Ruspetro Limited

Annual Report & Accounts
For the year ended 31 December 2017

(Registered number 07817695)

Strategic Report for the Year Ended 31 December 2017

The Directors present their Strategic Report for Ruspetro Limited (hereinafter referred to as "the Company") and its subsidiary undertakings (together referred to as "the Group"), for the year ended 31 December 2017.

2017 Performance Overview

2017 has been a year in which the Board and Management have positioned the Company for future profitable growth taking into account the low oil price environment. We have matured a compelling long-term economic development plan for our assets based on our technology driven approach, capitalizing on our strides in technology implementation, surface and sub-surface project execution capability, and delivery of further reduction in our actual and forecast well and operating costs.

During 2017 and during the first four months of 2018, we have achieved the following:

- Drilled and completed three successful horizontal multi-fractured wells
- Secured export duty relief so that in total about 10 mln tons of oil can be exported tax-free;
- Successfully implemented the first stage of the water injection project, stabilizing the Group's base production;
- Significantly reduced operating expenditures;
- Completed over 80% of gas export infrastructure and agreed with Rosneft key commercial terms for the off-take of the Group's gas; and
- Processed 3D seismic data which is currently being interpreted to further de-risk our planned drilling campaign.

The Group incurred operating losses in 2017 of US$22,915 thousand and 2016 of US$28,660 thousand. A detailed financial performance review of the Group for 2017 is presented in the financial review section below.

Strategic Review

The Group's aim is to create value for shareholders through the low-cost development of Ruspetro's oil and gas reserves with efficient operations and use of capital and via de-risking its assets by well planned development and appraisal drilling. The Group adheres to high standards of corporate governance and focuses on safe and responsible operations.

As a relatively small company in the sector, the Group must effectively utilize a complete range of exploration and production technical skills that are available within the industry. The Group has identified the following key in-house strategic capabilities that are critical to its success:

- Reservoir geology
- Seismic modelling
- Well design
- Fracturing design
- Reservoir management
    - waterflooding of low-permeability reservoirs
    - horizontal well evaluation and numerical modelling
- Production well and system optimization (oil/gas/water)
- Production chemistry
- Lean/flexible facilities

The key operational principles in the Group are:

- Robust decision making through the use of appropriate decision analysis support tools;
- A strong value-focused mindset. Naturally, the Group wishes to have the lowest cost solutions, but initially there may be additional costs to test an idea that will lead, if proven, to longer-term value;
- An insistence on fully integrated technical and commercial thinking and evaluation;
- A rigorous challenging of the accepted regional norms;
- A focus on the adoption of field-proven ideas, mainly from the US in terms of fracturing concepts, but also from other areas of the world;
- Maintaining a core international team of experienced technical staff to oversee and mitigate the risk of transferring new ideas into the Group's business; and
- To collaborate with service companies for mutual benefit to test and if successful bring new ideas and technology into the Group's operations.

The Group uses the latest available software technology in order to support all field development efforts. Integrated data storage and modelling systems ensure that all data is properly quality controlled and then used quantitatively to define and support development activities such as appraisal/development drilling, well interventions and enhanced recovery projects.

The key strategic objectives for 2018, apart from fundraising, is to, firstly, complete the appraisal of our license areas by interpreting the new 3D seismic data acquired during 2016-17 winter season, and, secondly, to complete investments into our in-field facilities such that production can be increased rapidly when needed. These strategic objectives for 2018 fit well with the overall long-term strategic objective of building production using the new seismic data to develop a de-risked portfolio of well locations.

The Group's future, however, is conditional on securing additional development funding, coupled with the successful refinancing of its principal debt facilities, due to mature in late 2019. The timing and level of funding required will depend on the development scenario adopted as well as the oil price environment.

Financial Review

Revenues

Revenues were US$68.4 million in 2017, compared with US$43.9 million in 2016. Revenues in 2017 were higher than in the prior year due to the following factors: (1) a 34% increase in the average realised oil price, (2) a 10% increase in liquids production and (3) a 38% lower export duty due to export duty relief, which was available to the Group from July 2017.

Cost of sales

The cost of sales, including depreciation and production-related taxes was US$76.9 million in 2017, compared with US$57.2 million in 2016. The increase was driven by various factors, including a 10% increase in oil production for the period, an increase in the price of crude oil by 34%, and a US$1.9 million increase in change of inventories and the cost of purchased oil. The additional volumes produced drove a US$9.0 million increase in depletion expense due to the production-related reduction in the volume of proved developed reserves in 2017. The increased sales prices together with the additional volumes produced drove a US$7.8 million increase in mineral extraction tax ("MET") expense (the rate of this tax is dependent on the price of crude oil).

Selling and administrative expenses ("S&A")

S&A expenses include oil transportation costs, payroll expenses, rent, professional services, depreciation, IT and telephony, and other expenses.

S&A expenses in 2017 amounted to US$12.9 million, compared with US$14.7 million in 2016. The decrease resulted from savings, mostly in professional services expenses, rent expenses and payroll expenses partly offset by oil transportation costs, due to a 39% increase of export volumes.

EBITDA

EBITDA was US$15.9 million in 2017, compared with US$0.6 million in the previous year. The increase in EBITDA was primarily driven by higher netback (revenues from oil sales less export duty less transportation expenses) which was a result of the 34% rise in the average realised oil price and the increase in liquids production by 10%.

Comprehensive loss for the year and foreign exchange

The Group recorded a loss of US$41.3 million for 2017, compared with a loss of US$19.9 million in 2016. The higher loss is primarily due to a decrease in foreign exchange gains, which were equal to US$15.3 million in 2017, compared with US$47.7 million gain in the previous year. The reason for such significant foreign exchange differences is mainly due to the following: the Group's operating companies, whose functional currency is the Russian Rouble, have borrowings in US Dollars. As a result of the Rouble strengthening on 31 December 2017 compared with 31 December 2016, those borrowings in Rouble terms have decreased, resulting in the accounting recognition of US$14.9 million in foreign exchange gains. After deducting the foreign exchange results from both years, the Group's loss would have been US$56.6 million in 2017, compared with US$67.6 million in 2016.

Balance sheet

Non-current assets have increased by US$12.2 million, largely explained by the strengthening of the Rouble on 31 December 2017 compared to 31 December 2016 (contributing US$20.5 million) and by capital expenditures of US$31.4 million during the period, more than offset by depletion and depreciation of US$37.4 million.

Total equity has risen by US$56.0 million from negative US$55.0 million to positive US$1.0 million as at 31 December 2017. The movement in total equity was a result of the forgiveness of the shareholders' loans and foreign exchange gain as a result of the Rouble strengthening on 31 December 2017 compared to 31 December 2016, partially offset by the annual operating loss and the cost of debt servicing.

Borrowings have decreased during the reporting year by US$53.2 million to US$334.4 million, reflecting the forgiveness of US$94.4 million of shareholders loans, partly offset by the draw-down of US$10 million of the Group's bank facilities with Otkritie and Trust Bank, a new loan of US$5 million received from a related party, a US$22.7 million net increase in accrued interest on bank loans and US$3.5 million of accrued interest on shareholder and other related party loans.

The Group's current liabilities increased by US$325.3 million from US$48.2 million to US$373.5 million as at 31 December 2017, mainly related to the reclassification of Otkritie Bank and Trust Bank loans in the amount of US$329.0 million to current from non-current liabilities. The reclassification is due to the Group's non-compliance with production covenants which entitles the banks to demand early repayment of the loans and due to non-receipt of waivers from the banks, as it was at the previous reporting date.

Trade and other payables decreased by US$5.8 million mostly due to settlement (oil supplies) of prepayment facility with Glencore Energy UK Ltd ("Glencore") and Energo Resurs LLC ("EnergoResurs", a Russian company affiliated with Glencore) partly offset by an increase in trade accounts payable by US$12.2 million to US$28.5 million as at 31 December 2017 due primarily to 3D-seismic surveying operations performed by a

Group's contractor at the end of the year.

Within current liabilities between 31 December 2016 and 31 December 2017 there was a US$2.7 million net increase in provisions due to claims filed against the Group companies, for which a provision has been recognised.

Cash flow

In 2017, the Group generated a net cash inflow from operating activities of US$2.3 million, resulting from a cash operating profit US$11.7 million, partly offset by changes in working capital of US$9.4 million. This resulted mostly from a settlement (oil supplies) of prepayment facility with Glencore and EnergoResurs.

During the period, the Group spent US$17.8 million on investment activities mainly on the construction of new wells and infrastructure-related capital expenditures.

The Group received loan proceeds of US$10.0 million from Otkritie and US$5.0 million from a related party and paid US$4.5 million in interest.

Cash balances at the end of the period were US$2.4 million compared to US$7.6 million at the end of 2016.

Financing of Ruspetro's current operations and future development

The Group seeks to raise additional development funding during the next twelve months from a major investor. The Group has been running a structured effort to identify a strategic investor either at the corporate level or at the asset level. Various entities have demonstrated their interest in the participation of the development of the license blocks and the Group is now awaiting valuation bids from potential investors.

The loan facilities from Otkritie and Trust Bank have production covenants whereby the Group must achieve certain annualised production targets that are tested quarterly from 1 January 2016. From 1 July 2016 the Group has been in breach of certain covenants, which give Otkritie and Trust the right to demand early repayment of their loans.

Despite the fact that Otkritie and Trust have a formal right to demand such repayment, the management of the Group believes that the creditors will not exercise their right to demand early repayment of the debt until repayment falls due in late 2019.

In April 2017 the Group received a loan in amount of US$5,000 thousand from a related party, which was due on 1 October 2017. Management anticipates that this loan will be repaid upon the receipt of financing from a strategic investor. This is evidenced by the fact that no request has yet been made for the loan amount to be repaid, either in full or in part.

Furthermore, in April and May 2017 the shareholder loans, which were due in 2019 in the amount of US$94.4 million, were forgiven by the lenders.

Principal Risks and Uncertainties

The principal risks and uncertainties highlighted below are considered to be the most significant factors giving rise to a potential impact on the Group's business integrity, financial results and future prospects at its current stage of development. Not all of these risk factors are within the Group's control, directly and indirectly, and the list is not exhaustive. It is reasonable to presume the existence of certain risks that are unknown to us and therefore the list may change. Certain risks are outside the Group's control, for example: changes in global and domestic economic conditions (including energy prices), currency and base lending rate fluctuations, and socio-political and macroeconomic factors. Our approach is to actively understand and monitor the Group's exposure, and then manage those risks by applying a practical and flexible framework of measures which provide a consistent and sustainable approach to risk assessment, so that, where possible, potential adverse effects are avoided or managed and the impact on the Group's business is mitigated.

The Group's risk assessment table is presented below.

Likelihood		Impact: Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Highly likely	5	Low	Med	High	High	High
Likely	4	Low	Med	Med	High	High
Possible	3	Low	Med	Med	Med	High
Unlikely	2	Low	Low	Med	Med	Med
Rare	1	Low	Low	Low	Low	Low

Key risks and uncertainties are summarised in a table below.

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
External				
Oil price decreases to US$30/bbl and low oil price environment persists in the medium term	Low oil prices have a significant impact on the Group's financial performance and cash generation. A sustained period of low oil prices may contribute to valuation impairment, potentially impacting the Group's ability to generate adequate funds for the long-term capital investment required to sustain the production growth necessary to meet its primary lender's covenants	The Group uses a scenario-based approach to forecasting, incorporating global oil price forecasts, when determining its key performance indicators depending on oil prices on the global market. The Group monitors the cost and benefits of hedging products, as a component of total production. This approach helps the Group determine allocation of funding to optimise execution of the business plan and to minimise the principal risk of covenant default.	Likelihood: 3 Impact: 4	MEDIUM
Rouble devaluation to 70RUR per US$ or below	A weakening of the Russian Rouble reduces the Group's net book value, expressed in US Dollars, and key liquidity ratios which can lead to a perception by current and potential lenders of a high credit risk, concentrated with its primary lender. This can lead to pressure on lending rate negotiations and exposure to an increase in the Group's cost of capital.	The majority of the Group's operating expenses, a large proportion of SGA expenses, and domestic capital expenditure contracts are denominated in Roubles, whilst export revenues are US Dollar based. A weak Rouble, while impacting on the Group's US Dollar denominated balance sheet, benefits the Group's cost base and cash flow	Likelihood: 3 Impact: 3	MEDIUM
Changes in tax and customs regulations	The Group's profitability and cash generation would be adversely impacted by increases in rates of taxation across the Russian and UK tax spectrums. This includes any unexpected, unfavourable changes in rates of tax and duty, cancellation of preferential customs duty reliefs or loss of legislated fiscal stimulation measures currently available to the Group.	The Group closely monitors tax and customs regulation changes, engages in ongoing dialogue with relevant ministries of the Russian government on the current and future tax regime, and continually assesses the impact of any prospective changes on its business planning. The Group benefits from the stability of certain tax breaks mandated for fixed periods of 10-15 years, which limit tax exposure within the Group's horizon.	Likelihood: 3 Impact: 4	MEDIUM
Sanction non-compliance	The failure of the Group to comply with various mandatory sanctions would potentially lead to the Group being deprived of the ability to interact with the governments of the U.S. or EU or their agencies; the prosecution of the Group and/or its employees, the Group being exposed to significant fines and/or negative perception of the Group's reputation and its public image.	Procurement of most of the materials, machinery and equipment within the Group's operations, directly or provided by key contractors, is sourced domestically or from non-sanctioned jurisdictions. Existing contractors are assessed for potential exposure, under advice from in-house and external counsel before the Group enters into contracts.	Likelihood: 1 Impact: 4	LOW

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
Financial				
Compliance with debt facility covenants	Debt facility agreements with principal lenders contain triggers should the Group breach target production output covenants. Certain rights are triggered if the Group's rolling annual production falls below target by 25% in any quarter, and if production remains more than 25% below target for a second consecutive quarter, including the right to demand accelerated loan repayments, and to change key management by the lender unless agreed measures are taken to resolve the issues. The same rights may be triggered if production is more than 45% below target for a single quarter.	As at 31 December 2017 the Group was in non compliance with the production covenants mentioned above. The Group is in discussions with the Banks regarding the possibility to obtain the appropriate waivers.	Likelihood: 5 Impact: 4	HIGH
Access to development funding becomes unavailable	The Group must make significant capital expenditures to increase its production, operating revenues and cash flow. An inability to finance development and other capital expenditures in the medium term could have a material adverse effect on the Group's business.	The Group has recognised that limited funding sources are available to it as a listed public company, and has delisted its shares and re-registered as a private limited company. The Group will continue to evaluate alternative sources of new funding.	Likelihood: 4 Impact: 5	HIGH
Short-term liquidity risk	Inability to manage short-term cash facilities may lead to insufficient funding to pay employees, suppliers and other creditors as bills fall due. Extension of credit periods beyond agreed terms may affect the Group's creditworthiness, impacting on the Group's ability to procure goods and services at optimal prices and secure trade credit on normal business terms.	The Group manages other liquidity risk by maintaining cash and committed credit facilities in line with rolling short-term free cash flow forecasts.	Likelihood: 3 Impact: 4	MEDIUM

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
Operational				
Third-party contractors are non-compliant with obligations	The Group relies on the provision of goods and services by contractors in accordance with tendered and contractual terms agreed. The Group relies on contractors fulfilling their obligations, failing which contractors may expose the Group's operations to delay, program disruption, additional working cost, or breach of permitting.	The Company has implemented rigorous procedures for the selection of contractors capable of meeting the Group's exacting policies and standards. Engineering, subsurface, HSE, and drilling and completion teams ensure that the performance of contractors is properly monitored, managed and adhering to contract.	Likelihood: 3 Impact: 4	MEDIUM
Production deviates from forecast by significant margin	The Group's long-term production forecast is based on a field development plan linked to its resources base. The long-term production forecast relies on probabilistic assumptions to estimate recoverable volumes. There is an inherent degree of uncertainty in the information used in the Group's planning and execution which may lead to lower than forecast production volumes, potentially impacting on revenue, cash generation and meeting covenants.	Internationally proven appraisal and development techniques are utilised to maximise the economically recoverable hydrocarbons for our reservoirs and rigorous probabilistic methodologies are in place for reserves assessment. Appropriately risked production forecasting methodology is in place for forecasting and modelling purposes.	Likelihood: 5 Impact: 3	HIGH
UK Bribery Act 2010 breach	The Group is subject to the United Kingdom Bribery Act 2010. Failure to comply with the laws and regulations thereunder could potentially expose the Group and/or its officers to corporate and personal liability. It may further harm the Group's reputation and have a material adverse effect on the Group's business.	International policies based on the United Kingdom Bribery Act 2010 are in place and the Company is focused on ensuring their implementation. The Group prohibits bribery and corruption in any form by all employees. A whistleblowing policy and hotline facility is in place for employees to anonymously report any concerns.	Likelihood: 2 Impact: 4	MEDIUM
Insurance event	The Group may not be able to obtain insurance underwriting covering certain risks typically subject to cover, for a business of comparable size and nature, in more developed countries. A significant uninsured event could expose the Group to unquantifiable liability, and any subsequent claim or loss materially may impact on the Group's assets and business.	The Group has used the services of specialist insurance advisors to put in place maximum available insurance coverage appropriate to the sector and geographical location in which the Group operates, to minimise wherever possible any exposure to uninsured events. Management regularly reviews insurance coverage for any change in the business operating environment.	Likelihood: 2 Impact: 4	MEDIUM
Loss of licence	Either the inability of the Group to extend its production and appraisal licences, or its suffering a licence suspension, restriction or termination would have a material adverse effect on the Group's viability.	The Group has renewed all of its licenses for the economic life of field. A dedicated licence obligation management team is in place to cover such risks.	Likelihood: 2 Impact: 5	MEDIUM

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
HSE				
Safety incident	In the normal course of business, accidents may occur, leading to serious consequences such as injuries, loss of life, fires or explosions, and the loss of certain operating facilities, which can lead to business disruption, associated loss of production, and financial exposure to compensation /claims, regulatory fines and penalties. A safety incident may impact on the Group's reputation as a safe operator, and its ability to contractually enforce its policies with contractors	The Group strives to provide a safe working environment in order to avoid any incidents or fatalities in its operations. Great attention is paid to compliance with the Group's safety regulations which are designed on a best HSE practices basis. Safety threats are under regular supervision and control.	Likelihood: 3 Impact: 3	MEDIUM
Environmental Non-compliance	The Group conducts its business in a regulated industry and may be subject to financial claims and liabilities under environmental laws and regulations, which could be material. Environmental damage or pollution may result in civil damages claims and costly remediation, and ultimately the exposure to suspension or loss of permits and licences.	The Group aims to ensure its compliance with the relevant environmental standards and legislation by investing substantial funds and promoting a strong culture of environmental awareness and responsibility in all its operational activities. A new drilling waste management approach has been developed and successfully implemented in 2015-16. An enhanced environmental management system is being implemented to further mitigate such risks.	Likelihood: 3 Impact: 3	MEDIUM

On behalf of the Board of Directors

Alexander Chistyakov
Executive Chairman
29 June 2018

Directors' Report

The Directors present their report on the affairs of Ruspetro Limited (hereinafter referred to "the Company") and its subsidiary undertakings (together referred to as "the Group"), together with the audited consolidated financial statements for the year ended 31 December 2017.

General information

The Company (Registered number 07817695) acts as the holding company of the Group. The Group has two operating companies, Open Joint Stock Company INGA ("OJSC INGA") and Open Joint Stock Company Trans-oil ("OJSC Trans-oil") which own the Group's licences. Details on the Group companies are presented below.

Ruspetro Limited (parent and ultimate parent of the Group)

Country of Incorporation	United Kingdom
Registered Office	International House, 24 Holborn Viaduct, London EC1A 2BN England, UK

Private Company Limited by Shares **Ruspetro Holding Limited**

Country of Incorporation	Republic of Cyprus
Registered Office	Agiou Georgiou Makri 64, Anna Maria Lena Court, Office 201, 6037, Larnaca, Cyprus

Ruspetro Joint Stock Company

Country of Incorporation	Russian Federation
Registered Office	Stremyanniy per. 11, Moscow, Russia, 115054

INGA Open Joint Stock Company

Country of Incorporation	Russian Federation
Registered Office	Roznina str., 146/2, Khanty-Mansiysk city, Khanty-Mansiysk autonomous okrug, 628012, Russia

Trans-oil Open Joint Stock Company

Country of Incorporation	Russian Federation
Registered Office	Roznina str., 146/2, Khanty-Mansiysk city, Khanty-Mansiysk autonomous okrug, 628012, Russia

Results and dividends

The Group made a loss after taxation of $41.3 million (2016: loss of $19.9 million) which has been added to the retained earnings deficit. The audited financial statements for the year ended 31 December 2017 are set out on pages 12-45. The Company has not declared any dividends during the year (2016: $nil). The Directors do not recommend the payment of a dividend for the year.

Future developments

Information regarding future developments of the company is presented in the Strategic Report.

Going concern

At 31 December 2017, the Group reported net current liabilities of US$364,519 thousand (2016: US$25,477 thousand), which included a cash balance of US$2,409 thousand (2016: US$7,554 thousand), and a net loss of US$41,317 thousand (2016: US$19,896 thousand). The Group reported positive operating cash flow of US$2,340 thousand for the year ended 31 December 2017 (2016: US$160 thousand).

The ability of the company to meet its liabilities as they fall due is dependent upon the continuing support of its finance providers, primarily Otkritie and Trust banks whose credit facilities – which in aggregate amounted to $328,950 thousand drawn down at 31 December 2017 - contain certain covenants. These include production volume targets, which the Group needs to meet to avoid potential acceleration of the debt repayment schedule. During 2017, the Group was in breach of certain covenants (see Note 20 and Note 27), which means that Otkritie and Trust each have the right to demand early repayment of their loans, which are otherwise due for repayment in November 2019.

The Directors are actively engaged with representatives of Otkritie and Trust in respect of the covenant breaches and these discussions are ongoing. Otkritie and Trust have not formally waived their right to demand early repayment of their loans, however based on these discussions the Directors believe that the banks will not exercise their right to demand early repayment of the debt and a restructuring of these loans will be successfully achieved.

As at 31 December 2017, the Group also had trade payables, including amounts due to major contractors, of $20,392 thousand. With all major overdue creditors the Group has signed, or is in the process of signing, debt restructuring agreements which involve the repayment of debt by instalments over an extended period of time; the Group has since met all repayments due under these agreements. These measures have mitigated the risk of actions being taken against the Group as a result of non-payment of trade creditors and significantly improve its working capital position.

Subject to the availability of sufficient funds the Group plans to make further investments in developing its license blocks in order to grow its hydrocarbon production and sales, and ultimately to enhance shareholder value. The Group's 2017 drilling results demonstrated that drilling and completing horizontal multi-fractured wells is the right approach to developing the Group's reserves. Its ability to make such investments is partly reliant upon continued operating cash flow generation which could be adversely impacted by a sustained decrease in the oil price as compared to current levels. Based on the Group's cash flow projections, a reasonably possible downward shift in oil prices as compared to existing market prices and forecasts would not have a material impact on the going concern assessment.

The Group finances its exploration and development activities using a combination of cash in hand, operating cash flow generated mainly from the sale of crude oil production, prepayments from forward oil sale agreements and additional debt or equity financing. The ability of the Group to further develop its oil and gas properties is dependent upon obtaining further financing from an investor. The Group has been running a structured effort to identify a strategic investor either at the corporate level or at the asset level. Various entities have demonstrated their interest in Ruspetro's business and the Group is now awaiting a valuation bid from one of such potential investors. However, the success of such fundraising cannot be guaranteed.

The Directors recognise that the need to refinance and/or restructure its existing loan obligations represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Based on the status of the discussions with Otkritie and Trust banks, the Directors are confident that the Group will be able to restructure its loan obligations and meet its financial obligations for at least 12 months after the date of approval of the Group's financial statements. Accordingly, the financial statements have been prepared on a going concern basis and do not include any adjustments that would be required in the event that the Group were no longer able to meet its liabilities as they fall due.

Directors

The directors who held office during the year and up to the date of signing of the balance sheet were:

Alexander Chistyakov	Executive Chairman (appointed 2 December 2011)
John Conlin	Chief Executive Officer (appointed Chief Executive Officer 17 December 2013, resigned on 15 January 2017, appointed Non-Executive Director 16 January 2017, resigned on 13 September 2017)
Kirill Androsov	Non-Executive Director (appointed 1 August 2013)
Mark Pearson	Non-Executive Director (appointed 29 April 2014, resigned on 13 September 2017)
Irakli Chichua	Non-Executive Director (appointed 9 June 2016)
Igor Miletenko	Non-Executive Director (appointed 9 June 2016, resigned on 09 October 2017)

No Director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its subsidiary companies at any time during the year.

On 26 March 2017 we were notified by one of the company's Directors, Mr. John Conlin, about transfer of his 46 164 shares in the company to his son, Mr. Peter Conlin. Other than that we do not have any information about change in directors' interests.

Employee involvement

During the year, the policy of providing employees with comprehensive information about the Group has been continued with employees encouraged to present their suggestions and view of the Company's performance. Our Company intranet is systematically updated to contain up-to-date information regarding the Company's operating, financing, corporate, and other developments. Regular meetings were held between local management and employees to allow a free flow of information and ideas.

The Group gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Directors' insurance

The Company has purchased and maintains appropriate insurance cover in respect of Directors' and Officers' liabilities.

Share capital

The issued share capital of Ruspetro Ltd as at 31 December 2017 was comprised of 87,011,201 ordinary shares of 1 pence each.

On 30 May 2017 the share capital of the Company was restructured. As a result of this restructuring the original 870,112,016 ordinary shares, with a nominal value of GBP0.10, were consolidated into 87,011,201 ordinary shares of GBP0.01 nominal value (a "Consolidated Share"), such shares having the same rights and being subject to the same restrictions (save as to nominal value) as the original ordinary shares.

The share capital authorised, issued and fully paid up consists of 87,011,201 ordinary shares with a par value of GBP 0.01 each as at 31 December 2017 and was 870,112,016 ordinary shares as at 31 December 2016 with a par value of GBP 0.10 each.

Substantial interests
As at 31 December 2017 and 31 March 2018, being the latest practicable date prior to of this report, the Company had been notified of the following substantial interests in its Shares:

Name	Number of Shares as at 31.12.2017	% of Shares as at 31.12.2017	Number of Shares as at 31.03.2018	% of Shares as at 31.03.2018
Limolines Transport Limited	21,892,082	25.16%	21,892,082	25.16%
Alexander Chistyakov *	13,663,320	15.70%	13,663,320	15.70%
Otkritie Holding Jsc	13,051,680	15.00%	13,051,680	15.00%
Mc Inversion Jsc	8,690,614	9.99%	8,690,614	9.99%
Makayla Investments Limited	8,614,030	9.90%	8,614,030	9.90%
Forcar Holdings Limited	7,728,484	8.88%	7,728,484	8.88%

*Indirect Holding

Shareholders' rights
The Company's Articles of Association (the 'Articles') set out the rights and obligations of shareholders.

Any amendment to the Articles may be made by special resolution of the shareholders being a resolution approved by not less than 75% majority of those voting on the resolution.

Diversity
The Board continues to be supportive of providing equal opportunities in recruitment and succession planning at all levels of the business. The Company seeks to identify applicants from a wide experience and backgrounds and operates equal opportunity policies in all areas of its activities with the aim of creating a diverse pool of talent from which to recruit future senior positions.

Financial instruments
The Company's use of financial instruments, together with objectives and policies on financial risk and exposure to foreign currency, credit, commodity, liquidity and interest rate risk can be found in Note 25 to the financial statements.

Transactions with related parties
Details of the Group's transactions with related parties are set out in Note 24 to the financial statements.

Post balance sheet events
All significant events after the balance sheet date of 31 December 2017 are set out in Note 27 to the financial statements.

Disclosure of information to the external auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in Section 418(2) of the Act) of which Ernst and Young LLP ("EY"), the Company's auditor, is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

EY has indicated its willingness to continue in office. Resolutions to re-appoint EY as the Company's auditor and to authorise the Directors to determine the auditor's remuneration will be proposed by the Chairman at a meeting of the Board of Directors.

By order of the Board

Alexander Chistyakov
Executive Chairman
29 June 2018

Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements of the Group and those of the Company in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law. 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 their profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies that have been used and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group and Parent financial statements respectively.

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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the accounts.

By order of the Board

Alexander Chistyakov
Executive Chairman
29 June 2018

Independent auditor's report to the members of Ruspetro Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RUSPETRO LIMITED

Opinion

We have audited the financial statements of Ruspetro Limited ('the parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Group Statement of Profit or Loss and Other Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Statement of Cash Flows, and the related notes 1 to 27 for Group and 1 to 8 for the parent Company, including a summary of significant accounting policies. 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 Group's and of the parent Company's affairs as at 31 December 2017 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 Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of US$41,317 thousand during the year ended December 31, 2017 and, as of that date, the Group's current liabilities exceeded its current assets by US$364,519 thousand. As stated in Note 2, this condition, along with the ability of the Group to restructure existing loans and other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Ruspetro Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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
- the strategic report and 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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Andy Smyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
5 July 2018

Notes:
1. The maintenance and integrity of the Ruspetro Limited 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017
(presented in US$ thousands, unless otherwise stated)

		Year ended 31 December	
	Note	**2017**	**2016**
Revenue	7	68,373	43,992
Cost of sales	8	(76,953)	(57,188)
Gross loss		**(8,580)**	**(13,196)**
Selling and administrative expenses	9	(12,866)	(14,669)
Other operating expenses, net		(1,469)	(795)
Operating loss		**(22,915)**	**(28,660)**
Finance costs	10	(30,569)	(31,233)
Foreign exchange gain/(loss)	20	15,321	47,723
Other expenses, net	11	(5,405)	(2,659)
Loss before income tax		**(43,568)**	**(14,829)**
Income tax (expense)/benefit	12	2,251	(5,067)
Loss for the period		**(41,317)**	**(19,896)**
Other comprehensive income/(loss) that may be reclassified subsequently to income/(loss), net of income tax			
Exchange difference on translation to presentation currency		2,869	4,848
Total comprehensive loss for the period		**(38,448)**	**(15,048)**

The entire amount of loss and total comprehensive loss for the period are attributable to equity holders of the Company

Loss per share			
Basic and diluted loss per ordinary share (US$)	26	(0.10)	(0.02)

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Chief Financial Officer

Consolidated Statement of Financial Position
as at 31 December 2017
(presented in US$ thousands, unless otherwise stated)

	Notes	31 December 2017	2016
Assets			
Non-current assets			
Property, plant and equipment	13	186,734	190,641
Mineral rights and other intangibles	14	233,666	216,002
Deferred tax assets	12	749	2,326
		421,149	**408,969**
Current assets			
Inventories	15	2,269	1,845
Trade and other receivables	16	4,258	11,639
Income tax prepayment		5	3
Other current assets	17	-	1,655
Cash and cash equivalents	18	2,407	7,554
		8,939	**22,696**
Total assets		**430,088**	**431,665**
Shareholders' equity			
Share capital	19	135,493	135,493
Share premium		389,558	389,558
Retained loss		(495,700)	(548,782)
Exchange difference on translation to presentation currency		(53,797)	(56,666)
Other reserves		25,397	25,397
Total equity		951	**(55,000)**
Liabilities			
Non-current liabilities			
Borrowings	20	-	382,789
Provision for dismantlement	21	13,278	11,496
Deferred tax liabilities	12	42,401	44,207
		55,679	**438,492**
Current liabilities			
Borrowings	20	334,408	4,805
Trade and other payables	22	34,123	39,959
Taxes payable other than income tax		3,704	2,867
Other current liabilities	17	1,223	542
		373,458	**48,173**
Total liabilities		**429,137**	**486,665**
Total equity and liabilities		**430,088**	**431,665**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Chief Financial Officer

29 June 2018

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017
(presented in US$ thousands, unless otherwise stated)

		Share capital	Share premium	Retained earnings	Exchange difference on translation to presentation currency	Other reserves	Total equity
Balance as at 1 January 2016		**135,493**	**389,558**	**(528,886)**	**(61,514)**	**25,397**	**(39,952)**
Loss for the period		-	-	(19,896)	-	-	(19,896)
Other comprehensive income for the period		-	-	-	4,848	-	4,848
Total comprehensive loss for the period		**-**	**-**	**(19,896)**	**4,848**	**-**	**(15,048)**
Balance as at 31 December 2016		**135,493**	**389,558**	**(548,782)**	**(56,666)**	**25,397**	**(55,000)**
Balance as at 1 January 2017		**135,493**	**389,558**	**(548,782)**	**(56,666)**	**25,397**	**(55,000)**
Loss for the period		-	-	(41,317)	-	-	(41,317)
Other comprehensive income for the period		-	-	-	2,869	-	2,869
Total comprehensive loss for the period		**-**	**-**	**(41,317)**	**2,869**	**-**	**(38,448)**
Forgiveness of shareholders loans	20	-	-	94,399	-	-	94,399
Balance as at 31 December 2017		**135,493**	**389,558**	**(495,700)**	**(53,797)**	**25,397**	**951**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Chief Financial Officer

Consolidated Statement of Cash Flows
for the year ended 31 December 2017
(presented in US$ thousands, unless otherwise stated)

	Notes	Year ended 31 December 2017	2016
Cash flows from operating activities			
Loss before income tax		(43,568)	(14,829)
Adjustments for:			
Depreciation, depletion and amortisation	13, 14	37,391	28,501
Foreign exchange (gain)/loss	20	(15,321)	(47,723)
Finance costs	10	30,569	31,233
Impairment of financial instruments	11, 17	1,761	1,655
Disposal of property, plant and equipment	13	905	1,078
Operating cash flows before working capital adjustments		**11,737**	**(85)**
Working capital adjustments:			
Change in trade and other receivables		1,923	(579)
Change in inventories		(322)	(98)
Change in trade and other payables		(17,738)	3,410
Change in other taxes receivable/payable		6,740	(2,488)
Income tax paid		-	-
Net cash flows from/(used in) operating activities		**2,340**	**160**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(17,847)	(46,437)
Net cash used in investing activities		**(17,847)**	**(46,437)**
Cash flows from financing activities			
Proceeds from loans and borrowings	20	15,000	92,115
Repayments of loans and borrowings	20	-	(4,008)
Interest paid	20, 24	(4,498)	(40,940)
Other financing charges paid		-	(333)
Net cash generated from financing activities		**10,502**	**46,834**
Net increase/(decrease) in cash and cash equivalents		**(5,005)**	**557**
Effect of exchange rate changes on cash and cash equivalents		(142)	(514)
Cash and cash equivalents at the beginning of the period		7,554	7,511
Cash and cash equivalents at the end of the period		**2,407**	**7,554**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Chief Financial Officer

Notes to the Consolidated Financial Statements
for the year ended 31 December 2017
(all tabular amounts are in US$ thousands unless otherwise stated)

1. Corporate information

The consolidated financial statements of Ruspetro Limited (the 'Company' or 'Ruspetro') and its subsidiaries, together referred to as 'the Group' for the year ended 31 December 2017 were approved by its Board of Directors on 29 June 2018.

The Company was incorporated in the United Kingdom on 20 October 2011 as a public company under the provisions of the Companies Act 2006. On 6 June 2016 Ruspetro delisted from the London Stock Exchange and registered as a private company. The Company's registered office is International House, 24 Holborn Viaduct, City of London, London EC1A 2BN, United Kingdom.

The principal activities of the Group are exploration for and production of crude oil. The operating subsidiaries of the Group – OJSC INGA and OJSC Trans-oil (hereinafter referred to as INGA and Trans oil respectively) hold three licences for exploration for, and extraction of, crude oil and natural gas in the Khanty-Mansiysk region of the Russian Federation.

Details of subsidiaries consolidated within the Group are as follows:

Company	Business activity	Country of incorpo-ration	Registered office address	Year of incorpo-ration	Effective ownership 31 December 2017	2016
Ruspetro Holding Limited	Holding company	Republic of Cyprus	Agiou Georgiou Makri 64, Anna Maria Lena Court, Office 201, 6037, Larnaca, Cyprus	2007	100%	100%
Ruspetro JSC ('Ruspetro Russia')	Crude oil sale	Russian Federation	Stremyanny per., 11, Moscow, Russia, 115054	2005	100%	100%
INGA	Exploration and production of crude oil	Russian Federation	Roznina St., 146/2, Khanty-Mansiysk city, Khanty-Mansiysk autonomous okrug Russia, 628012	1998	100%	100%
Trans-oil	Exploration and production of crude oil	Russian Federation	Roznina St., 146/2, Khanty-Mansiysk city, Khanty-Mansiysk autonomous okrug Russia, 628012	2001	100%	100%

2. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements are prepared under the historical cost convention, modified for fair values under IFRS.

The consolidated financial statements are presented in US dollars (US$) and all values are rounded to the nearest thousand unless otherwise indicated.

Going concern

These consolidated financial statements are prepared on a going concern basis.

At 31 December 2017, the Group reported net current liabilities of US$364,519 thousand (2016: US$25,477 thousand), which included a cash balance of US$2,407 thousand (2016: US$7,554 thousand), and net loss of US$41,317 thousand (2016: US$19,896 thousand). The Group had positive operating cash flow of US$2,340 thousand in the reporting period (2016: US$160 thousand).

The ability of the company to meet its liabilities as they fall due is dependent upon the continuing support of its finance providers, primarily Otkritie and Trust banks whose credit facilities – which in aggregate amounted to $328,950 thousand drawn down at 31 December 2017 - contain certain covenants. These include production volume targets, which the Group needs to meet to avoid potential acceleration of the debt repayment schedule. During 2017, the Group was in breach of certain covenants (see Note 20 and Note 27), which means that Otkritie and Trust each have the right to demand early repayment of their loans, which are otherwise due for repayment in November 2019.

The Directors are actively engaged with representatives of Otkritie and Trust in respect of the covenant breaches and these discussions are ongoing. Otkritie and Trust have not formally waived their right to demand early repayment of their loans, however based on these discussions the Directors believe that the banks will not exercise their right to demand early repayment of the debt and a restructuring of these loans will be successfully achieved.

As at 31 December 2017, the Group also had trade payables, including amounts due to major contractors, of $20,392 thousand. With all major overdue creditors the Group has signed, or is in the process of signing, debt restructuring agreements which involve the repayment of debt by instalments over an extended period of time; the Group has since met all repayments due under these agreements. These measures have mitigated the risk of actions being taken against the Group as a result of non-payment of trade creditors and significantly improve its working capital position.

Subject to the availability of sufficient funds the Group plans to make further investments in developing its license blocks in order to grow its hydrocarbon production and sales, and ultimately to enhance shareholder value. The Group's 2017 drilling results demonstrated that drilling and completing horizontal multi-fractured wells is the right approach to developing the Group's reserves. Its ability to make such investments is partly reliant upon continued operating cash flow generation which could be adversely impacted by a sustained decrease in the oil price as compared to current levels. Based on the Group's cash flow projections, a reasonably possible downward shift in oil prices as compared to existing market prices and forecasts would not have a material impact on the going concern assessment.

The Group finances its exploration and development activities using a combination of cash in hand, operating cash flow generated mainly from the sale of crude oil production, prepayments from forward oil sale agreements and additional debt or equity financing. The ability of the Group to further develop its oil and gas properties is dependent upon obtaining further financing from an investor. The Group has been running a structured effort to identify a strategic investor either at the corporate level or at the asset level. Various entities have demonstrated their interest in Ruspetro's business and the Group is now awaiting a valuation bid from one of such potential investors. However, the success of such fundraising cannot be guaranteed.

The Directors recognise that the need to refinance and/or restructure its existing loan obligations represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Based on the status of the discussions with Otkritie and Trust banks, the Directors are confident that the Group will be able to restructure its loan obligations and meet its financial obligations for at least 12 months after the date of approval of the Group's financial statements. Accordingly, the financial statements have been prepared on a going concern basis and do not include any adjustments that would be required in the event that the Group were no longer able to meet its liabilities as they fall due.

3. Summary of significant accounting policies

Principles of consolidation

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Oil and natural gas exploration, evaluation and development expenditure

Oil and gas exploration activities are accounted for in a manner similar to the successful efforts method. Costs of successful development and exploratory wells are capitalised.

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalised within other intangible assets until the drilling of the well is complete and the results have been evaluated. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole.

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and gas properties).

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

Property, plant and equipment, Mineral rights and other intangibles

Oil and gas properties and other property, plant and equipment, including mineral rights are stated at cost, less accumulated depletion, depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation and Depletion

Oil and gas properties are depleted on a unit-of-production basis over proved developed reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method depreciation is applied. Mineral rights are depleted on the unit-of-production basis over proved and probable reserves of the relevant area.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives as follows:

	years
Buildings and constructions	30-50
Other property, plant and equipment	1-6

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. Inspection costs associated with major maintenance programs are capitalised and amortised over the period to the next inspection. All other maintenance costs are expensed as incurred.

Intangible assets
Intangible assets are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses. Intangible assets include computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over their useful lives, except for mineral rights that are depleted on the unit-of-production basis as explained above.

Impairment of assets
The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use (VIU) calculations and fair values less costs to sell (FVLCS). These calculations require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of long-term assets.

Given the shared infrastructure and interdependency of cash flows related to the three licences the Group holds, the assets are considered to represent one Cash Generating Unit (CGU), which is the lowest level where largely independent cash flows are deemed to exist.

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 charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Financial instruments
A financial instrument is any contract that gives rise to financial assets or liabilities.

Financial assets within the scope of International Accounting Standard (IAS) 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs for all financial assets not carried at fair value through profit or loss.

The Group determines the classification of its financial assets at initial recognition.

Financial instruments carried on the consolidated statement of financial position include loans and receivables, cash and cash equivalent balances, borrowings, accounts payable and put options. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any provision for impairment.

A provision for impairment is recognised when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the loans and receivables. The amount of provision is the difference between the assets' carrying value and the present value of the estimated future cash flows, discounted at the original effective interest rate. The change in the amount of the loan or receivable is recognised in profit or loss. Interest income is recognised in profit or loss by applying the effective interest rate.

Cash and cash equivalents
Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts if any.

Borrowings and accounts payable
The Group's financial liabilities are represented by accounts payable and borrowings.

Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the borrowings.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Provisions

General

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. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using rates that reflect, 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 costs.

Provision for dismantlement

Provision for dismantlement is related primarily to the conservation and abandonment of wells, removal of pipelines and other oil and gas facilities together with site restoration activities related to the Group's licence areas. When a constructive obligation to incur such costs is identified and their amount can be measured reliably, the net present value of future decommissioning and site restoration costs is capitalised within property plant and equipment with a corresponding liability. Provisions are estimated based on engineering estimates, licence and other statutory requirements and practices adopted in the industry and are discounted to net present value using discount rates reflecting adjustments for risks specific to the obligation.

Adequacy of such provisions is periodically reviewed. Changes in provisions resulting from the passage of time are reflected in profit or loss each year under finance costs. Other changes in provisions, relating to a change in the expected pattern of settlement of the obligation, changes in the discount rate or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change and are reflected as an adjustment to the provision and a corresponding adjustment to property, plant and equipment. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

Taxes

Income tax

The income tax expense comprises current and deferred taxes calculated based on the tax rates that have been enacted or substantively enacted at the end of the reporting period. Current and deferred taxes are charged or credited to profit or loss except where they are attributable to items which are charged or credited directly to equity, in which case the corresponding tax is also taken to equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred taxes provide for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or carry forward losses can be utilised.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets and liabilities, when deferred tax balances are referred to the same governmental body (i.e. federal, regional or local) and the same subject of taxation and when the Group intends to perform an offset of its current tax assets and liabilities.

Value added tax
Russian Value Added Tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT could be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as a current asset and liability.

Mineral extraction tax
Mineral extraction tax ("MET") on hydrocarbons, including natural gas and crude oil, is due on the basis of quantities of natural resources extracted. Mineral extraction tax for crude oil is determined based on the volume produced per fixed tax rate adjusted depending on the monthly average market prices of the Urals blend and the Russian rouble (RUR)/US$ exchange rate for the preceding month. The ultimate amount of the mineral extraction tax on crude oil depends also on the depletion and geographic location of the oil field. Mineral extraction tax on gas condensate is determined based on a fixed percentage from the value of the extracted mineral resources. Mineral extraction tax is accrued as a tax on production and recorded within cost of sales.

Equity
Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of shares issued or liabilities extinguishment over the par value of shares issued is recorded as share premium.

Other reserves
Other reserves include a reserve on reorganisation of the Group, the amount of share options of shareholders and an amount related to fair value of Directors' options.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable for goods provided or services rendered less any trade discounts, VAT and similar sales-based taxes after eliminating sales within the Group.

Revenue from sale of crude oil and gas condensate is recognised when the significant risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and costs incurred or to be incurred in respect of this transaction can be measured reliably. If the Group agrees to transport the goods to a specified location, revenue is recognised when goods are passed to the customer at the designated location.

Other revenue is recognised in accordance with contract terms.

Interest income is accrued on a regular basis by reference to the outstanding principal amount and the applicable effective interest rate, 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.

Borrowing costs
Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time the assets are substantially ready for their intended use, i.e. when they are capable of production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short-term out of money borrowed specifically to finance a project, the income generated from such short term investments is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognised in the profit or loss account as finance costs in the period in which they are incurred.

Employee benefits
Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses are expensed as incurred.

Foreign currency translation
Foreign currency transactions are initially recognised in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period.

The US$ is the presentation currency of the Group and the functional currency of the Company. The functional currency of subsidiaries operating in the Russian Federation is the RUR. The assets and liabilities of the subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the end of each of the reporting periods. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). All the resulting exchange differences are recorded in other comprehensive income.

The US$ to RUR exchange rates were RUR57.60 and RUR60.66 as at 31 December 2017 and 31 December 2016, respectively and the average exchange rates for the year ended 31 December 2017 and 2016 were RUR58.31 and RUR67.19, respectively. The US$ to pounds sterling (£) exchange rates were £0.74 and £0.81 as at 31 December 2017 and 31 December 2016, respectively and the average exchange rates for the year ended 31 December 2017 and 2016 were £0.78 and £0.74, respectively. The increase in the US$ to RUR exchange rate for the year ended 31 December 2017 has resulted in a gain of US$15,321 thousand in the consolidated statement of profit or loss and other comprehensive loss and an adjustment of US$2,869 thousand in other comprehensive loss (refer to Notes 13 and 14).

Changes in accounting policies and disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations effective as of January 1, 2017.

The following amendments were applied for the first time in 2017:

- Disclosure Initiative – amendments to IAS 7 Statement of Cash Flows. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. The above mentioned reconciliation is presented in Note 20 "Borrowings".

- Deferred Tax Assets for Unrealised Losses – amendments to IAS 12 Income Taxes. These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Application of these amendments had no significant impact on the Company's financial position or results of operations.

4. Significant accounting judgements, estimates and assumptions

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas of accounting requiring the use of the Group's management estimates and assumptions relate to oil and gas reserves; useful economic lives and residual values of property, plant and equipment; impairment of tangible assets; provisions for dismantlement; taxation and allowances.

Subsoil licences
The Group conducts operations under exploration and production licences which require minimum levels of capital expenditure and mineral production, timely payment of taxes, provision of geological data to authorities and other such requirements. The current periods of the Group's licences expire between June 2034 and December 2165.

The Russian regulatory authorities exercise considerable discretion in issuing and renewing licences and in monitoring licensees' compliance with licence terms. The loss of licence would be considered a material adverse event for the Group.

It is management's judgement that each of the three licences held by the Group will be renewed for the economic lives of the fields which are projected to be up to 2041. The appraised economic lives of the fields are used as the basis for reserves estimation, depletion calculation and impairment analysis. In making this assessment, management considers that the licence held by INGA will be further extended.

Useful economic lives of property, plant and equipment and mineral rights
Oil and gas properties and mineral rights
The Group's oil and gas properties are depleted over the respective life of the oil and gas fields using the unit-of-production method based on proved developed oil and gas reserves (Note 13). Mineral rights are depleted over the respective life of the oil and gas fields using the unit-of-production method based on proved and probable oil and gas reserves (Note 14).

Reserves are determined using estimates of oil in place, recovery factors and future oil prices.

When determining the life of the oil and gas field, assumptions that were valid at the time of estimation, may change when new information becomes available. The factors that could affect the estimation of the life of an oil and gas field include the following:

- changes of proved and probable oil and gas reserves;
- differences between actual commodity prices and commodity price assumptions used in the estimation of oil and gas reserves;
- unforeseen operational issues; and
- changes in capital, operating, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of oil and gas reserves.

Any of these changes could affect prospective depletion of mineral rights and oil and gas assets and their carrying value.

Other non production assets
Property, plant and equipment other than oil and gas properties are depreciated on a straight-line basis over their useful

(all tabular amounts are in US$ thousands, unless otherwise stated)

economic lives (Note 13). At the end of each reporting period management reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and their estimated residual value.

Estimation of oil and gas reserves
Unit-of-production depreciation, depletion and amortisation charges are principally measured based on the Group's estimates of proved developed and proved and probable oil and gas reserves. Estimates of proved and probable reserves are also used in determination of impairment charges and reversals. Proved and probable reserves are estimated by the independent international reservoir engineers, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

Information about the carrying amounts of oil and gas properties and the depreciation, depletion and amortisation charged is provided in Notes 13 and 14.

Estimates of oil and gas reserves are inherently imprecise, require the application of judgements and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. Changes to the Group's estimates of proved and probable reserves affect prospectively the amounts of depreciation, depletion and amortisation charged and, consequently, the carrying amounts of mineral rights and oil and gas properties.

Were the estimated proved reserves to differ by 10% from management's estimates, the impact on depletion would be as follows:

Increase/decrease in reserves estimation	**Effect on loss before tax for the year ended 31 December**	
	2017	**2016**
+ 10%	(3,399)	(2,591)
- 10%	4,155	3,167

Provision for dismantlement
The Group has a constructive obligation to recognise a provision for dismantlement for its oil and gas assets (Note 21). The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time when assets are installed. The Group performs analysis and makes estimates in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimating the amounts and timing of such dismantlement costs requires significant judgement. The judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Provision for dismantlement is subject to change because of change in laws and regulations, and their interpretation.

Estimated dismantlement costs, for which the outflow of resources is determined to be probable, are recognised as a provision in the Group's consolidated financial statements.

Impairment of non-current assets
The Group accounts for the impairment of non-current assets in accordance with IAS 36 Impairment of Assets. Under IAS 36, the Group is required to assess the conditions that could cause assets to become impaired and to perform a recoverability test for potentially impaired assets held by the Group. These conditions include whether a significant decrease in the market value of the assets has occurred, whether changes in the Group's business plan for the assets have been made or whether a significant adverse change in the business environment has arisen.

During the year ended 31 December 2017 the economy was negatively impacted by a number of factors including but not limited to low prices of oil. This has resulted in a review of the Group's non-current assets (Oil and Gas properties and Mineral Rights) to determine whether they are impaired as at the reporting date.

The recoverable amount was estimated using the value in use approach. The models developed by management to calculate value in use involved assumptions as to future hydrocarbon prices, taxes, production volumes, and inflation. The models also use estimates of proved developed reserves at 31 December 2017 as calculated by the management of the Group. Estimated cash flows were discounted with a risk adjusted discount rate derived as the weighted average cost of capital (WACC). For the Group's businesses the pre-tax nominal discount rate is estimated at 17.7 percent (2016: 15.3 percent).

Based on the impairment analysis performed, management does not consider that the Group's non-current assets are impaired as at 31 December 2017.

Assumptions used in developing cash flow forecasts of the Group

Assumption	**31 December 2017**	**31 December 2016**
Average crude oil price	US$65 from 2018 onwards	US$55 in 2017, US$61 in 2018, US$62 from 2019 onwards inflated by US$ inflation according to Bloomberg
MET on crude oil	based on actual MET base rate in amount of RUR919 per ton and expiration of 14 years 80% MET relief in September 2028	based on increase in MET base rate to RUR919 per ton in January 2017 and expiration of 15 years 80% MET relief in September 2028
Production volume of crude oil over economic life of the fields	208,152 thousand barrels	297,480 thousand barrels

Taxation
The Group is subject to income and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to complexity of the tax legislation of the Russian Federation. Deferred tax assets are recognised to the extent that it is probable that it will generate enough taxable profits to utilise deferred income tax recognised. Significant management judgement is required to determine the amount of deferred tax assets recognised, based upon the likely timing and the level of future taxable profits. Management prepares cash flow forecasts to support recoverability of deferred tax assets. Cash flow models are based on a number of assumptions relating to oil prices, operating expenses, production volumes, etc. These assumptions are consistent with those, used by independent reservoir engineers. Management also takes into account uncertainties related to future activities of the Group and going concern considerations. When significant uncertainties exist deferred tax assets arising from losses are not recognised even if recoverability of these is supported by cash flow forecasts.

Segment reporting
Management views the Group as one operating segment and uses reports for the entire Group to make strategic decisions. 99% of total revenues from external customers in 2017 were derived from sales of crude oil and gas condensate (2016: 99%). These sales are made to domestic and international oil traders. Although there are a limited number of these traders, the Group is not dependent on any one of them as crude oil is widely traded and there are a number of other potential buyers of this commodity. The Group's operations are entirely located in Russia.

The Company's Board of Directors evaluates performance of the entity on the basis of different measures, including total expenses, capital expenditures, operating expenses per barrel and others.

5. New and amended standards and interpretations issued but not yet effective

At the date of approval of these consolidated financial statements the following accounting standards, amendments and interpretations were issued by the International Accounting Standards Board (hereinafter - "IASB") and IFRS Interpretations Committee in the year ended 31 December 2017 or earlier, but are not yet effective and therefore have not been applied:

- *IFRS 15 Revenue from Contracts with Customers* (issued by the IASB in May 2014, effective for annual periods beginning on or after January 1, 2018). IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on Revenue recognition. In April 2016, the IASB issued amendments to IFRS 15, which have the same effective date as the new standard: January 1, 2018. As a result of the analysis performed by the Group, the conclusion was made that there will be no significant impact of the standard on the consolidated financial statements.

- *IFRS 9 Financial Instruments* (issued by the IASB in July 2014, effective for annual periods beginning on or after January 1, 2018). The final version of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the "incurred loss" model used in IAS 39 with a new "expected credit loss" model that will require a more timely recognition of expected credit losses. In October 2017, the IASB issued amendments to IFRS 9 effective on January 1, 2019.
The Group is currently assessing the impact of the standard on the opening balance of retained earnings as of January 1, 2018 as a result of the shift from the "incurred loss" impairment model to "expected credit loss" model, as well as the change in classification for certain significant financial assets of the Group – from the "amortized cost" category to the "fair value through profit or loss" category.

- *IFRS 16 Leases* (issued by the IASB in January 2016, effective for annual periods beginning on or after January 1, 2019). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and establishes a single lessee accounting model. The most significant effect of the new requirements for the lessee will be an increase in lease assets and financial liabilities. The new standard replaces the previous leases standard, IAS 17 Leases, and the related interpretations. The Group is currently assessing the impact of the standard on the consolidated financial statements.

- *IFRIC 22 Interpretation entitled Foreign Currency Transactions and Advance Consideration* (issued by the IASB in December 2016, effective for annual periods beginning on or after January 1, 2018). The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Group does not expect the amendments to have a material impact on the consolidated financial statements as their requirements are already incorporated in the accounting policy of the Group.

- *IFRIC 23 Interpretation entitled Uncertainty over Income Tax Treatments* (issued by the IASB in June 2017, effective for annual periods beginning on or after January 1, 2019). The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably to be accepted by the tax authorities. The Group does not expect the amendments to have a material impact on the consolidated financial statements.

6. Segment reporting

Management views the operations of the Group as one operating segment. Should the Group diversify its operations its financial reporting will be adjusted to reflect such change.

(all tabular amounts are in US$ thousands, unless otherwise stated)

The Company's Board of Directors evaluates performance of the Group on the basis of different measures, including, production volumes, related revenues, capital expenditures, operating expenses per barrel and others.

7. Revenue

	Year ended 31 December	
	2017	2016
Revenue from crude oil sales	67,659	43,425
Other revenue	714	567
Total revenue	**68,373**	**43,992**

Other revenue includes proceeds from third parties for crude oil transportation.

For the years ended 31 December 2017 and 2016, revenue from export sales of crude oil amounted to US$30,101 thousand and US$13,471 thousand, respectively.

Revenues from certain individual customers from sales of crude oil and gas condensate approximately equalled or exceeded 10% of total Group revenue.

	Year ended 31 December	
Customer	2017	2016
Customer 1	31,552	21,221
Customer 2	30,101	13,471
Customer 3	6,006	-
Customer 4	-	4,481
	67,659	39,173

8. Cost of sales

	Year ended 31 December	
	2017	2016
Depletion, depreciation and amortisation	36,815	27,844
Mineral extraction tax	16,440	8,678
Employee benefit expense	6,625	6,922
Change of inventories and cost of purchased oil	5,797	3,869
Production services	4,460	4,064
Taxes other than income tax	2,693	1,748
Repairs and maintenance	1,835	2,208
Transportation services	772	670
Other	1,516	1,185
Total cost of sales	**76,953**	**57,188**

9. Selling and administrative expenses

	Year ended 31 December	
	2017	2016
Selling expenses		
Oil transportation costs	3,064	2,096
Administrative expenses		
Employee benefit expense	6,827	7,392
Professional services	705	2,025
Rent expenses	629	1,207
Depreciation and amortisation	576	657
Travel expenses	283	519
IT, telecom and other information services	182	225
Bank charges	109	103
Other	491	445
Total selling and administrative expenses	**12,866**	**14,669**

Oil transportation costs represent the cost of transferring oil to export customers through the 'Transneft' pipeline system.

Auditor remuneration

During the year the Group obtained the following services from the Company's auditor and its network firms:

(all tabular amounts are in US$ thousands, unless otherwise stated)

	Year ended 31 December	
	2017	2016
Fees payable to the Company's auditor and its associates for the audit of company and consolidated financial statements	135	265
Fees payable to the Company's auditor and its associates for other services:		
– Tax advisory services	-	24
– Other consulting services	-	76

Employee benefit expense

The employee numbers and costs incurred in the reporting years were as follows:

	Year ended 31 December	
	2017	2016
Wages and salaries	12,024	13,188
Social security costs	1,428	1,126
Total employee costs	**13,452**	**14,314**
Average number of employees (including Directors)	219	264

Details of the remuneration of senior management are set out in Note 24.

10. Finance costs

	Year ended 31 December	
	2017	2016
Interest expense on borrowings	26,661	28,595
Unwinding discount of provision for dismantlement (Note 21)	1,020	530
Other financial expenses	2,888	2,108
Total finance costs	**30,569**	**31,233**

For the years ended 31 December 2017 and 2016, borrowing costs amounting to US$3,389 thousand and US$3,792 thousand, respectively, were capitalised in Property, plant and equipment and are not included above. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation for the year ended 31 December 2017 was 9% per annum (2016: 10%).

Other financial expenses include interest on the outstanding amount of Glencore and EnergoResurs prepayment facilities (see Note 22), interest on the outstanding liabilities to contractors and amortisation of fees related to the Otkritie credit facilities.

11. Other expenses, net

Other expenses, net, include provisions for litigations with counterparties in total amount of US$2,825 thousand (see Note 23) and impairment charge of financial instruments in total amount of US$1,761 thousand (see Note 17).

Other expenses, net, for 2016 include financial instruments impairment charge in total amount of US$1,655 thousand (see Note 17) and an accrual for VAT payable of US$493 thousand as a result of a tax inspection which management is disputing.

12. Income tax

The major components of income tax expense for the years ended 31 December 2017 and 2016 were:

	Year ended 31 December	
	2017	2016
Current income tax expense	-	-
Deferred tax benefit/(expense)	2,251	(5,067)
Total income tax benefit/(expense)	**2,251**	**(5,067)**

Loss before taxation for financial reporting purposes is reconciled to the tax calculation for the period as follows:

	Year ended 31 December	
	2017	2016
Loss before income tax	(43,568)	(14,829)
Income tax benefit at applicable tax rate	8,714	2,966
Tax effect of losses for which no deferred income tax asset was recognised	(1,042)	(2,006)
Tax effect interest on shareholders' loans	(708)	(2,078)
Tax effect utilisation of previously unrecognised tax loss carry forwards	-	558
Tax effect of non-deductible expenses	(4,713)	(4,507)
Income tax benefit/(expense)	2,251	(5,067)

(all tabular amounts are in US$ thousands, unless otherwise stated)

Differences between IFRS and statutory taxation regulations in Russia 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% for Group companies incorporated in the Russian Federation.

The movements in deferred tax assets and liabilities relate to the following:

	1 January 2017	Recognised in profit or loss	Translation difference	**31 December 2017**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Accounts payable	2,380	170	223	2,773
Tax loss carry-forward	11,048	2,108	612	13,768
Property, plant and equipment	(12,120)	1,717	(536)	(10,939)
Mineral rights and intangible assets	(43,200)	(1,225)	(2,308)	(46,733)
Inventories	(31)	16	5	(10)
Loans and borrowings	2,399	(1,524)	109	984
Accounts and notes receivable	(2,357)	989	(127)	(1,495)
Net deferred tax asset/ (liability)	**(41,881)**	**2,251**	**(2,022)**	**(41,652)**
Recognised deferred tax asset	2,326	(1,680)	103	749
Recognised deferred tax liability	(44,207)	3,931	(2,125)	(42,401)
Net deferred tax asset/ (liability)	**(41,881)**	**2,251**	**(2,022)**	**(41,652)**

	1 January 2016	Recognised in profit or loss	Translation difference	**31 December 2016**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Accounts payable	1,463	561	356	2,380
Tax loss carry-forward	12,955	(4,080)	2,173	11,048
Property, plant and equipment	(9,898)	(790)	(1,432)	(12,120)
Mineral rights and intangible assets	(35,967)	14	(7,247)	(43,200)
Inventories	(161)	-	130	(31)
Loans and borrowings	7,518	(5,989)	870	2,399
Accounts and notes receivable	(6,771)	5,217	(803)	(2,357)
Net deferred tax asset/ (liability)	**(30,861)**	**(5,067)**	**(5,953)**	**(41,881)**
Recognised deferred tax asset	7,764	(6,321)	883	2,326
Recognised deferred tax liability	(38,625)	1,254	(6,836)	(44,207)
Net deferred tax asset/ (liability)	**(30,861)**	**(5,067)**	**(5,953)**	**(41,881)**

The Group recognises deferred tax assets in respect of tax losses incurred only by INGA, because it is probable that sufficient taxable profits will be available in the future to utilise the deductible temporary difference.

Starting from 1 January 2017, in respect of companies located in Russia the limitation on carry-forward of losses for a 10-year period was revoked in principle (which means that losses incurred since 2007 will be carried forward until fully utilised). Limitations for the recognition of losses carried forward for the period from 2017 to 2020 have been also introduced. In accordance with the new rules, the amount of recognised loss carry forwards can't exceed 50% of the tax base of the relevant year.

The Group did not recognise deferred income tax assets of US$71,227 thousand and US$67,834 thousand, in respect of losses that can be carried forward without limiting the year of expiration against future taxable income, amounting to US$358,846 thousand and US$338,076 thousand as at 31 December 2017 and 31 December 2016, respectively.

(all tabular amounts are in US$ thousands, unless otherwise stated)

13. Property, plant and equipment

	Oil and gas properties	Other property, plant and equipment	Construction in progress	Total
Cost as at 1 January 2017	**243,249**	**5,301**	**53,527**	**302,077**
Additions	-	-	21,925	21,925
Transfers to fixed assets	49,532	36	(49,568)	-
Change in provision for dismantlement (Note 21)	138	-	-	138
Disposals	(2,544)	(1)	(488)	(3,033)
Effect of translation to presentation currency	12,183	282	2,265	14,730
Cost as at 31 December 2017	**302,558**	**5,618**	**27,661**	**335,837**
Accumulated depletion and impairment as at 1 January 2017	**(107,766)**	**(3,339)**	**(331)**	**(111,436)**
Charge for the period	(33,491)	(576)	-	(34,067)
Disposals	2,128	-	-	2,128
Effect of translation to presentation currency	(5,527)	(184)	(17)	(5,728)
Accumulated depletion and impairment as at 31 December 2017	**(144,656)**	**(4,099)**	**(348)**	**(149,103)**
Net book value as at 31 December 2017	**157,902**	**1,519**	**27,313**	**186,734**

	Oil and gas properties	Other property, plant and equipment	Construction in progress	Total
Cost as at 1 January 2016	**166,257**	**5,353**	**32,997**	**204,607**
Additions	-	-	57,027	57,027
Transfers to fixed assets	42,857	279	(43,136)	-
Change in provision for dismantlement (Note 21)	3,657	-	-	3,657
Disposals	(3,342)	(1,219)	(499)	(5,060)
Effect of translation to presentation currency	33,820	888	7,138	41,846
Cost as at 31 December 2016	**243,249**	**5,301**	**53,527**	**302,077**
Accumulated depletion and impairment as at 1 January 2016	**(69,704)**	**(3,190)**	**(735)**	**(73,629)**
Charge for the period	(25,579)	(657)	-	(26,236)
Disposals	2,455	1,028	499	3,982
Effect of translation to presentation currency	(14,938)	(520)	(95)	(15,553)
Accumulated depletion and impairment as at 31 December 2016	**(107,766)**	**(3,339)**	**(331)**	**(111,436)**
Net book value as at 31 December 2016	**135,483**	**1,962**	**53,196**	**190,641**

For the years ended 31 December 2017 and 31 December 2016, additions to construction in progress are primarily made up of additions to production facilities, including wells, as well as additions to infrastructure. As at 31 December 2017 and 2016, the construction in progress balance mainly represents production wells and oil production infrastructure not finalised (e.g. pads, electricity grids, etc.).

The Group's property, plant and equipment in total amount of US$31,982 thousand was pledged under the credit facility agreements with Otkritie and Trust as at 31 December 2017 (31 December 2016: US$31,315 thousand).

(all tabular amounts are in US$ thousands, unless otherwise stated)

14. Mineral rights and other intangibles

	Mineral rights	Other intangible assets	Total
Cost as at 1 January 2017	**213,556**	**6,169**	**219,725**
Additions	-	9,451	9,451
Disposals	-	(107)	(107)
Effect of translation to presentation currency	11,333	442	11,775
Cost as at 31 December 2017	**224,889**	**15,955**	**240,844**
Accumulated depletion and impairment as at 1 January 2017	**(3,204)**	**(519)**	**(3,723)**
Charge for the period	(2,915)	(409)	(3,324)
Disposals	-	107	107
Effect of translation to presentation currency	(208)	(30)	(238)
Accumulated depletion and impairment as at 31 December 2017	**(6,327)**	**(851)**	**(7,178)**
Net book value as at 1 January 2017	210,352	5,650	216,002
Net book value as at 31 December 2017	**218,562**	**15,104**	**233,666**

	Mineral rights	Other intangible assets	Total
Cost as at 1 January 2016	**177,733**	**3,345**	**181,078**
Additions	-	2,195	2,195
Disposals	-	(254)	(254)
Effect of translation to presentation currency	35,823	883	36,706
Cost as at 31 December 2016	**213,556**	**6,169**	**219,725**
Accumulated depletion and impairment as at 1 January 2016	**(959)**	**(286)**	**(1,245)**
Charge for the period	(1,853)	(412)	(2,265)
Disposals	-	254	254
Effect of translation to presentation currency	(392)	(75)	(467)
Accumulated depletion and impairment as at 31 December 2016	**(3,204)**	**(519)**	**(3,723)**
Net book value as at 1 January 2016	176,774	3,059	179,833
Net book value as at 31 December 2016	**210,352**	**5,650**	**216,002**

Intangible assets of the Group are not pledged as security for liabilities and their titles are not restricted.

15. Inventories

	31 December	
	2017	**2016**
Spare parts, consumables and other inventories	861	1,098
Crude oil	1,408	747
Total inventories	**2,269**	**1,845**

The Group did not have any obsolete or slow-moving inventory at either of the reporting dates.

16. Trade and other receivables

	31 December	
	2017	**2016**
Trade receivables	1,113	2,625
Other receivables and prepayments	1,518	1,914
VAT recoverable	1,627	7,100
Total trade and other receivables	**4,258**	**11,639**

Trade receivables comprise of amounts in US$ and RUR and are not past-due or impaired. Other receivables and prepayments are mostly RUR denominated and relate to counterparties with no history of delays in settlements. VAT recoverable is used either to offset against amounts due for mineral extraction tax or is recovered in cash. The VAT is recovered within three to six months from its initiation, following a review by the tax authorities.

As at 31 December 2017 and 31 December 2016, the Group has impaired prepayments amounting to US$277 thousand and US$276 thousand, respectively. In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date.

(all tabular amounts are in US$ thousands, unless otherwise stated)

17. Other current assets and liabilities

Other current assets

In November 2014 the Group purchased promissory notes denominated in RUR. Due to the change of management plans the promissory notes were returned to the seller in October 2015 for the agreed amount payable before 31 December 2016 and bearing an interest of 10% per annum. Because of the change of the recoverable amount of the receivables in comparison with the estimation of the value of the promissory notes, the Group recognised a 100% impairment of outstanding receivables in amount of US$1,761 thousand as at 31 December 2017, in 2016 the Group recognised an impairment loss in amount of US$1,655 thousand.

Other current liabilities

Other liabilities include environmental tax obligations arising in the ordinary course of business and interest payable related to the prepayment facilities with Glencore and EnergoResurs.

18. Cash and cash equivalents

	31 December	
	2017	**2016**
Cash in bank denominated in US$	1,368	6,316
Cash in bank denominated in RUR	937	1,128
Cash in bank denominated in £	101	108
Cash in bank denominated in EUR	1	2
Total cash and cash equivalents	**2,407**	**7,554**

19. Shareholders' equity

Share capital

	31 December	
	2017	**2016**
Ordinary share capital	135,493	135,493

Share capital restructuring

On 30 May 2017 the share capital of the Company was restructured. As a result of this restructuring each of 870,112,016 ordinary shares were divided into 100 shares, resulting in 870,112,016 Intermediate Shares and 86,141,089,584 Deferred shares. Each Intermediate share was then consolidated into one tenth of an ordinary share of GBP0.01 nominal value (a "Consolidated Share"), such shares having the same rights and being subject to the same restrictions (save as to nominal value) as the ordinary shares. Deferred shares have no economic or voting rights in the capital of the Company and it is expected that they will be transferred for no consideration to a nominee of the Company following the issue of the new ordinary shares and in due course that they will be cancelled.

Share capital authorised, issued and paid consisted of 87,011,202 Consolidated ordinary shares with a par value of GBP 0.01 each and 86,141,089,584 Deferred shares with a par value of GBP 0.001 each at 30 June 2017 and 870,112,016 ordinary shares as at 31 December 2016 with a par value of GBP 0.10 each.

20. Borrowings

	31 December	
	2017	**2016**
Current		
Otkritie	301,742	-
Trust	27,208	512
Short-term loans from shareholders of the Company	5,458	4,293
Total current borrowings	**334,408**	**4,805**

	31 December	
	2017	**2016**
Non-current		
Otkritie	-	271,257
Long-term loans from shareholders of the Company	-	87,025
Trust	-	24,507
Total long-term borrowings	**-**	**382,789**

Otkritie credit facilities

The loan facility from Otkritie in the amount of US$150,000 thousand obtained and drawn down in full in December 2014, pursuant to a loan agreement dated 14 November 2014, is repayable in November 2019, bears interest at 8% per annum and is subject to certain covenants, including production targets. In December 2015 an addendum to the credit facility agreements was concluded whereby the applicable covenants were modified and provided solely for reduced production targets.

On 14 November 2014 credit facility agreements for US$100,000 thousand and US$44,700 thousand were entered into with Otkritie for the Group's field development and for general working capital purposes respectively. As at 31 December 2017, facilities in total amount of US$90,300 thousand out of US$100,000 thousand and US$44,700 thousand out of US$44,700 thousand were drawn down under these agreements, respectively (31 December 2016: US$81,400 thousand and US$44,700 thousand, respectively).

(all tabular amounts are in US$ thousands, unless otherwise stated)

In December 2016 addendums to the credit facilities with Otkritie were concluded, whereby interest became payable quarterly based on greater of 1.5% or Libor 3m, and the residual accrued interest payable with repayment of loans in November 2019. These amendments did not substantially alter the terms of the original loans, and therefore were not treated as extinguishment of an existing liability and recognition of a new liability. The present value difference arising from the renegotiation was recognised over the remaining life of these loans by adjusting the effective interest rate.

Interest accrued for Otkritie credit facilities during 2017 was equal to US$23,946 thousand (2016: US$19,554 thousand)..

Trust credit facility

On 17 November 2015 the Group entered into a credit facility agreement with Trust, a bank affiliated with Otkritie, for the amount of US$25,600 thousand. This relates to utilisation of the funding available under the first US$50,000 thousand tranche of the Development Facility with Otkritie. As at 31 December 2017, total amount of US$25,600 thousand was drawn down under this facility (31 December 2016: US$25,600 thousand).

On 15 January 2016 an addendum to the credit facility with Trust was concluded, whereby the applicable covenants were modified and provided solely for reduced production targets.

In March 2017 an addendum to the credit facilities with Trust was concluded, whereby interest became payable based on greater of 1.5% or Libor 3m, and the residual accrued interest payable with repayment of the loan in November 2019. This amendment did not substantially alter the terms of the original loan, and therefore was not treated as extinguishment of an existing liability and recognition of a new liability. The present value difference arising from the renegotiation was recognised over the remaining life of this loan by adjusting the effective interest rate.

Interest accrued for Trust credit facility during 2017 was equal to US$2,564 thousand (2016: US$2,442 thousand)

Loans from shareholders of the Company

The Group had a number of US$ denominated loans obtained from Shareholders of the Company. In April and May 2017 shareholders' loans in the amount of US$94,399 thousand were forgiven by the lenders. The total forgiven amount was accounted as contribution of the shareholders to equity of the Company.

In April 2017 the Group received a loan in amount of US$5,000 thousand from a related party. The loan is unsecured, repayable on 1 October 2017 and bears interest of Libor 6m with a margin of 2% per annum. Since the loan was not repaid on the due date, starting from the 2 October 2017 the interest rate of the loan increased by 2% per annum.

Covenants breach

As at 31 December 2017 the Group was in non-compliance with the production covenants agreed with the banks. Under the terms of the loan agreements, non-compliance with the production covenants entitles the banks to demand for early repayment of the loans, which led to the classification of the loans as short-term liabilities as at 31 December 2017. Despite the fact that the creditors have not formally waived their right to demand early repayment of the loans in connection with the covenants breach, and the creditors have a formal right to demand repayment, the management of the Group believes that the creditors will not exercise their right to demand early repayment of the debt.

Foreign exchange gains/losses

The Group recognised a net foreign exchange gain amounting to US$15,321 thousand during the year ended 31 December 2017, out of which US$14,873 thousand relate to the US$ denominated credit facilities and outstanding accrued interest. The Group recognised a net foreign exchange gain amount to US$47,723 thousand during the year ended 31 December 2016, out of which US$45,684 thousand relate to the US$ denominated credit facilities and outstanding accrued interest.

Changes in liabilities arising from financing activities

	1 January 2017	Cash flows	Loan forgiveness	Reclassification	Other	31 December 2017
Current interest-bearing loans and borrowings	4,805	5,000	-	328,950	(4,347)	334,408
Non-current interest-bearing loans and borrowings	382,789	5,502	(94,399)	(328,950)	35,058	-
Total liabilities from financing activities	**387,594**	**10,502**	**(94,399)**	**-**	**30,711**	**334,408**

(all tabular amounts are in US$ thousands, unless otherwise stated)

21. Provision for dismantlement

The provision for dismantlement represents the net present value of the estimated future obligations for abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the oil and gas fields which is estimated to be in 24 years from 31 December 2017.

	2017	2016
As at 1 January	**11,496**	**5,707**
Additions for new obligations and changes in estimates (Note 13)	138	3,657
Unwinding of discount	1,020	530
Effect of translation to presentation currency	624	1,602
As at 31 December	**13,278**	**11,496**

This provision has 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 future dismantlement liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual dismantlement costs will ultimately depend upon future market prices for the necessary dismantlement works required which will reflect market conditions at the relevant time. Furthermore, the timing is likely to depend on when the fields cease to produce at economically viable levels. This in turn will depend upon future oil and gas prices and future operating costs which are inherently uncertain.

22. Trade and other payables

	31 December	
	2017	2016
Trade payables	28,456	16,267
Wages and salaries	27	1,349
Total financial liabilities	**28,483**	**17,616**
Advances received	2,269	21,663
Provisions (Note 23)	3,371	680
Total trade and other payables	**34,123**	**39,959**

Trade and other payables are denominated primarily in Russian roubles

23. Capital commitments and other contingencies

Capital commitments

As at 31 December 2017, the Group had contractual commitments for capital expenditures of US$3,982 thousand (31 December 2016: US$20,248 thousand).

Licence commitments

The Group's exploration and production licences require certain operational commitments. These include performance criteria certain of which have not been fully met during 2017. The Directors note that breach of licence performance conditions has not given rise to any material fines or penalties. Furthermore, management has been undertaking particular actions to meet required licence performance criteria. The Directors also note that the Group's production programme has been inspected by the Russian licensing authorities subsequent to 31 December 2017 and that no material fines or penalties have resulted.

Liquidity of subsidiary undertakings

In accordance with the legal framework in the Russian Federation, creditors and tax authorities may initiate bankruptcy proceedings against an entity with negative net assets. As at 31 December 2017, Ruspetro Russia reported net liabilities under Russian GAAP. However, no such bankruptcy proceedings have been initiated either by the creditors or the tax authorities against them. The Directors consider such net liability position to be not abnormal given that the Group is still at a development stage.

Operating lease commitments - Group as Lessee

The Group has entered into leases for land plots, woodlots and motor vehicles. The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group leases land through operating lease agreements, which expire in various years through 2034. These leases have renewal terms at the option of the lessee at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December 2017 and 2016 were as follows:

	31 December	
	2017	2016
Within one year	68	1,104
After one year but not more than five years	46	3,239
More than five years	44	51
Total operating lease commitments and other contingencies	**158**	**4,394**

Significant decrease of lease commitments as at 31 December 2017 related to cancellation in the middle of 2017 of the office lease contract, which should have lasted until October 2021.

Operating risks and contingencies

Pledge of shares

On the opening of its credit facility with Otkritie, the Group provided to Otkritie as collateral its shares in INGA and Trans-oil.

Taxation contingencies

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities in the Russian Federation.

Recent events within the Russian Federation indicate that the Russian tax authorities may be taking a more assertive position in their interpretation of the prevailing legislation and assessments, and it is possible that transactions and activities which have not been challenged in the past may be challenged in the future. The Supreme Arbitration Court of the Russian Federation has issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of the tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated. However, such challenge could prove significant to the financial conditions and/or the overall operations of the Group.

The Group includes companies incorporated outside Russia. Tax liabilities of the Group are determined on the assumptions 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 condition and/or the overall operations of the entity.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements

Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

During 2017 the Russian economy was negatively impacted by ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

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.

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received. The Group has been advised by its legal counsel that it is probable, that the actions of certain claims, will succeed. Accordingly, as at 31 December 2017 management of the Group assessed the potential impact of such claims and made a provision in the amount of $US2,825 thousand (31 December 2016: nil).

For claims in the amount of $US1,083 the Group has been advised that it is only possible, but not probable, that the action will succeed. Management of the Group believes that the ultimate result of that litigations will not materially affect the performance or financial position of the Group. Therefore, no provision as at 31 December 2017 has been made for these claims.

(all tabular amounts are in US$ thousands, unless otherwise stated)

24. Related party disclosures

Compensation of key management personnel of the Group

Key management includes Executive and Non-executive Directors of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2017	2016
Employee remuneration	2,956	3,958
including compensation of loss of office	1,240	515
Benefits in kind	162	175
Non-executive Directors' fees	108	227
Total compensation of key management personnel of the Group	**3,226**	**4,360**

The highest paid director's compensation is shown below:

	Year ended 31 December	
	2017	2016
Employee remuneration	1,693	2,773
including compensation of loss of office	*691*	*515*
Benefits in kind	78	121
Total compensation	**1,771**	**2,894**

All related party transactions are on an arm's-length basis and no financial period end balances have arisen as result of these transactions.

Loans and borrowings from related parties

The Group has a number of loans from shareholders of the Company with the following balances:

	2017	2016
As at 1 January	**91,318**	**104,641**
Loan received	5,000	-
Interest accrued	3,539	10,392
Interest paid	-	(23,715)
Loans forgiven	(63,670)	-
Interest forgiven	(30,729)	-
As at 31 December	**5,458**	**91,318**

On 11 December 2017 the Central Bank of Russian Federation obtained majority ownership of Bank Otkritie and respectively bank Trust (affiliated with Otkritie). Therefore, since that date the banks are not considered related parties to the Group. The balances of loans obtained from bank Otkritie and bank Trust are presented in Note 20.

The effective interest rates of loans and borrowings are disclosed in Note 20.

25. Financial risk management objectives and policies

The Group's principal financial liabilities comprise accounts payable, bank borrowings and other loans. The main purpose of these financial instruments and liabilities is to manage short-term cash flow and raise finance for the Group's capital expenditure programme. The Group has various financial assets such as accounts receivable and cash, which arise directly from its operations.

It is, and has been throughout the years ended 31 December 2017 and 2016, the Group's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are commodity price-, interest rate-, foreign currency-, liquidity- and credit- risk related. Management reviews and agrees policies for managing each of these risks which are summarised below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. Financial instruments affected by market risk include bank loans and overdrafts, accounts receivable, accounts payable and accrued liabilities.

The sensitivity has been prepared for the years ended 31 December 2017 and 2016 using the amounts of debt and other financial assets and liabilities held as at those statement of financing position dates.

Capital risk management

The Group considers capital to comprise both debt and equity. Total debt comprises long-term and short-term loans and borrowings, as shown in the consolidated statement of financial position. Equity of the Group comprises share capital, share premium, other reserves and retained earnings. Equity of the Group was equal to US$951 thousand and negative

(all tabular amounts are in US$ thousands, unless otherwise stated)

US$55,000 thousand as at 31 December 2017 and 2016 respectively.

The Group's total debt was equal to US$334,408 thousand and US$387,594 thousand as at 31 December 2017 and 31 December 2016 respectively.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide adequate levels of financing for its current development and production activities. In order to maintain or adjust the capital structure, the Group may issue new shares, attract new or repay existing loans and borrowings.

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, in order to support its construction and production activities. The Group is at a development stage; as such it is dependent on external financing to fund its activities. In order to carry out its planned construction and production activities and pay for administrative costs, the Group will spend its existing capital and raise additional amounts as needed.

There were no changes in the Group's approach to capital management during the period. As at 31 December 2017 and 2016, the Group was not subject to any externally imposed capital requirements (except for described in Note 23). As at 31 December 2017 the Group is subject to certain covenants (Note 20).

Commodity price risk
The Group sells crude oil and gas condensate under spot contracts on a monthly basis. Sales are centrally managed and during the reporting periods were made both to domestic and international customers. The basis for determining the export price is the price of Brent Crude. Changes in commodity prices can affect the Group's financial performance, either positively or negatively and make the Group's revenues subject to volatility in line with fluctuations in crude oil reference prices. Currently the Group does not use commodity derivative instruments to mitigate the risk of crude oil price volatility.

The table below provides the sensitivity of the Group's revenues to a 50% change in price of crude oil.

	Year ended 31 December	
Commodity price risk	**2017**	**2016**
Favourable +50%	33,830	21,713
Unfavourable -50%	(33,830)	(21,713)

For the purposes of this analysis, the effect of a variation in crude oil prices on Group's loss is calculated independently of any change in another assumption. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract these sensitivities.

Interest rate risk
The Group is exposed to interest rate risk, however, the possible impact of changes in interest rates are not significant since the Group's major borrowings are at fixed interest rates. There is no specific policy in place to hedge against possible adverse changes in interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax through the impact on floating rate borrowings.

	Year ended 31 December Effect on loss before tax	
Increase/decrease in interest rate	**2017**	**2016**
+1.0%	52	910
-1.0%	(52)	(910)

Foreign currency risk
The Group has transactional currency exposures. Such exposure arises mainly from borrowing in currencies other than the functional currency. The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its cash and borrowings are denominated.

The Group's exposure to foreign currency exchange rate risk at the end of the reporting period was mainly concentrated in the Otkritie credit facilities and Trust credit facility.

The following table shows the sensitivity to a reasonably possible change in the US$ to RUR exchange rate, with all other variables held constant, of the Group's loss before tax due to changes in the carrying value of monetary assets and liabilities.

US$ strengthening/weakening against RUR	Year ended 31 December Effect on loss before tax	
	2017	**2016**
US$ strengthening by 11%	(32,603)	(30,194)
US$ weakening by 11%	40,663	37,658

Liquidity risk
The Group monitors liquidity risk by monitoring its debt rating and the maturity dates of existing debt.

(all tabular amounts are in US$ thousands, unless otherwise stated)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments.

	31 December 2017					
	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
Borrowings (including interest)	5,458	5,049	373,435	-	-	383,942
Trade payables	20,392	8,064	-	-	-	28,456
	25,850	**13,113**	**373,435**	**-**	**-**	**362,864**
	31 December 2016					
	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
Borrowings (including interest)	303	11,071	384,658	99,758	-	495,790
Trade payables	-	16,267	-	-	-	16,267
	303	**27,338**	**384,658**	**99,758**	**-**	**512,057**

Credit risk

The Group manages its own exposure to credit risk. The Group trades only with recognised, creditworthy third parties. All external customers undergo a creditworthiness check. The Group performs an ongoing assessment and monitoring of financial position and the risk of default. In addition, receivable balances are monitored on an ongoing basis thus the Group's exposure to bad debts is not significant.

The Group had one major customer being an international oil trader and accounting for at least 44% of total sales in 2017 (2016: 31%). Other sales are made to domestic customers. The Group is, however, not dependent on any of its major customers or any one particular customer as there is a ready market for crude oil. Analysis of sales to key customers is included into Note 7.

The Group is exposed to concentrations of credit risk. As at 31 December 2017, the Group had three counterparties (2016: three counterparties) with aggregated receivables balances US$1,228 thousand (2016: US$ 2,634 thousand) or 32% of the gross amount of trade and other receivables (2016: 23%).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The credit risk on cash is limited because the counterparties are either highly rated banks or banks approved by the management of the Group. Approval is made after certain procedures are performed to assess the reliability and creditworthiness of banks.

Fair values

Assets and liabilities not measured at fair value but for which fair value is disclosed include cash and cash equivalents, trade receivables, other current assets, trade payables and borrowings.

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried at amortised cost in the consolidated financial statements:

	Carrying amount		Fair value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets				
Cash and cash equivalents	2,407	7,554	2,407	7,554
Trade receivables	1,113	2,625	1,113	2,625
Other current assets	-	1,655	-	1,655
Financial liabilities				
Trade payables	28,456	16,267	28,456	16,267
Borrowings	334,408	387,594	327,176	383,788

26. Loss per share

Basic

Basic earnings per share are calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2017	2016
Loss attributable to equity holders of the Company	41,317	19,896
Weighted average number of ordinary shares in issue	405,814,538	870,112,016
Basic Loss per share (US$)	0.10	0.02

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares.

The Company has incurred a loss from continuing operations for the year ended 31 December 2017 and the effect of considering the exercise of the options on the Company's shares would be anti-dilutive, that is, it would reduce the loss per share.

27. Events after the statement of financial position date

There have been no material events after the end of reporting period which require disclosure in these consolidated financial statements.

28. Supplementary information (unaudited)

The Group's in-house subsurface experts undertook an internal comprehensive resource assessment (the "assessment") involving (1) the re-examination of all sub-surface geological data (2) a review of available seismic data currently undergoing re-processing, and (3) a review of historical well test and well performance data.

Following this assessment, the Group formally adopted its internal estimate of evaluated its oil, condensate and gas reserves as at 31 March 2016. In order to estimate its oil, condensate and gas reserves, the Group used the information prepared by its internal reserve engineers. The Group's internal resource assessment is the result of a thorough re-examination of all sub-surface geological data and the available seismic data. All historical well test and well performance data has also been re-examined and integrated into the evaluation models. The Group has rebuilt its resource base with a bottom up technical analysis, incorporating a rigorous probabilistic approach combined with a modular project appraisal and development plan.

Estimates of proved and probable and 2C Contingent oil, condensate and gas reserves as at 31 December 2017 are shown in the table set out below. This estimation represents results of internal assessment of evaluated its oil, condensate and gas reserves as at 31 March 2016 adjusted by production of crude oil for the respective period.

	Oil reservoirs		Gas reservoirs		Total
	Oil	**Associated gas**	**Non-associated gas**	**Condensate**	
Reserve category	**'000 barrels**	**Millions of cubic feet**	**Millions of cubic feet**	**'000 barrels**	**'000 boe**
Proved and probable (2P)	104,962	149,525	8,300	250	131,516
2C Contingent	223,305	301,462	10,000	450	275,665
Total	**328,267**	**450,987**	**18,300**	**700**	**407,181**

Statement of Financial position
as at 31 December 2017
(presented in US$ thousands, unless otherwise stated)

	Note	31 December 2017	31 December 2016 (Restated)
Assets			
Non-current assets			
Property, plant and equipment		-	-
Investments in subsidiaries	5, 6	317,725	317,725
Loans issued to subsidiaries		5,996	6,070
		323,721	323,795
Current assets			
Receivables from Ruspetro JSC		1,739	1,738
Receivables from Ruspetro Holding Limited		782	782
Trade and other receivables		26	12
VAT recoverable		-	23
Cash and cash equivalents	7	102	226
		2,649	2,781
Total assets		326,370	326,576
Shareholders' equity			
Share capital	8	135,493	135,493
Share premium	8	389,558	389,558
Retained loss		(206,626)	(206,427)
Other reserves		7,221	7,221
Total equity		325,646	325,845
Liabilities			
Non-current liabilities			
Other non-current liabilities		-	-
		-	-
Current liabilities			
Payables to Ruspetro JSC		540	518
Trade and other payables		184	213
		724	731
Total liabilities		724	731
Total equity and liabilities		326,370	326,576

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Chief Financial Officer

29 June 2018

Statement of Changes in Equity
as at 31 December 2017
(presented in US$ thousands, unless otherwise stated)

	Share capital	Share premium	Retained loss	Other reserves	Total equity
Balance as at 1 January 2016	135,493	389,558	(41,967)	7,221	490,305
Loss for the period (Restated)	-	-	(164,460)	-	(164,460)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period (Restated)	-	-	(164,460)	-	(164,460)
Balance as at 31 December 2016 (Restated)	135,493	389,558	(206,427)	7,221	325,845
Balance as at 1 January 2017	135,493	389,558	(206,427)	7,221	325,845
Loss for the period	-	-	(199)	-	(199)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	(199)	-	(199)
Balance as at 31 December 2017	135,493	389,558	(206,626)	7,221	325,646

Statement of Cash Flow
for the year ended 31 December 2017
(presented in US$ thousands, unless otherwise stated)

	Year ended 31 December 2017	2016 (Restated)
Cash flows from operating activities		
(Loss)/Profit before income tax	(199)	(164,460)
Adjustments for:		
Foreign exchange (gain)/ loss	(58)	(141)
Finance income	(91)	(225)
Impairment of investments in subsidiaries	-	162,751
Loss on disposal of property, plant and equipment	-	64
Operating cash flow before working capital adjustments	**(348)**	**(2,011)**
Working capital adjustments:		
Change in trade and other receivables	(15)	5,351
Change in trade and other payables	51	380
Change in other taxes receivable/payable	23	(5)
Net cash flows from/(used in) operating activities	**(289)**	**3,715**
Cash flows from investing activities		
Loans given to Ruspetro Holding Limited	-	(5,996)
Repayment of loans given to Ruspetro JSC	165	2,000
Net cash used in investing activities	**165**	**(3,996)**
Cash flows from financing activities		
Proceeds from loans and borrowings	-	-
Net cash generated from financing activities	-	-
Net decrease in cash and cash equivalents	**(124)**	**(281)**
Cash and cash equivalents at the beginning of the period	226	507
Cash and cash equivalents at the end of the period	**102**	**226**

Notes to the Parent Company Financial Statements
for the year ended 31 December 2017
(all tabular amounts are in US$ thousands unless otherwise stated)

1. Corporate information

The financial statements of Ruspetro Limited (the 'Company' or 'Ruspetro') for the year ended 31 December 2017 were approved by its Board of Directors on 29 June 2018.

The Company was incorporated in the United Kingdom on 20 October 2011 as a public company under the provisions of the Companies Act 2006. On 6 June 2016 Ruspetro delisted from the London Stock Exchange and registered as a private company, limited by shares. The Company's registered office is International House, 24 Holborn Viaduct, City of London, London EC1A 2BN, United Kingdom.

The Company is a parent of Ruspetro Group, the principal activities of which are exploration for and production of crude oil in the Khanty-Mansiysk region of the Russian Federation.

Details of subsidiaries of the Company are as follows:

Company	Business activity	Country of incorporation	Year of incorporation	Effective ownership 31 December 2017
Ruspetro Holding Limited	Holding company	Republic of Cyprus	2007	100%
Ruspetro JSC ('Ruspetro Russia')	Crude oil sale	Russian Federation	2005	100%
INGA	Exploration and production of crude oil	Russian Federation	1998	100%
Trans-oil	Exploration and production of crude oil	Russian Federation	2001	100%

2. Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are prepared under the historical cost convention, modified for fair value under IFRS.

These financial statements are presented in US dollars (US$) and all values are rounded to the nearest thousand unless otherwise indicated.

As permitted by Section 408 of the Companies Act 2006, the Statement of Comprehensive Income of the Parent Company is not presented as part of these Financial Statements. The loss dealt with in the Financial Statements of the Company is US$199 thousand.

Going concern
These financial statements are prepared on a going concern basis, which presumes that the Company will be able to realise its assets and discharge its liabilities in the normal course of business in the foreseeable future.

At 31 December 2017, the Company had net current assets of US$1,925 thousand (2016: US$2,050 thousand, which included cash in hand of US$102 thousand (2016: US$226 thousand).

The ability of the subsidiaries to meet its liabilities as they fall due is dependent upon the continuing support of its finance providers, primarily Otkritie and Trust banks whose credit facilities – which in aggregate amounted to $328,950 thousand drawn down at 31 December 2017 - contain certain covenants. These include production volume targets, which the subsidiaries need to meet to avoid potential acceleration of the debt repayment schedule. During 2017, the subsidiaries were in breach of certain covenants (see Note 20 and Note 27), which means that Otkritie and Trust each have the right to demand early repayment of their loans, which are otherwise due for repayment in November 2019.

The Directors are actively engaged with representatives of Otkritie and Trust in respect of the covenant breaches and these discussions are ongoing. Otkritie and Trust have not formally waived their right to demand early repayment of their loans, however based on these discussions the Directors believe that the banks will not exercise their right to demand early repayment of the debt and a restructuring of this debt finance will be successfully achieved.

As at 31 December 2017, the subsidiaries also had liabilities which include amounts due to major contractors of $20,392 thousand. With all major overdue creditors the subsidiaries have signed, or is in the process of signing, debt restructuring agreements which involve repayment of the debt by installments over an extended period of time; the subsidiaries has since met all repayments due under these agreements. These measures have mitigated the risk of actions being taken against the subsidiaries as a result of non-payment of trade creditors and significantly improve its working capital position.

Subject to the availability of sufficient funds the Company plan to make further investments in developing its license blocks in order to grow its hydrocarbon production and sales, and ultimately to enhance shareholder value. The

Company's 2017 drilling results demonstrated that drilling and completing horizontal multi-fractured wells is the right approach to developing the subsidiaries' reserves. Its ability to make such investments is partly reliant upon continued operating cash flow generation which could be adversely impacted by a sustained decrease in the oil price as compared to current levels. Based on the Group's cash flow projections, a reasonably possible downward shift in oil prices as compared to existing market prices and forecasts would not have a material impact on the going concern assessment.

The Company finances its exploration and development activities using a combination of cash in hand, operating cash flow generated mainly from the sale of crude oil production, prepayments from forward oil sale agreements and additional debt or equity financing. The ability of the Company to further develop its oil and gas properties is dependent upon obtaining further financing from an investor. The Company has been running a structured effort to identify a strategic investor either at the corporate level or at the asset level. Various entities have demonstrated their interest in the Ruspetro's business and the Company is now awaiting valuation bid from one of such potential investors. However, the success of such fundraising cannot be guaranteed.

The Directors recognise that the need to refinance and/or restructure its existing loan obligations represents a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. Based on the status of the discussions with Otkritie and Trust banks, the Directors are confident that the subsidiaries will be able to restructure its loan obligations and meet its financial obligations for at least 12 months after the date of approval of the Company's financial statements. Accordingly, the financial statements have been prepared on a going concern basis and do not include any adjustments that would be required in the event that the Company were no longer able to meet its liabilities as they fall due.

3. Summary of significant accounting policies

Investments

Investments in subsidiary undertakings are included in the balance sheet of the Company at cost less any provision for impairment.

Impairment of non-financial assets

The Company performs impairment reviews in respect of fixed asset investments whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's net realisable value and its value in use, is less than its carrying amount.

Financial instruments

The accounting policy for financial instruments is consistent with the Group accounting policy as presented in the notes to the Group financial statements. The Company's financial risk management policy is consistent with the Group's financial risk management policy outlined in the Group financial statements.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any provision for impairment.

A provision for impairment is recognised when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of the loans and receivables. The amount of provision is the difference between the assets' carrying value and the present value of the estimated future cash flows, discounted at the original effective interest rate. The change in the amount of the loan or receivable is recognised in profit or loss. Interest income is recognised in profit or loss by applying the effective interest rate.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts if any.

Accounts payable

The Company's financial liabilities are represented by trade and other payables.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(all tabular amounts are in US$ thousands, unless otherwise stated)

Taxes

Income tax

The income tax expense comprises current and deferred taxes calculated based on the tax rates that have been enacted or substantively enacted at the end of the reporting period. Current and deferred taxes are charged or credited to profit or loss except where they are attributable to items which are charged or credited directly to equity, in which case the corresponding tax is also taken to equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred taxes provide for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax credits and unused tax losses only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or carry forward can be utilised.

Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off current tax assets and liabilities, when deferred tax balances are referred to the same governmental body (i.e. federal, regional or local) and the same subject of taxation and when the Company intends to perform an offset of its current tax assets and liabilities.

Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium.

Foreign currency translation

Foreign currency transactions are initially recognized in the functional currency at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period.

The US dollar ("US$") is the functional and presentation currency of the Company. The assets and liabilities are translated into the presentation currency at the rate of exchange ruling at the end of each of the reporting period. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). All the resulting exchange differences are recorded in other comprehensive income.

The US$ to £ exchange rates were 0.74 and 0.81 as at 31 December 2017 and 31 December 2016, respectively and the average rates for the year ended 31 December 2017 and 2016 were 0.78 and 0.74 respectively.

4. Significant accounting judgements, estimates and assumptions

The significant accounting judgements, estimates and assumptions are consistent with the Group significant accounting judgements, estimates and assumptions as presented in the notes to the Group financial statements.

5. Correction of prior year error

The comparative statement of financial position has been revised to reflect the correction of an error:

The company has restated its valuation of investments in subsidiaries since it considered such investment should have been impaired as at 31 December 2016. This revision resulted in a change in the comparative statement of financial position as per below.

	As previously reported	**Effect**	**As restated**
Impact on statement of financial position			
Investments in subsidiaries	480,476	(162,751)	317,725
Retained loss	(43,676)	(162,751)	(206,427)

(all tabular amounts are in US$ thousands, unless otherwise stated)

6. Investments in subsidiaries

	31 December 2017	31 December 2016 (Restated)
Ruspetro Holding Limited	219,638	219,638
Ruspetro JSC	98,087	98,087
Total investments in subsidiaries	**317,725**	**317,725**

Management have performed an impairment review on the carrying value of the subsidiaries with no impairment resulting (refer to Note 4 of consolidated financial statements for the basis and assumptions used in performing the review). As of 31 December 2016 the Company recognised impairment in the amount of $162,751 thousand (refer to Note 5).

7. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash in bank denominated in £	101	108
Cash in bank denominated in US$	1	118
Total cash and cash equivalents	**102**	**226**

Cash balances generally bear no interest.

8. Shareholders' equity

Share capital

	31 December 2017	31 December 2016
Ordinary share capital	135,493	135,493

Share capital restructuring

On 30 May 2017 share capital of the Company was restructured. As a result of this restructuring each of 870,112,016 ordinary shares were divided into 100 shares, resulting in 870,112,016 Intermediate Shares and 86,141,089,584 Deferred shares. Each Intermediate share was then consolidated into one tenth of an ordinary share of GBP0.01 nominal value (a "Consolidated Share"), such shares having the same rights and being subject to the same restrictions (save as to nominal value) as the ordinary shares. Deferred shares have no economic or voting rights in the capital of the Company and it is expected that they will be transferred for no consideration to a nominee of the Company following the issue of the new ordinary shares and in due course that they will be cancelled.

Share capital authorised, issued and paid consisted of 87,011,202 Consolidated ordinary shares with a par value of GBP 0.01 each and 86,141,089,584 Deferred shares with a par value of GBP 0.001 each at 31 December 2017 and 870,112,016 ordinary shares as at 31 December 2016 with a par value of GBP 0.10 each.