkali (Cyprus) Limited for nominal consideration to maintain a 25% minority interest in that company. Further details of this transaction are disclosed in note 14.

During the year ended 31 December 2016, a related party provided a further finance on a facility agreement to the group. The balance as at 31 December 2016 was \$4.1m (2015: \$2.4m) and interest accrued on the loan in the year of \$0.7m (2015: \$0.1m). Further details are disclosed in note 19.

Rent and other income includes \$280k (2015: \$83k) received by the Company and the Group in relation to rental and other services provided to connected parties during the year.

COMPANY

Transactions with subsidiaries

On 26 October 2016, agreements were signed by the Company and certain of its subsidiaries to assign and set-off various intra-group balances.

During 2016, the Company received dividend income from subsidiaries of \$nil (2015: \$9.74m).

27 ULTIMATE PARENT AND ULTIMATE CONTROLLING PARTY

The Company is controlled by Lambency Holdings Limited, a company incorporated in Cyprus. The company's ultimate controlling party is considered to be members of the Gutseriev family.

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NOTES TO THE FINANCIAL STATEMENTS

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28 DISCONTINUED OPERATIONS

Trovidor Enterprises Limited and its share of the joint venture CaspiyNeft were disposed of on 17 June 2015. The companies have been classed as a discontinued operation in the year to 31 December 2015. Results from Trovidor to the date of disposal and the share of results of the joint venture to the date of disposal have been included in the results from discontinued operations to 31 December 2015.

Results of discontinued operations

	2016 \$'000	2015 \$'000
Share of results of joint venture	-	4,812
Net operating expenses	-	(131)
Profit for the year from discontinued operations	-	4,681
Gain arising on disposal of discontinued operations	-	16,320
Total profit for the year from discontinued operations	-	21,001

Gain on disposal of discontinued operations

The 2015 gain arising on disposal of discontinued operations is as calculated below.

	2016 \$'000	2015 \$'000
Fair value of consideration received	-	9,738
Net assets at date of disposal	-	(4,812)
Non-controlling interest at date of disposal	-	11,394
Gain on disposal	-	16,320