Ruspetro Limited

Company number 07817695

Annual Report & Accounts
For the year ended 31 December 2018

Strategic Report for the Year Ended 31 December 2018

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 2018.

2018 Performance Overview

2018 has been a year in which the Board and Management took steps to stabilize the company's financial position and production. Due to a more favourable price environment in 2018 and during the first six months of 2019 than the prior 3 years, the company's financial position has significantly stabilized, strengthening the Group's position in negotiations with potential strategic investors.

During 2018 and the first six months of 2019, we have achieved the following:

- Settled all of our liabilities to contractors, apart from one material contractor who is being paid in monthly instalments until the end of 2019;
- Implemented measures to ensure production stabilization, including continued water injection activities;
- Almost completed the processing and interpretation of 3D seismic data to facilitate us in future planning of new wells;
- Constructed a crude processing facility firefighting system, a gas pipeline, and completed the construction of gas transportation infrastructure, the last of which enabled the supply of gas to Talinka and Rosneft, significantly reducing our gas flaring;
- Progressed negotiations with Trust Bank on the restructuring of earlier credit facilities; and
- Exported 100% of our crude oil from 1 February 2018, maximizing our netback per barrel thanks to export duty tax incentives held by the Group.

The Group incurred an operating profit in 2018 of US$786 thousand compared to an operating loss in 2017 of US$22,915 thousand. A detailed financial performance review of the Group for 2018 is presented in the financial review section below.

Strategic Review

2018 was a challenging year. Having experienced a cutoff from continued development funding since the first quarter of 2017, with over US$28.5mn of trade payables (of which US$20.4mn were overdue) due to contractors as at 31 December 2017, the Group's financial condition was highly strained. To respond to this challenge, a series of actions and efforts were undertaken to protect and stabilize the Group:

- An effort to engage with creditors was undertaken, and realistic repayment schedules were negotiated, enabling the Group to progressively reduce its trade payables balances from over US$28.5mn at the end of 2017, to less than US$6.6mn by the end of 2018;
- An effort to reach out to the new management of Bank Otkritie and Trust Bank, the Group's primary lenders, under the supervision of the Russian Central Bank since September of 2017, hence with a completely revamped management, in order to work constructively on a possible loan restructuring;
- A shut down of any discretionary capital investment and spending, conserving cash in the Group to repay creditors and meet interest payment obligations to our primary lenders;
- An implementation of measures to ensure production stabilization, including continued water injection activities, resulting in improved production and cash flow; and
- A continued strategic sales process with potential investors.

The Group had a more manageable US$6.6mn of trade payables by 31 December 2018 (with US$5.6mn in total overdue to several contactors). As at the time of publishing this report, the Group has US$4.2mn of trade payables, of which US$2.6mn is overdue.

At the time of publishing this report, the Group is under obligation to repay in November 2019, the full amount of bank debt, expected to be US$367 million. The Group does not have the ability to repay the loans by the due date and is in discussions with the lender to restructure the loans.

The Group's long-term aim is to create value for shareholders through the low-cost development of Ruspetro's oil and gas reserves with efficient operations, effective 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; and
- 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 modern technologies 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 and development drilling, well interventions and enhanced recovery projects.

The key strategic objectives for 2019, apart from fundraising, repaying creditors and engaging with the Group's lender, is to, firstly, complete the appraisal of our license areas by interpreting the new 3D seismic data acquired during the 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 2019 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 the successful refinancing (or restructuring) of its principal debt facilities, due to mature in November 2019, and on securing additional development funding. 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$75.4 million in 2018, compared with US$68.4 million in 2017. Revenues in 2018 were higher than in the prior year due to the following factors: (1) a 57% increase in the average realised oil price, (2) a full exemption from export duty in 2018 due to export duty relief, which was available to the Group from July 2017; partly offset by (3) a 36% decrease in oil production.

Cost of sales

The cost of sales, including depreciation and production related taxes, was US$65.6 million in 2018, compared with US$77.0 million in 2017. The decrease was driven by various factors, including a 36% decrease in oil production for the period, resulting in a US$8.7 million decrease in depletion expense, since oil and gas properties are depleted on a unit-of-production basis. The decreased oil production also drove a US$1.5 million decrease in mineral extraction tax ("MET") expense, despite the increase in oil prices. Cost of sales also decreased due to a payroll expenses reduction of US$1.2 million.

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 2018 amounted to US$9.1 million, compared with US$12.9 million in 2017. The decrease resulted from savings, mostly in payroll expenses partly offset by oil transportation costs, due to a 49% increase of export volumes.

EBITDA

EBITDA was US$29.2 million in 2018, compared with US$15.9 million in the previous year. The increase in EBITDA was driven by higher netbacks (revenues from oil sales less export duty less transportation expenses) which was a result of the 57% rise in the average realised oil price, a full exemption from export duty in 2018 and a decrease in operating expenses (cost of sales and S&A) such as MET and payroll expenses.

Comprehensive loss for the year and foreign exchange

The Group recorded a loss of US$75.6 million for 2018, compared with a loss of US$41.3 million in 2017. The higher loss is primarily due to a foreign exchange loss, which was equal to US$62.0 million in 2018, compared with US$15.3 million foreign exchange gain in the previous year. The reason for such a significant foreign exchange difference is mainly due to the following: The Group's operating companies, whose functional currency is the Russian Rouble, have borrowings in US Dollars. As a result of the Rouble being weaker against the US$ on 31 December 2018 compared with 31 December 2017, those borrowings in Rouble terms have increased, resulting in the accounting recognition of a US$63.3 million foreign exchange loss. After deducting the foreign exchange results from both years, the Group's loss would have been US$13.5 million in 2018, compared with US$56.6 million in 2017.

Balance sheet

Non-current assets have decreased by US$90.0 million, largely explained by the weaker Rouble on 31 December 2018 compared to 31 December 2017 (contributing US$66.6 million) and by depletion and depreciation of US$29.6 million, partly offset by capital expenditures of US$7.2 million during the period.

Total equity has decreased by US$180.0 million from positive US$1.0 million to negative US$179.0 million as at 31 December 2018. The movement in total equity was a result of the reinstatement of the shareholder loans and the foreign exchange loss as a result of the weaker Rouble against the US$ on 31 December 2018 compared to 31 December 2017.

Borrowings have increased during the reporting year by US$137.5 million to US$471.9 million, reflecting the reinstatement of US$111.3 million of shareholders loans, a US$22.2 million net increase in accrued interest on bank loans and US$4.0 million of accrued interest on shareholder and other related party loans.

The Group's current liabilities decreased by US$6.2 million from US$373.5 million to US$367.3 million as at 31 December 2018, mainly due to a decrease in trade payables by US$21.9 million due to repayment of outstanding liabilities and a decrease of provisions for claims by US$2.3 million, due to signing of settlement agreements with counterparties, partly offset by a US$22.2 million net increase in accrued interest on bank loans.

Trade and other payables decreased by US$26.4 million mostly due to the repayment of outstanding liabilities to contractors and the settlement (oil supplies) of prepayment facilities with Glencore Energy UK Ltd ("Glencore") and Energo Resurs LLC ("EnergoResurs", a Russian company affiliated with Glencore).

Cash flow

In 2018, the Group generated a net cash inflow from operating activities of US$23.9 million, resulting from operating cash flows before working capital adjustments of US$30.5 million, partly offset by changes in working capital of US$6.6 million. This resulted mostly from the repayment of outstanding liabilities to contractors.

During the period, the Group spent US$20.2 million on investment activities mainly on infrastructure-related capital expenditures and 3D seismic.

The Group paid US$5.8 million in interest mainly on outstanding bank loans.

Cash balances at the end of the period were US$0.5 million compared to US$2.4 million at the end of 2017.

Financing of Ruspetro's current operations and future development

In November 2018, the obligations to Otkritie Bank were fully transferred to Trust Bank without changing the terms of the loan facilities.

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

Even though Trust Bank has the formal right to demand such repayment, the management of the Group believes that Trust Bank will not exercise its right to demand early repayment of the debt until the repayment falls due in November 2019.

However, as per the existing terms of the loan agreements, the entire loan balances will become due for repayment to Trust Bank on 14 November 2019. Therefore, Trust Bank is expected to demand repayment of the loans in November, and, without a refinancing or restructuring of the debt, the Group is unlikely to find the funds to repay the loans in full. The Group is considering different ways to resolve the situation. In particular, it has been running a structured effort to identify a strategic investor that would provide financing to the Group or purchase the debt from the bank with a discount, however no offers have been received to date. The Group's management is also trying to negotiate with Trust Bank a restructuring and/or extension of the loan facilities, which, if successful, should allow the Group to raise further development funding and trade finance.

In September 2018, the Group signed deeds of amendment to the loan waivers, under which in 2017 shareholders of the Company had forgiven the Company's outstanding debts to them. Due to the non-fulfilment of the respective waiver conditions for the receiving of funding from a specified third party, the shareholder debts were reinstated in full and shall be repaid in April 2057 or earlier under certain conditions.

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 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 managed and the impact on the Group's business mitigated.

The Group's risk assessment table is presented below.

Impact

Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Highly likely	5	[illegible]	Med	High	High	High
Likely	4	[illegible]	Med	Med	High	High
Possible	3	[illegible]	Med	Med	Med	High
Unlikely	2	Low	[illegible]	Med	Med	Med
Rare	1	[illegible]	L[illegible]	[illegible]	[illegible]	[illegible]

Key risks and uncertainties are summarised in a table below.

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
External				
Oil price decreases to US$30/bbl and low oil price environment persists in the medium term	Low oil prices have a significant impact on the Group's financial performance and cash generation. A sustained period of low oil prices may contribute to valuation impairment, potentially impacting the Group's ability to generate adequate funds for the long-term capital investment required to sustain the production growth necessary to meet its primary lender's covenants	The Group uses a scenario-based approach to forecasting, incorporating global oil price forecasts, when determining its key performance indicators depending on oil prices on the global market. The Group monitors the cost- benefits of hedging products, as a component of total production. This approach helps the Group determine allocation of funding to optimise execution of the business plan and to minimise the principal risk of covenant default.	Likelihood: 2 Impact: 4	MEDIUM
Ruble devaluation to 70RUR per US$ or below	A weakening of the Russian Ruble 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 Rubles, whilst export revenues are US Dollar based. A weak Ruble, while impacting on the Group's US Dollar denominated balance sheet, benefits the Group's cost base and cash flow	Likelihood: 2 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	[redacted]

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 2018 the Group was in non-compliance with the production covenants mentioned in the Impact section. The Group is in discussions with the Bank regarding the possibility to obtain the appropriate waivers.	Likelihood: 5 Impact: 4	HIGH
Non-payment of obligations under the loan facilities on due date	If the Group does not repay in full the outstanding debt under the Trust Bank loan facilities, expected to be *approximately* US$367 *mn*, by the 14 November 2019 due date, and / or the debt is not restructured or its term extended; then the lender, in accordance with the legally binding share pledge agreements of Inga and Trans-Oil, may choose to foreclose on the collateral and receive the shares of these companies as repayment for the loans. Such an action would leave the Group with no cash-generating assets.	The Group is negotiating debt restructuring and the extension of loan terms in order to avoid negative outcome.	Likelihood: 4 Impact: 5	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 recognizes that limited funding sources are available to it while such a large outstanding debt is due for repayment in November of 2019. 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 agreeing extended repayment profiles to the creditors as well as 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 adheres to contracts.	Likelihood: 3 Impact: 4	MEDIUM
Production deviates from forecast by a 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: 3 Impact: 3	MEDIUM
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 may materially impact 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 it 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

Alexander Chistyakov
Executive Chairman
15 July 2019

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 2018.

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	Leningradsky prospect 37, 9th floor, office 49, Moscow, Russia, 125167

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 US$75.6 million (2017: loss of US$41.3 million) which has been added to the retained earnings deficit. The audited financial statements for the year ended 31 December 2018 are set out on pages 13-45. The Company has not declared any dividends during the year (2017: 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 2018 the Group reported net current liabilities of US$362.3 million (2017: US$364.5 million), which included a cash balance of US$0.5 million (2017: US$2.4 million), and a net loss of US$75.6 million (2017: US$41.3 million). The Group reported positive operating cash flow of US$23.9 million for the year ended 31 December 2018 (2017: US$2.3 million).

The ability of the Group to meet its liabilities as they fall due is dependent upon the continuing support of its finance providers, primarily Trust bank, whose credit facilities amounted to $351.1 million at 31 December 2018 and contain certain covenants. In order to avoid a default on these loan facilities which are due for repayment in November 2019, the directors are currently negotiating changes to the terms of the credit facilities with Trust bank. The directors believe that these negotiations will be successful and allow a restructuring of credit facilities to be completed ahead of the repayment date.

Subject to the availability of sufficient funds the Group plans to make investments to further develop its license blocks in order to grow its hydrocarbon production and sales, and ultimately to enhance shareholder value. 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 Company'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 the successful restructuring (or extension) of the Group's current bank debt, together with obtaining further financing from an investor. The Group has been focusing its efforts on restructuring the Group's current bank debt, due in November 2019, however the specific nature of the restructuring and its success 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 and the Company's ability to continue as a going concern. Based on the status of the discussions with Trust bank, 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 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, except where otherwise stated:

Alexander Chistyakov	Executive Chairman
Kirill Androsov	Non-Executive Director (resigned on 18 July 2018)
Irakli Chichua	Non-Executive Director (resigned on 17 January 2019)
Vitalii Deev	Non-Executive Director (appointed on 24 July 2018)
Irina Babirenko	Non-Executive Director (appointed on 18 January 2019)

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.

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 maintained till 15 January 2019 appropriate insurance cover in respect of Directors' and Officers' liabilities.

Share capital

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 2018 and 31 December 2017.

Substantial interests

As at 31 December 2018 and 31 March 2019, 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 31.12.2018	% of Shares as at 31.12.2018	Number of Shares as at 31.03.2019	% of Shares as at 31.03.2019
Limolines Transport Limited	21,892,082	25.16%	21,892,082	25.16%
Otkritie Investments Cyprus Limited	16,419,098	18.87%	16,419,098	18.87%
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%
Makayla Investments Limited	8,614,030	9.90%	8,614,030	9.90%

*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.

Significant agreements – Change of control

Loan facilities concluded by the Group with Trust bank contain provisions, which give rights to the Banks to require a transfer of ownership on pledged shares of subsidiaries in cases of non-compliance with covenants or default of payment obligations.

There are no arrangements, which if operated at a later date, may result in a change of control of the Company.

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 24 to the financial statements.

Transactions with related parties
Details of the Group's transactions with related parties are set out in Note 23 to the financial statements.

Post balance sheet events
All significant events after the balance sheet date of 31 December 2018 are set out in Note 26 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
15 July 2019

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and 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
15 July 2019

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 2018 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 26 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 2018 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; 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$75,561 thousand during the year ended December 31, 2018 and, as of that date, the Group's current liabilities exceeded its current assets by US$362,319 thousand. As stated in Note 2, this condition, along with the ability of the Group to refinance and/or 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 12, 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

Andrew Smyth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 July 2019

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 2018
(presented in US$ thousands, unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Revenue	7	75,350	68,373
Cost of sales	8	(65,614)	(76,953)
Gross profit/(loss)		**9,736**	**(8,580)**
Selling and administrative expenses	9	(9,079)	(12,866)
Other operating income/(expenses), net		129	(1,469)
Operating profit/(loss)		**786**	**(22,915)**
Finance costs, net	10	(31,098)	(30,569)
Foreign exchange (loss)/gain		(62,019)	15,321
Other income/(expenses), net	11	1,421	(5,405)
Loss before income tax		**(90,910)**	**(43,568)**
Income tax benefit	12	15,349	2,251
Loss for the period		**(75,561)**	**(41,317)**
Other comprehensive income that may be reclassified subsequently to income, net of income tax			
Exchange difference on translation to presentation currency		7,001	2,869
Total comprehensive loss for the period		**(68,560)**	**(38,448)**

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

	Note	2018	2017
Loss per share			
Basic and diluted loss per ordinary share (US$)	25	(0.87)	(0.10)

Consolidated Statement of Financial Position
as at 31 December 2018
(presented in US$ thousands, unless otherwise stated)

	Notes	31 December 2018	2017
Assets			
Non-current assets			
Property, plant and equipment	13	137,427	186,734
Mineral rights and other intangibles	14	192,970	233,666
Deferred tax assets	12	7,322	749
		337,719	**421,149**
Current assets			
Inventories	15	1,745	2,269
Trade and other receivables	16	2,676	4,258
Income tax prepayment		27	5
Cash and cash equivalents	17	515	2,407
		4,963	**8,939**
Total assets		**342,682**	**430,088**
Shareholders' equity			
Share capital	18	135,493	135,493
Share premium		389,558	389,558
Retained loss		(682,530)	(495,700)
Exchange difference on translation to presentation currency		(46,796)	(53,797)
Other reserves		25,397	25,397
Total equity		**(178,878)**	**951**
Liabilities			
Non-current liabilities			
Borrowings	19	114,909	-
Provision for dismantlement	20	11,095	13,278
Deferred tax liabilities	12	28,274	42,401
		154,278	**55,679**
Current liabilities			
Borrowings	19	356,970	334,408
Trade and other payables	21	7,685	34,123
Taxes payable other than income tax		2,403	3,704
Current income tax payable	12	144	-
Other current liabilities		80	1,223
		367,282	**373,458**
Total liabilities		**521,560**	**429,137**
Total equity and liabilities		**342,682**	**430,088**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Chief Financial Officer

15 July 2019

Consolidated Statement of Changes in Equity
for the year ended 31 December 2018
(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 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	19	-	-	94,399	-	-	94,399
Balance as at 31 December 2017		**135,493**	**389,558**	**(495,700)**	**(53,797)**	**25,397**	**951**
Balance as at 1 January 2018		**135,493**	**389,558**	**(495,700)**	**(53,797)**	**25,397**	**951**
Loss for the period		-	-	(75,561)	-	-	(75,561)
Other comprehensive income for the period		-	-	-	7,001	-	7,001
Total comprehensive loss for the period		-	-	**(75,561)**	**7,001**	-	**(68,560)**
Reinstatement of shareholders loans	19	-	-	(111,269)	-	-	(111,269)
Balance as at 31 December 2018		**135,493**	**389,558**	**(682,530)**	**(46,796)**	**25,397**	**(178,878)**

Consolidated Statement of Cash Flows
for the year ended 31 December 2018
(presented in US$ thousands, unless otherwise stated)

	Notes	Year ended 31 December 2018	2017
Cash flows from operating activities			
Loss before income tax		(90,910)	(43,568)
Adjustments for:			
Depreciation, depletion and amortisation	13, 14	28,515	37,391
Foreign exchange loss/(gain)	19	62,019	(15,321)
Finance costs	10	31,098	30,569
Impairment of property, plant and equipment	8,13	1,106	-
Provisions for litigations, net	11	(1,302)	2,825
Impairment of financial instruments	11	-	1,761
Disposal of property, plant and equipment	13	5	905
Operating cash flows before working capital adjustments		**30,531**	**14,562**
Working capital adjustments:			
Change in trade and other receivables		847	2,123
Change in inventories		151	(322)
Change in trade and other payables		(6,950)	(20,477)
Change in other taxes receivable/payable		(689)	6,454
Income tax paid		-	-
Net cash flows from operating activities		**23,890**	**2,340**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(20,175)	(17,847)
Net cash used in investing activities		**(20,175)**	**(17,847)**
Cash flows from financing activities			
Proceeds from loans and borrowings	19	-	15,000
Interest paid	19, 23	(5,818)	(4,498)
Net cash (used in) / generated from financing activities		**(5,818)**	**10,502**
Net decrease in cash and cash equivalents		**(2,103)**	**(5,005)**
Effect of exchange rate changes on cash and cash equivalents		211	(142)
Cash and cash equivalents at the beginning of the period		2,407	7,554
Cash and cash equivalents at the end of the period		**515**	**2,407**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018
(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 2018 were approved by its Board of Directors on 15 July 2019.

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 incorporation	Registered office address	Year of incorporation	Effective ownership 31 December 2018	Effective ownership 31 December 2017
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')	Management company	Russian Federation	Leningradsky prospekt 37, 9th floor, office 49, Moscow, Russia, 125167	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 2018, the Group reported net current liabilities of US$362,319 thousand (2017: US$364,519 thousand), which included a cash balance of US$515 thousand (2016: US$2,407 thousand), and net loss for the year of US$75,561 thousand (2017: US$41,317 thousand). The Group reported a positive operating cash flow of US$23,890 thousand in the reporting period (2017: US$2,340 thousand).

The ability of the Group to meet its liabilities as they fall due is dependent upon the continuing support of its finance providers, primarily Trust bank, whose credit facilities amounted to $351,182 thousand at 31 December 2018 and contain certain covenants. In order to avoid a default on these loan facilities which are due for repayment in November 2019, the directors are currently negotiating changes to the terms of the credit facilities with Trust bank. The directors believe that these negotiations will be successful and allow a restructuring of credit facilities to be completed ahead of the repayment date.

Subject to the availability of sufficient funds the Group plans to make investments to further develop its license blocks in order to grow its hydrocarbon production and sales, and ultimately to enhance shareholder value. 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 the successful restructuring (or extension) of the Group's current bank debt, together with obtaining further financing from an investor. The Group has been focusing its efforts on restructuring the Group's current bank debt, due in November 2019, however the specific nature of the restructuring and its success 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 Trust bank, 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 non-current 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 IFRS 9 are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows.

The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Financial instruments carried on the consolidated statement of financial position include loans and receivables, cash and cash equivalent balances, borrowings and accounts payable.

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 both financial assets, which are subsequently carried at amortised cost using the effective interest method less any provision for impairment. The Group measures financial assets at amortised cost if both of the following conditions are met:
• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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.

Accounts payable are non-interest bearing and are normally due within 30 days from the end of the month the Group receives an invoice.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group uses the ratings from the Moody's and S&P Global Ratings both to determine whether the debt instruments have significantly increased in credit risk and to estimate ECLs. As there has not been a significant increase in credit risk since origination, the allowance will be based on a 12-month ECL.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

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 recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. Specifically, Revenue from sale of crude oil and gas condensate is recognised when the title passes. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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 RUR69.47 and RUR57.60 as at 31 December 2018 and 31 December 2017, respectively and the average exchange rates for the year ended 31 December 2018 and 2017 were RUR62.69 and RUR58.31, respectively. The US$ to pounds sterling (£) exchange rates were £0.78 and £0.74 as at 31 December 2018 and 31 December 2017, respectively and the average exchange rates for the year ended 31 December 2018 and 2017 were £0.75 and £0.78, respectively. The increase in the US$ to RUR exchange rate for the year ended 31 December 2018 has resulted in a loss of US$62,019 thousand in the consolidated statement of profit or loss and an adjustment of US$5,895 thousand in other comprehensive loss (refer to Notes 13 and 14).

Changes in accounting policies and disclosures
New and amended standards and interpretations
The Group applied IFRS 15 and IFRS 9 in these consolidated financial statements for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group performed an assessment of the effect on its financial position and results of operations after adopting of IFRS 15. The Group's performance obligation is to sell crude oil to the customers. The Group believes that it would still continue to act as a principal. The Group expects that revenue would be recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, which is consistent with the previous accounting policy.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group.

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The Group prepared assessment of ECL for financial assets (mostly represented by accounts receivable) and concluded that there has not been a significant increase in its credit risk since initial recognition and no default events are expected within the next 12-months. Therefore, no additional impairment should be recognized.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

IFRIC 22 Interpretation entitled Foreign Currency Transactions and Advance Consideration
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 de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation did not have a material impact on the consolidated financial statements as its requirements were already previously incorporated in the accounting policy of the Group.

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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.

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

Other non-production assets
Property, plant and equipment other than oil and gas properties are depreciated on a straight-line basis over their useful 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	
	2018	**2017**
+ 10%	(2,592)	(3,399)
- 10%	3,168	4,155

Provision for dismantlement
The Group has a constructive obligation to recognise a provision for dismantlement for its oil and gas assets (Note 20). 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.

Management of the Company did not identify any indicators of impairment. Therefore, impairment testing is not required.

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.

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 2018 or earlier, but are not yet effective and therefore have not been applied:

- *IFRS 16 Leases* (issued by the IASB in January 2016, effective for annual periods beginning on or after January 1, 2019).

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

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 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.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, Changes in Accounting Estimates and Errors (issued by the IASB in October 2018, effective for annual periods beginning on or after January 1, 2020). The amendments to IAS 1 and IAS 8 introduce new definition of material. The Company does not expect the amendments to have a material impact on the consolidated financial statements.
- Revised version of Conceptual Framework for Financial Reporting (issued by the IASB in March 2018, effective for annual periods beginning on or after January 1, 2020). In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The Company is currently assessing the impact of the revised version of Conceptual Framework 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.

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	
	2018	**2017**
Revenue from crude oil sales	74,665	67,659
Other revenue	685	714
Total revenue	**75,350**	**68,373**

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

For the years ended 31 December 2018 and 2017, revenue from export sales of crude oil amounted to US$64,164 thousand and US$30,101 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	**2018**	**2017**
Customer 1	38,405	30,101
Customer 2	25,759	-
	64,164	**30,101**

8. Cost of sales

	Year ended 31 December	
	2018	**2017**
Depletion, depreciation and amortisation	28,162	36,815
Mineral extraction tax	14,965	16,440
Change of inventories and cost of purchased oil	7,877	5,797
Employee benefit expense	5,398	6,625
Production services	3,715	4,460
Taxes other than income tax	2,260	2,693
Repairs and maintenance	1,432	1,835
Impairment of property, plant and equipment	1,106	-
Transportation services	221	772
Other	478	1,516
Total cost of sales	**65,614**	**76,953**

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

9. Selling and administrative expenses

	Year ended 31 December	
	2018	2017
Selling expenses		
Oil transportation costs	4,416	3,064
Administrative expenses		
Employee benefit expense	2,626	6,827
Professional services	845	705
Depreciation and amortisation	353	576
Rent expenses	260	629
IT, telecom and other information services	166	182
Bank charges	75	109
Other	338	774
Total selling and administrative expenses	**9,079**	**12,866**

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:

	Year ended 31 December	
	2018	2017
Fees payable to the Company's auditor and its associates for the audit of company and consolidated financial statements	148	135
Fees payable to the Company's auditor and its associates for other services:		
– Tax advisory services	-	-
– Other consulting services	-	-

Employee benefit expense

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

	Year ended 31 December	
	2018	2017
Wages and salaries	6,697	12,024
Social security costs	1,327	1,428
Total employee costs	**8,024**	**13,452**
Average number of employees (including Directors)	217	219

Details of the remuneration of senior management are set out in Note 23.

10. Finance costs

	Year ended 31 December	
	2018	2017
Interest expense on borrowings	29,061	26,661
Unwinding discount of provision for dismantlement (Note 20)	1,041	1,020
Other financial expenses	996	2,888
Total finance costs	**31,098**	**30,569**

For the years ended 31 December 2018 and 2017, borrowing costs amounting to US$1,907 thousand and US$3,389 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 2018 was 12% per annum (2017: 9%).

Other financial expenses include interest on the outstanding amount of Glencore and Marsa prepayments and amortisation of fees related to the Trust credit facilities.

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

11. Other income, net

Other income, net, for 2018 include reversal of provisions for litigations with counterparties in total amount of US$1,302 thousand.

Other expenses, net, for 2017 include provisions for litigations with counterparties in total amount of US$2,825 thousand (see Note 22) and impairment charge of financial instruments in total amount of US$1,761 thousand.

12. Income tax

The major components of income tax expense for the years ended 31 December 2018 and 2017 were:

	Year ended 31 December	
	2018	2017
Current income tax expense	(160)	-
Deferred tax benefit	15,509	2,251
Total income tax benefit	**15,349**	**2,251**

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

	Year ended 31 December	
	2018	2017
Loss before income tax	(90,910)	(43,568)
Income tax benefit at applicable tax rate	18,182	8,714
Tax losses utilized	165	-
Tax effect of losses for which no deferred income tax asset was recognised	(837)	(1,042)
Tax effect interest on shareholders' loans	(794)	(708)
Tax effect of non-deductible expenses	(1,367)	(4,713)
Income tax benefit	**15,349**	**2,251**

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 2018	Recognised in profit or loss	Translation difference	31 December 2018
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Accounts payable	2,773	(166)	(377)	2,230
Tax loss carry-forward	13,768	12,676	(3,588)	22,856
Property, plant and equipment	(10,939)	1,141	987	(8,811)
Mineral rights and intangible assets	(46,733)	160	8,476	(38,097)
Inventories	(10)	(40)	(96)	(146)
Loans and borrowings	984	7,400	(889)	7,495
Accounts and notes receivable	(1,495)	(5,662)	678	(6,479)
Net deferred tax asset/ (liability)	**(41,652)**	**15,509**	**5,191**	**(20,952)**
Recognised deferred tax asset	749	7,441	(868)	7,322
Recognised deferred tax liability	(42,401)	8,068	6,059	(28,274)
Net deferred tax asset/ (liability)	**(41,652)**	**15,509**	**5,191**	**(20,952)**

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

	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)**

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 utilised loss carry forwards can't exceed 50% of the taxable profits of the relevant year.

The Group did not recognise deferred income tax assets of US$60,341 thousand and US$71,227 thousand, in respect of losses that can be carried forward without limiting the year of expiration against future taxable income, amounting to US$305,985 thousand and US$358,846 thousand as at 31 December 2018 and 31 December 2017, respectively.

13. Property, plant and equipment

	Oil and gas properties	Other property, plant and equipment	Construction in progress	Total
Cost as at 1 January 2018	**302,558**	**5,618**	**27,661**	**335,837**
Additions	-	-	5,958	5,958
Transfers to fixed assets	6,992	77	(7,069)	-
Change in provision for dismantlement (Note 20)	(951)	-	-	(951)
Disposals	-	-	(5)	(5)
Effect of translation to presentation currency	(47,303)	(967)	(3,955)	(52,225)
Cost as at 31 December 2018	**261,296**	**4,728**	**22,590**	**288,614**
Accumulated depletion and impairment as at 1 January 2018	**(144,656)**	**(4,099)**	**(348)**	**(149,103)**
Charge for the period	(26,085)	(353)	-	(26,438)
Impairment	-	-	(1,106)	(1,106)
Disposals	-	-	-	-
Effect of translation to presentation currency	24,557	735	168	25,460
Accumulated depletion and impairment as at 31 December 2018	**(146,184)**	**(3,717)**	**(1,286)**	**(151,187)**
Net book value as at 31 December 2018	**115,112**	**1,011**	**21,304**	**137,427**

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

	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 20)	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**

For the years ended 31 December 2018 and 31 December 2017, 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 2018 and 2017, 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$21,034 thousand was pledged under the credit facility agreements with Trust as at 31 December 2018 (31 December 2017: US$31,982 thousand).

14. Mineral rights and other intangibles

	Mineral rights	Other intangible assets	Total
Cost as at 1 January 2018	**224,889**	**15,955**	**240,844**
Additions	-	1,224	1,224
Disposals	-	(135)	(135)
Effect of translation to presentation currency	(38,427)	(2,832)	(41,259)
Cost as at 31 December 2018	**186,462**	**14,212**	**200,674**
Accumulated depletion and impairment as at 1 January 2018	**(6,327)**	**(851)**	**(7,178)**
Charge for the period	(1,728)	(349)	(2,077)
Disposals	-	135	135
Effect of translation to presentation currency	1,250	166	1,416
Accumulated depletion and impairment as at 31 December 2018	**(6,805)**	**(899)**	**(7,704)**
Net book value as at 1 January 2018	218,562	15,104	233,666
Net book value as at 31 December 2018	**179,657**	**13,313**	**192,970**

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

	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**

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

15. Inventories

	31 December	
	2018	**2017**
Crude oil	1,207	1,408
Spare parts, consumables and other inventories	538	861
Total inventories	**1,745**	**2,269**

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

During 2018, US$7,877 thousand (2017: US$5,797 thousand) was recognised as an expense for inventories. This is recognised in cost of sales.

16. Trade and other receivables

	31 December	
	2018	**2017**
Trade receivables	630	1,113
Other receivables and prepayments	763	1,518
VAT recoverable	1,283	1,627
Total trade and other receivables	**2,676**	**4,258**

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.. 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 2018 and 31 December 2017, the Group has impaired prepayments and other receivables amounting to US$242 thousand and US$277 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.

17. Cash and cash equivalents

	31 December	
	2018	**2017**
Cash in bank denominated in RUR	515	937
Cash in bank denominated in US$	-	1,368
Cash in bank denominated in £	-	101
Cash in bank denominated in EUR	-	1
Total cash and cash equivalents	**515**	**2,407**

18. Shareholders' equity

Share capital

	31 December	
	2018	**2017**
Ordinary share capital	135,493	135,493

Share capital of the Company authorised, issued and paid as at 31 December 2018 and 2017 consisted of 87,011,201 Consolidated ordinary shares with a par value of GBP 0.01 each. 86,141,089,584 Deferred shares with a par value of GBP 0.001 each were cancelled on 30 May 2017.

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

19. Borrowings

	31 December 2018	31 December 2017
Current		
Otkritie	-	301,742
Trust	351,182	27,208
Short-term loans from shareholders of the Company	5,788	5,458
Total current borrowings	356,970	334,408

	31 December 2018	31 December 2017
Non-current		
Long-term loans from shareholders of the Company	114,909	-
Total long-term borrowings	114,909	-

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 2018, 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 2017: US$90,300 thousand and US$44,700 thousand, respectively).

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 2018 was equal to US$24,292 thousand (2017: US$23,946 thousand).

On 15 November 2018, the obligations to the Otkrytie were transferred to the Trust without changing the terms of the credit facilities.

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 2018, total amount of US$25,600 thousand was drawn down under this facility (31 December 2017: 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 2018 was equal to US$2,564 thousand (2017: US$2,564 thousand)

Reinstatement of the Loans from shareholders of the Company
On 19 September 2018, Ruspetro Holding Limited signed deeds of amendments to the waivers under which in April and May 2017 shareholders of the Company have forgiven outstanding debt on loans of US$94,399 thousand. In accordance with the terms of the deeds of amendments, if Ruspetro Holding Limited fails to receive investments from a specified third party by 24 September 2018, the debts reinstate in the amount of US$111,269 thousand.

Since at 24 September 2018 the Company did not fulfill the above condition, debts were reinstated and shall be repaid on 1 April 2057 or within 90 days upon sale of 30% or more shares in the Company or subsidiaries, or issue and sale by Ruspetro Russia to the third party of its new shares exceeding 25%, or occurrence of an event of default of US$10,000 thousand of the Company, or subsidiaries, whichever occur earlier. Interest rate on these loans is Libor + 10% per annum.

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

Other loans from shareholders 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 2018 the Group was in non-compliance with the production covenants agreed with Trust. Under the terms of the loan agreements, non-compliance with the production covenants entitles Trust to demand for early repayment of the loans, which led to the classification of the loans as short-term liabilities as at 31 December 2018, also in accordance with the terms of loan agreements they should be paid in November 2019 and should be classified as short-term anyway.

Foreign exchange gains/losses
The Group recognised a net foreign exchange loss amounting to US$62,019 thousand during the year ended 31 December 2018, out of which US$62,280 thousand relate to the US$ denominated credit facilities and outstanding accrued interest. 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.

Changes in liabilities arising from financing activities

	1 January 2018	Cash flows	Loan reinstatement	Other	31 December 2018
Current interest-bearing loans and borrowings	334,408	(5,236)	-	27,798	356,970
Non-current interest-bearing loans and borrowings	-	-	111,269	3,640	114,909
Total liabilities from financing activities	**334,408**	**(5,236)**	**111,269**	**31,438**	**471,879**

20. 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 23 years from 31 December 2018.

	2018	2017
As at 1 January	**13,278**	**11,496**
Additions for new obligations and changes in estimates (Note 13)	(945)	138
Unwinding of discount	1,041	1,020
Effect of translation to presentation currency	(2,279)	624
As at 31 December	**11,095**	**13,278**

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.

21. Trade and other payables

	31 December	
	2018	2017
Trade payables	6,556	28,456
Wages and salaries	485	27
Total financial liabilities	**7,041**	**28,483**
Contract liabilities	58	2,269
Provisions (Note 22)	586	3,371
Total trade and other payables	**7,685**	**34,123**

Trade and other payables are denominated primarily in Russian roubles.

22. Capital commitments and other contingencies

Capital commitments
As at 31 December 2018, the Group had contractual commitments for capital expenditures of US$2,175 thousand (31 December 2017: US$3,982 thousand).

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

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 2018. 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.

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 2018, 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 2018 and 2017 were as follows:

	31 December	
	2018	**2017**
Within one year	123	68
After one year but not more than five years	32	46
More than five years	31	44
Total operating lease commitments and other contingencies	**186**	**158**

Operating risks and contingencies
Pledge of shares
On the opening of its credit facilities with Otkritie, which were transferred to Trust (Note 19), the Group provided to the lender 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

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

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 2018 the Russian economy continued to be 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 2018 management of the Group assessed the potential impact of such claims and made a provision in the amount of $US43 thousand (31 December 2017: $US2,825 thousand).

As at 31 December 2018 there were no claims against the Group companies with possible successful outcomes.

23. 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	
	2018	**2017**
Employee remuneration	109	2,956
including compensation of loss of office	-	1,240
Benefits in kind	67	162
Non-executive Directors' fees	-	108
Total compensation of key management personnel of the Group	**176**	**3,226**

The highest paid director's compensation is shown below:

	Year ended 31 December	
	2018	**2017**
Employee remuneration	109	1,693
including compensation of loss of office	-	*691*
Benefits in kind	67	78
Total compensation	**176**	**1,771**

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:

	2018	**2017**
As at 1 January	**5,458**	**91,318**
Loans received	-	5,000
Loans reinstated	111,269	-
Interest accrued	3,970	3,539
Loans forgiven	-	(63,670)
Interest forgiven	-	(30,729)
As at 31 December	**120,697**	**5,458**

The effective interest rates of loans and borrowings are disclosed in Note 19.

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

24. 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 2018 and 2017, 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 2018 and 2017 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 negative US$178,878 thousand and equal to US$951 thousand as at 31 December 2018 and 2017 respectively.

The Group's total debt on loans and borrowings was equal to US$471,879 thousand and US$334,408 thousand as at 31 December 2018 and 31 December 2017 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 2018 and 2017, the Group was not subject to any externally imposed capital requirements (except for described in Note 22). As at 31 December 2017 the Group is subject to certain covenants (Note 19).

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.

Commodity price risk	**Year ended 31 December**	
	2018	**2017**
Favourable +50%	37,333	33,830
Unfavourable -50%	(37,333)	(33,830)

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.

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

Increase/decrease in interest rate	**Year ended 31 December Effect on loss before tax**	
	2018	**2017**
+1.0%	1,204	52
-1.0%	(1,204)	(52)

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 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**	
	2018	**2017**
US$ strengthening by 11%	(34,925)	(32,603)
US$ weakening by 11%	43,558	40,663

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted payments.

	31 December 2018					
	On demand	**Less than 1 year**	**1 to 2 years**	**2 to 5 years**	**> 5 years**	**Total**
Borrowings (including interest)	5,788	375,085	-	-	12,736,204*	13,117,077
Trade payables	5,566	990	-	-	-	6,556
	11,354	**376,075**	**-**	**-**	**12,736,204**	**13,123,633**

*Amount relates to reinstated shareholder's loans and includes all interest that would be accrued up to the 2057 maturity date

	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**	**-**	**-**	**412,398**

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 two major customers being an international oil traders and accounting for at least 86% of total sales in 2018 (2017: 44%). 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 2018, the Group had one counterparty (2017: three counterparties) with aggregated receivables balances US$510 thousand (2017: US$1,228 thousand) or 17% of the gross amount of trade and other receivables (2017: 28%).

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 2018	31 December 2017	31 December 2018	31 December 2017
Financial assets				
Cash and cash equivalents	515	2,407	515	2,407
Trade receivables	630	1,113	630	1,113
Financial liabilities				
Trade payables	6,556	28,456	6,556	28,456
Borrowings	471,879	334,408	494,070	327,176

25. 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	
	2018	2017
Loss attributable to equity holders of the Company	75,561	41,317
Weighted average number of ordinary shares in issue	87,011,201	405,814,538
Basic Loss per share (US$)	0.87	0.10

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.

26. 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.

27. 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 2018 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)	103,877	147,915	8,300	250	130,431
2C Contingent	223,305	301,462	10,000	450	275,665
Total	**327,182**	**449,377**	**18,300**	**700**	**406,096**

Statement of Financial position
as at 31 December 2018
(presented in US$ thousands, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Assets			
Non-current assets			
Investments in subsidiaries	6	317,725	317,725
Loans issued to subsidiaries		5,835	5,996
		323,560	**323,721**
Current assets			
Receivables from Ruspetro JSC		1,735	1,739
Receivables from Ruspetro Holding Limited		782	782
Trade and other receivables		-	26
Cash and cash equivalents	7	-	102
		2,517	**2,649**
Total assets		**326,077**	**326,370**
Shareholders' equity			
Share capital	8	135,493	135,493
Share premium		389,558	389,558
Retained loss		(206,793)	(206,626)
Other reserves		7,221	7,221
Total equity		**325,479**	**325,646**
Liabilities			
Current liabilities			
Payables to Ruspetro JSC		540	540
Trade and other payables		58	184
		598	**724**
Total liabilities		**598**	**724**
Total equity and liabilities		**326,077**	**326,370**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Chief Financial Officer

15 July 2019

Statement of Changes in Equity
as at 31 December 2018
(presented in US$ thousands, unless otherwise stated)

	Share capital	Share premium	Retained loss	Other reserves	**Total equity**
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

	Share capital	Share premium	Retained loss	Other reserves	**Total equity**
Balance as at 1 January 2018	135,493	389,558	(206,626)	7,221	325,646
Loss for the period	-	-	(167)	-	(167)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	(167)	-	(167)
Balance as at 31 December 2018	135,493	389,558	(206,793)	7,221	325,479

Statement of Cash Flow
for the year ended 31 December 2018
(presented in US$ thousands, unless otherwise stated)

	Year ended 31 December 2018	2017
Cash flows from operating activities		
Loss before income tax	(167)	(199)
Adjustments for:		
Foreign exchange gain	-	(58)
Finance income	-	(91)
Operating cash flow before working capital adjustments	**(167)**	**(348)**
Working capital adjustments:		
Change in trade and other receivables	30	(15)
Change in trade and other payables	(126)	51
Change in other taxes receivable/payable	-	23
Net cash flows used in operating activities	**(263)**	**(289)**
Cash flows from investing activities		
Repayment of loans given to subsidiaries	161	165
Net cash from investing activities	**161**	**165**
Cash flows from financing activities		
Proceeds from loans and borrowings	-	-
Net cash generated from financing activities	-	-
Net decrease in cash and cash equivalents	**(102)**	**(124)**
Cash and cash equivalents at the beginning of the period	102	226
Cash and cash equivalents at the end of the period	-	**102**

(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 2018 were approved by its Board of Directors on 15 July 2019.

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 2018
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$241 thousand.

Going concern

These financial statements have been prepared on a going concern basis.

At 31 December 2018, the Company reported net current assets of US$1,919 thousand (2017: US$1,925 thousand), which included cash in hand of US$0 thousand (2017: US$102 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 Trust bank, whose credit facilities amounted to $351,182 thousand at 31 December 2018 and contain certain covenants. In order to avoid a default on these loan facilities which are due for repayment in November 2019, the directors are currently negotiating changes to the terms of the credit facilities with Trust bank. The directors believe that these negotiations will be successful and allow a restructuring of credit facilities to be completed ahead of the repayment date.

Subject to the availability of sufficient funds the Company plans to make investments to further develop its license blocks in order to grow its hydrocarbon production and sales, and ultimately to enhance shareholder value. 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 the successful restructuring (or extension) of the INGA's current bank debt, together with obtaining further financing from an investor. The Company has been focusing its efforts on restructuring the INGA's current bank debt, due in November 2019, however the specific nature of the restructuring and its success 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 Trust bank, the Directors are confident that the Company 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.

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 accounting policy for impairment of financial assets is consistent with the Group accounting policy as presented in the notes to the Group consolidated financial statements.

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.

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

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 0.78 and 0.74 as at 31 December 2018 and 31 December 2017, respectively and the average rates for the year ended 31 December 2018 and 2017 were 0.75 and 0.78 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. New and amended standards and interpretations issued but not yet effective

The new and amended standards and interpretations issued but not yet effective are presented in the notes to the Group financial statements.

6. Investments in subsidiaries

	31 December 2018	2017
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).

7. Cash and cash equivalents

	31 December 2018	2017
Cash in bank denominated in £	-	101
Cash in bank denominated in US$	-	1
Total cash and cash equivalents	-	**102**

Cash balances generally bear no interest.

8. Shareholders' equity

Share capital

	31 December 2018	2017
Ordinary share capital	135,493	135,493

Issued and paid up share capital of the Company as at 31 December 2018 and 2017 consisted of 87,011,201 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.