Ruspetro Limited

Annual Report & Accounts
For the year ended 31 December 2016

COMPANY SECRETARY
RUSPETRO LTD
No 07817695

Strategic Report for the Year Ended 31 December 2016

The Directors present their Strategic Report for 31 December 2016 for Ruspetro Limited (hereinafter referred to "the Company") and its subsidiary undertakings (together referred to as "the Group"), for the year ended 31 December 2016.

2016 Performance Overview

2016 has been a year in which the Board and Management have positioned the Company for future profitable growth taking into account the low oil price environment we see in the foreseeable future. We have matured a compelling long-term economic development plan for our assets based on our technology driven approach, capitalising on our strides in technology implementation, surface and sub-surface project execution capability, and delivery of further reduction in our actual and forecast well costs.

During the year, we have built on our successful 2015 horizontal drilling campaign, having drilled and completed four horizontal multi-stage fractured development wells and eight appraisal wells (five horizontal and three deviated). Bringing these wells online allowed production to reach a level of 7.6 kbopd at the end of September, a record for the Group. The production performance of the last horizontal well (well 412) delivered particularly encouraging initial rates in excess of 4.5 kbopd on natural flow, at a cost of under US$4.0 million – being approximately one third of the cost of the first horizontal well drilled and completed by the Group in 2014. Average oil production in 2016 amounted to 4.2 kbopd, a 6% increase from last year.

In 2016, the Group has continued building a robust business with positive production operating cash flows at stagnant oil prices. This in itself, however, is not enough to guarantee the long-term sustainability of the business, given the Group's current level of debt. At current oil prices and production levels, the Group is not able to generate sufficient free cash flow to cover the combination of capital investment, interest, and principal repayments on its outstanding borrowings, and it continues to draw down debt to finance its development growth. The only manner in which the Group will be able to repay its existing loans and generate a return for its investors in today's low oil price environment, is through a substantial ramp-up in production, which will require significant additional investment.

The combined simultaneous factors of the Group's development success and leverage has at the Board level raised the strategic question of how best to raise the funds necessary to bring the business to the point where it is generating sufficient free cash flow to meet its financial obligations while yielding a return for shareholders. The Board considered that the funding necessary to achieve the Group's objectives is currently not available in the public equity markets, given the general sector sentiment and the strained global geopolitical environment. Furthermore, given the Group's current level of debt, the Board believes that the additional investment required to generate the necessary production growth cannot be achieved by borrowing more, and hence must be achieved via raising equity in the Group from a strategic investor. As a result, the Group has decided last year to delist its shares in order to unlock more opportunities for additional equity fund raising to secure the required development plan implementation.

Strategic Review

The Group's aim is to create value for shareholders through the accelerated low-cost development of Ruspetro's oil and gas reserves through operational and capital efficiency, via de-risking its assets through smart development and appraisal drilling, while adhering to high standards of corporate governance and being attentive to operating safely and responsibly.

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 and execution;
- reservoir management:
  - waterflooding of low-permeability reservoirs;
  - horizontal well evaluation and numerical modelling;
- *production well and system optimisation (oil/gas/water);*
- production chemistry;
- lean/flexible facilities.

The key operational principles in the Group are:

- robust decision making through the use of appropriate decision analysis support tools;
- a strong value-focused mindset. Naturally, the Group wishes to have the lowest cost solutions, but initially there may be additional costs to test an idea that will lead, if proven, to longer-term value;
- an insistence on fully integrated technical and commercial thinking and evaluation;
- a rigorous challenging of the concept of "this is how we do it in Western Siberia";
- a focus on the adoption of field-proven ideas, mainly from the US in terms of fracturing concepts, but also in other key areas around the world;
- an emphasis on a core international team of experienced technical staff to oversee and mitigate the risk of transferring new ideas into the Group's business;

- a particular focus on collaboration with smaller service companies for mutual benefit to test and if successful bring their ideas and technology into the Group's operations.

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

The key strategic objectives for 2017, apart from fundraising, is to firstly complete the appraisal of our license area, with completion of the 565 km2 3D seismic program, and secondly to complete investments in our in-field facilities required to rapidly ramp up production in year end 2017/2018. Those strategic objectives of 2017 will serve us well to the overall long-term strategic objective of building on production growth using this new seismic data to develop a de-risked portfolio of well locations.

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

Financial Review

Revenues

Revenues were US$44.0 million in 2016, compared with US$43.9 million in 2015. Revenues in 2016 were mostly in line with the prior year, with three material factors offsetting one another: (1) a reduction in revenues driven by a 12% reduction in the average realised oil price, (2) an increase in revenues generated by a 10% increase in liquids production and (3) an increase in revenues from a 28% lower export duty due to lower oil prices.

Cost of sales

The cost of sales, including depreciation and production-related taxes was US$57.2 million in 2016, compared with US$53.9 million in 2015. The increase was driven by various factors, primarily a 10% increase in oil production for the period, and a US$1.6 million increase in change of inventories and cost of purchased oil. The additional volumes produced drove a US$0.5 million increase in production-related services, as well as a US$0.5 million increase in depletion expense due to the production-related reduction in the volume of proved developed reserves in 2016.

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 2016 amounted to US$14.7 million, compared with US$15.6 million in 2015. The decrease resulted from savings, mostly in payroll expenses and oil transportation costs, which were partially achieved due to a 10% weakening of the Russian Ruble.

EBITDA

EBITDA was US$0.6 million in 2016, compared with US$2.6 million in the previous year. The drop in EBITDA was primarily driven by lower netback (revenues from oil sales less export duty less transportation expenses) which was a result of the 12% decline in the average realised oil price, and, to a lesser extent, the increase in cost of sales.

These effects were offset by additional contributions to gross profit from a 10% increase in liquids production, a lower export duty, due to the falling trend of oil prices, and lower S&A expenses, partially achieved through the weakening of the Russian Ruble.

Comprehensive loss for the year and foreign exchange

The Group recorded a loss of US$19.9 million for 2016, compared with US$99.1 million in 2015. The 2016 result includes a foreign exchange gain of US$47.7 million, compared with foreign exchange loss US$57.2 million in the previous year. The Group's operating companies, whose functional currency is the Russian Ruble, have borrowings in US Dollars. As a result of the Ruble strengthening on 31 December 2016 compared with 31 December 2015, those borrowings in Ruble terms have substantially decreased, resulting in the accounting recognition of US$45.7 million in foreign exchange gains. After deducting the foreign exchange results from both years, the Group's loss would have been US$67.6 million in 2016, compared with *US$41.9 million in 2015.*

Balance sheet

Non-current assets have increased by US$90.4 million, largely explained by the strengthening of the Ruble on 31 December 2016 compared to 31 December 2015 (contributing US$62.5 million) and by capital expenditures of US$46.4 million incurred during the period, partially offset by depletion and depreciation of US$28.5 million.

Total equity has fallen by US$15.0 million from negative US$40.0 million to negative US$55.0 million as at 31 December 2016. The movement in total equity was a result of the annual operating loss and finance costs of debt servicing, partially offset by foreign exchange gain as a result of Ruble strengthening on 31 December 2016 compared to 31 December 2015.

In December 2016, addendums to the credit facilities with Otkritie were concluded, whereby interest became payable quarterly based on greater of 1.5% or the 3 month Libor, and the residual accrued (unpaid) interest will become due together with loan principal in November 2019. In March 2017, the Group signed an identical addendum with Trust Bank ("Trust") as with Otkritie, resetting terms of interest payable.

Borrowings have increased during the reporting year by US$80.2 million to US$387.6 million, reflecting US$92.1 million drawn down of the Group's existing bank facilities with Otkritie and Trust Bank and a US$4.8 million net increase of accrued interest on bank loans following the addendums signed in December 2016, partly offset by repayments of principal of US$4.0 million, and payment of accrued interest on shareholder loans, resulting in a net decrease of accrued interest of US$13.3 million.

The Group's current liabilities decreased by US$0.8 million from US$49.0 million to US$48.2 million as at 31 December 2016. Movements in current liabilities include the reclassification of long-term part of an existing shareholder loan from Makayla Investments Limited ("Makayla") in the amount of US$15.5 million, which was a current liability at the previous reporting date. In December 2016 the Group concluded an addendum to the Makayla loan agreement rescheduling the principal and accrued interest payments into several parts, with US$2.0 million payable in April and October 2017 and April and October 2018, with final settlement of remaining principal of US$15.8 million due in May 2019.

Trade and other payables increased by US$17.2 million mostly due to an increase of trade accounts payable and the Group's prepayment facility with Glencore Energy UK Ltd ("Glencore") and Energo Resurs LLC ("EnergoResurs", a Russian company affiliated with Glencore). Trade accounts payable increased by US$10.9 million to US$16.3 million as at 31 December 2016 due primarily to significant construction activities and 3D-seismic surveying operations performed by a Group's contractor at the end of the year.

Within current liabilities between 31 December 2015 and 31 December 2016 there was a US$7.6 million net increase in prepayments to Glencore mainly as a result of a US$10.0 million export prepayment facility drawn down in November, and a RUR350 million (US$5.7 million) domestic prepayment facility drawn down from Energo Resurs in December of 2016. A domestic prepayment facility of RUR750 million (US$11.3 million) drawn down from Energo Resurs in May 2016 was partially offset against sales by 31 December 2016.

Cash flow

In 2016, the Group generated a net cash inflow from operating activities of US$0.2 million, resulting from a cash contribution from changes in working capital of US$0.2 million. This resulted mostly from an increase in trade and other payables of US$3.4 million, partly offset by an increase in taxes receivable by US$2.5 million and trade receivables by US$0.6 million.

During the period, the Group spent US$46.4 million on investment activities. This consisted of US$31.4 million spent on the construction of new wells, US$12.0 million on infrastructure-related capital expenditures, US$2.0 million on the purchase of intangible and other assets and US$1.0 million in capitalised staff costs.

The Group received loan proceeds of US$92.1 million from Otkritie and Trust, repaid US$4.0 million in principal and paid US$17.2 million in interest. Additionally, the Group paid US$23.7 million of accrued interest on shareholders loans.

Cash balances at the end of the period were US$7.6 million compared to US$7.5 million at the end of 2015.

Financing of Ruspetro's current operations and future development

The Group seeks to raise additional development funding during the next twelve months from a major investor. This will be further assisted by the planned raising in 2017 of additional trade finance lines from its offtake customers.

Under the loan facilities from Otkritie and Trust Bank, the Group must achieve certain annualised production targets that are tested quarterly from 1 January 2016. Starting from 1 July 2016 the Group is in the breach of certain covenants, but obtained waivers from its lenders to avoid acceleration of the debt repayment schedule.

Furthermore, in December 2016 the Group concluded an addendum to the Makayla loan agreement rescheduling the principal and accrued interest payments in several parts, with US$2.0 million semi-annual payments due in 2017 and 2018 and the final settlement of US$15.8 million in May of 2019.

At the period end, the Group had US$18.6 million of undrawn facilities available from Otkritie, the Group seeks to raise additional development funding from a major investor and is confident that it will, during the course of 2017, secure further domestic and export trade financing prepayment facilities as necessary. However, as this is not certain the Directors recognise that this represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Taking into account all considerations relevant to the Group's financial position, management considers it appropriate that the Group's financial statements should be prepared on a going concern basis.

Principal Risks and Uncertainties

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

The Group's risk assessment table is presented below.

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

Key risks and uncertainties are summarised in a table below.

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
Oil price decreases to US$30/bbl and low oil price environment persists in the medium term	Low oil prices have a significant impact on the Group's financial performance and cash generation. A sustained period of low oil prices may contribute to valuation impairment, potentially impacting the Group`s ability to generate adequate funds for the long-term capital investment required to sustain the production growth necessary to meet its primary lender's covenants	The Group uses a scenario-based approach to forecasting, incorporating global oil price forecasts, when determining its key performance indicators depending on oil prices on the global market. The Group monitors the cost- benefits of hedging products, as a component of total production. This approach helps the Group determine allocation of funding to optimise execution of the business plan and to minimise the principal risk of covenant default.	Likelihood: 3 Impact: 4	MEDIUM
Ruble devaluation to 70RUR per US$ 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: 3 Impact: 3	MEDIUM

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
[illegible]				
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 for potential exposure, under advice from in-house and external counsel before the Group enters into contracts.	Likelihood: 1 Impact: 4	[redacted]
[illegible]				
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.	The Group renegotiated its loan covenants, eliminating the EBITDA covenant, and reducing the production output covenants to levels related to the Group's current development plan. The Group's medium-term planning model evaluates projected cash and debt facilities, against the levels of investment in development expenditure required to deliver the necessary growth in output to meet production covenants. The Group is able to stress the model for key sensitivities, and identifies key actions required at the planning stage to maximize production output from existing and new wells.	Likelihood: 3 Impact: 5	[redacted]
Access to development funding becomes unavailable	The Group must make significant capital expenditures to increase its production, operating revenues and cash flow. An inability to finance development and other capital expenditures in the medium term could have a material adverse effect on the Group's business.	The Group has recognised that limited funding sources are available to it as a listed public company, and has delisted its shares and re-register as a private limited company. The Group will continue to draw down remaining funds from its development facility, utilise trade finance, and evaluate alternative sources of new funding.	Likelihood: 3 Impact: 5	[redacted]

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
[illegible]				
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 has development facilities with its primary lenders to finance current exploration and development commitments. The Group manages other liquidity risk by maintaining cash and committed credit facilities in line with rolling short-term free cash flow forecasts.	Likelihood: 2 Impact: 4	MEDIUM
[illegible]				
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, programme disruption, additional working cost, or breach of permitting.	The Company has implemented rigorous procedures for the selection of contractors capable of meeting the Group's exacting policies and standards. Engineering, subsurface, HSE, and drilling and completion teams ensure that the performance of contractors is properly monitored, managed and adhering to contract.	Likelihood: 3 Impact: 4	MEDIUM
Production deviates from forecast by significant margin	The Group's long-term production forecast is based on a field development plan linked to its resources base. The long-term production forecast relies on probabilistic assumptions to estimate recoverable volumes. There is an inherent degree of uncertainty in the information used in the Group's planning and execution which may lead to lower than forecast production volumes, potentially impacting on revenue, cash generation and meeting covenants.	Internationally proven appraisal and development techniques are utilised to maximise the economically recoverable hydrocarbons for our reservoirs and rigorous probabilistic methodologies are in place for reserves assessment. Appropriately risked production forecasting methodology is in place for forecasting and modelling purposes.	Likelihood: 3 Impact: 5	[illegible]
UK Bribery Act 2010 breach	The Group is subject to the United Kingdom Bribery Act 2010. Failure to comply with the laws and regulations thereunder could potentially expose the Group and/or its officers to corporate and personal liability. It may further harm the Group's reputation and have a material adverse effect on the Group's business.	International policies based on the United Kingdom Bribery Act 2010 are in place and the Company is focused on ensuring their implementation. The Group prohibits bribery and corruption in any form by all employees. A whistleblowing policy and hotline facility is in place for employees to anonymously report any concerns.	Likelihood: 2 Impact: 4	MEDIUM
Insurance event	The Group may not be able to obtain insurance underwriting covering certain risks typically subject to cover, for a business of comparable size and nature, in more developed countries. A significant uninsured event could expose the Group to unquantifiable liability, and any subsequent claim or loss materially may impact on the Group's assets and business.	The Group has used the services of specialist insurance advisors to put in place maximum available insurance coverage appropriate to the sector and geographical location in which the Group operates, to minimise wherever possible any exposure to uninsured events. Management regularly reviews insurance coverage for any change in the business operating environment.	Likelihood: 2 Impact: 4	MEDIUM

Event	Impact	Risk mitigation	Proposed Grading	Risk assessment
[illegible]				
Loss of licence	Either the inability of the Group to extend its production and appraisal licences, or its suffering a licence suspension, restriction or termination would have a material adverse effect on the Group's viability.	The Group has renewed all of its licenses for the economic life of field. A dedicated licence obligation management team is in place to cover such risks. Matters related to licence obligations are routinely reviewed at the Group's Audit Committee meetings.	Likelihood: 2 Impact: 5	MEDIUM
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. Field site security has been further strengthened in 2016.	Likelihood: 3 Impact: 3	MEDIUM
Environmental Incompliance	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 2015-2016. An enhanced environmental management system is being implemented to further mitigate such risks.	Likelihood: 3 Impact: 3	MEDIUM

On behalf of the Board of Directors

Alexander Chistyakov
Executive Chairman
24 April 2017

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 2016.

General information

The Company (Registered number 1157746595929) 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	Naousis, 1, Karapatakis Building, Suite 2,4th floor, 6018, Larnaca, Cyprus

Ruspetro Joint Stock Company

Country of Incorporation	Russian Federation
Registered Office	Leningradsky pr. 37A bldg. 4 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 $19.9 million (2015: loss of $99.1 million) which has been added to the accumulated loss. The audited financial statements for the year ended 31 December 2016 are set out on pages 12-48. The Company has not declared any dividends during the year (2015: $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

The Board regularly reviews operating cash flow projections and scenario sensitivities including, but not limited to, changes in production rates, commodity prices, foreign currency exchange rate fluctuation, and the Group's exploration and production development plan.

The Group seeks to raise additional development funding during the next twelve months from a new strategic investor, which will be preceded by a series of bridge loans from shareholders, and a reduction of $92 million of shareholder loans to Inderbit and Makayla via forgiveness.

In addition, during the reporting period, the Group signed and drew down a RUR750 million (US$11.3 million) and a RUR350 million (US$5.7 million) domestic oil sales prepayment facility with LLC EnergoResurs ("EnergoResurs", a Glencore subsidiary), and a US$10.0 million export prepayment oil sale facility with Glencore Energy UK Ltd ("Glencore"). Prepayments from forward oil sale agreements are one of the principal sources of working capital. The renewal of such prepayments occurs regularly in the normal course of business, but cannot be certain. In addition, new strategic investment cannot be certain and, therefore, the Directors recognise that this represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

On the basis of the assumptions and cash flow forecasts prepared, in the opinion of management, the Group will continue to operate within both available and prospective facilities. Accordingly, the Group financial statements are prepared on a going concern basis and do not include any adjustments that would be required in the event that the Group were no longer able to meet its liabilities as they fall due.

Directors

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

Alexander Chistyakov	Executive Chairman (appointed 2 December 2011)
John Conlin	Chief Executive Officer (appointed Chief Executive Officer 17 December 2013, resigned 15 January 2017, appointed Non-Executive Director 16 January 2017)
Kirill Androsov	Non-Executive Director (appointed 1 August 2013)
Mark Pearson	Non-Executive Director (appointed 29 April 2014)
Robert Jenkins	Non-Executive Director (appointed 2 December 2011, resigned 5 May 2016)
Franky Monstrey	Non-Executive Director (appointed 1 August 2013, resigned 5 May 2016)
Maurice Dijols	Non-Executive Director (appointed 6 November 2013, resigned 5 May 2016)
Sergey Gordeev	Non-Executive Director (appointed 3 February 2015, resigned 9 June 2016)
Irakli Chichua	Non-Executive Director (appointed 9 June 2016)
Igor Miletenko	Non-Executive Director (appointed 9 June 2016)

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

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

Employee involvement

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

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

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

Directors' indemnities

The Company has purchased and maintains appropriate insurance cover in respect of Directors' and Officers' liabilities. In addition, the Company has entered into deeds of indemnity (which are qualifying third-party indemnity provisions under the Companies Act 2006 (the 'Act') with each Director of the Company and the former Directors who held office during the year ended 31 December 2015, to the extent permitted by law and by the Company's Articles, in respect of all liabilities incurred in connection with the performance of their duties as a Director of the Company or its subsidiaries. The indemnities are available for inspection at the Company's registered office.

Share capital

The issued share capital of Ruspetro Ltd as at 31 December 2016 was comprised of 870,112,016 ordinary shares of 10 pence each. The Company issued no new shares during the year or up to the date of this report. The Company does not hold any shares in treasury. Details of the Company's issued share capital are set out in Note 19 to the financial statements.

No securities exist which carry special rights as to their transfer or control of the Company.

At the 2015 Annual General Meeting, the Company was authorised by shareholders to repurchase up to 87,011,200 of its own ordinary shares, representing 10% of its issued share capital as at the date of that meeting. No buyback programme has taken place to date.

Substantial interests

As at 31 December 2016 and 4 April 2017, 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 31.12.2016	% of Shares as at 31.12.2016	Number of Shares as at 04.04.2017	% of Shares as at 04.04.2017
Limolines Transport Limited	155,555,832	17.88%	155,555,832	17.88%
Alexander Chistyakov*	136,633,213	15.70%	136,633,213	15.70%
Otkritie Holding JSC	130,516,802	15.00%	130,516,802	15.00%
Mc Inversion JSC	86,906,141	9.99%	86,906,141	9.99%
Forcar Holdings Limited	77,284,849	8.88%	77,284,849	8.88%
Makayla Investments Limited	76,630,306	8.81%	76,630,306	8.81%
Conchetta Consultants Limited	66,875,000	7.69%	66,875,000	7.69%

*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

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 25 to the financial statements.

Transactions with related parties

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

Post balance sheet events

All significant events after the balance sheet date of 31 December 2016 are set out in Note 27 to the financial statements.

Disclosure of information to the external auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information (as defined in Section 418(2) of the Act) of which PricewaterhouseCoopers LLP ("PwC"), 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.

PwC has indicated its willingness to continue in office. Resolutions to re-appoint PwC as the Company's auditor and to authorise the Directors to determine the auditor's remuneration will be proposed at the 2017 AGM.

By order of the Board

Alexander Chistyakov
Executive Chairman
24 April 2017

Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU 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 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 and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Alexander Chistyakov
Executive Chairman
24 April 2017

Independent auditors' report to the members of Ruspetro Limited

Report on the Group financial statements

In our opinion, Ruspetro Limited's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended ;
- *have been properly prepared in accordance with* International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. This ability is dependent on whether the Group can obtain additional financing for the purposes of working capital and investment in field development, and on the Group meeting the production targets included in the covenants attached to its bank borrowings as well as on the creditors not claiming immediate debt repayment due to non-compliance with covenants. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the *Group's ability to continue as a going concern.* The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

The financial statements, included within the Annual *Report and Accounts (the "Annual Report"), comprise:*

- the Consolidated Statement of Financial Position as at 31 December 2016;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to *report in this respect.*

Other matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Parent company financial statements of Ruspetro Limited for the year ended 31 December 2016. That report includes an emphasis of matter.

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
25 April 2017

- The maintenance and integrity of the Ruspetro Limited website 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 website.
- 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 2016
(presented in US$ thousands, unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Revenue	7	43,992	43,875
Cost of sales	8	(57,188)	(53,856)
Gross loss		**(13,196)**	**(9,981)**
Selling and administrative expenses	9	(14,669)	(15,585)
Other operating expenses, net		(795)	(60)
Operating loss		**(28,660)**	**(25,626)**
Finance costs	10	(31,233)	(24,668)
Foreign exchange gain/(loss)	20	47,723	(57,221)
Other expenses, net	11	(2,659)	(1,210)
Loss before income tax		**(14,829)**	**(108,725)**
Income tax (expense)/benefit	12	(5,067)	9,591
Loss for the period		**(19,896)**	**(99,134)**
Other comprehensive income/(loss) that may be reclassified subsequently to income/(loss), net of income tax			
Exchange difference on translation to presentation currency		4,848	(16,558)
Total comprehensive loss for the period		**(15,048)**	**(115,692)**

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

Loss per share

Basic and diluted loss per ordinary share (US$)	26	(0.02)	(0.11)

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Finance Director

Consolidated Statement of Financial Position
as at 31 December 2016
(presented in US$ thousands, unless otherwise stated)

	Notes	31 December 2016	2015
Assets			
Non-current assets			
Property, plant and equipment	13	190,641	130,978
Mineral rights and other intangibles	14	216,002	179,833
Deferred tax assets	12	2,326	7,764
		408,969	**318,575**
Current assets			
Inventories	15	1,845	1,445
Trade and other receivables	16	11,639	5,836
Income tax prepayment		3	16
Other current assets	17	1,655	2,533
Cash and cash equivalents	18	7,554	7,511
		22,696	**17,341**
Total assets		**431,665**	**335,916**
Shareholders' equity			
Share capital	19	135,493	135,493
Share premium		389,558	389,558
Retained loss		(548,782)	(528,886)
Exchange difference on translation to presentation currency		(56,666)	(61,514)
Other reserves		25,397	25,397
Total equity		**(55,000)**	**(39,952)**
Liabilities			
Non-current liabilities			
Borrowings	20	382,789	282,544
Provision for dismantlement	21	11,496	5,707
Deferred tax liabilities	12	44,207	38,625
		438,492	**326,876**
Current liabilities			
Borrowings	20	4,805	24,882
Trade and other payables	22	39,959	22,727
Taxes payable other than income tax		2,867	1,375
Other current liabilities		542	8
		48,173	**48,992**
Total liabilities		**486,665**	**375,868**
Total equity and liabilities		**431,665**	**335,916**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Finance Director

Consolidated Statement of Changes in Equity
for the year ended 31 December 2016
(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 2015	**135,493**	**389,558**	**(429,752)**	**(44,956)**	**25,397**	**75,740**
Loss for the period	-	-	(99,134)	-	-	(99,134)
Other comprehensive loss for the period	-	-	-	(16,558)	-	(16,558)
Total comprehensive loss for the period	-	-	**(99,134)**	**(16,558)**	-	**(115,692)**
Balance as at 31 December 2015	**135,493**	**389,558**	**(528,886)**	**(61,514)**	**25,397**	**(39,952)**
Balance as at 1 January 2016	**135,493**	**389,558**	**(528,886)**	**(61,514)**	**25,397**	**(39,952)**
Loss for the period	-	-	(19,896)	-	-	(19,896)
Other comprehensive income for the period	-	-	-	4,848	-	4,848
Total comprehensive loss for the period	-	-	**(19,896)**	**4,848**	-	**(15,048)**
Balance as at 31 December 2016	**135,493**	**389,558**	**(548,782)**	**(56,666)**	**25,397**	**(55,000)**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Finance Director

Consolidated Statement of Cash Flows
for the year ended 31 December 2016
(presented in US$ thousands, unless otherwise stated)

	Notes	Year ended 31 December 2016	2015
Cash flows from operating activities			
Loss before income tax		(14,829)	(108,725)
Adjustments for:			
Depreciation, depletion and amortisation	13, 14	28,501	28,193
Foreign exchange (gain)/loss	20	(47,723)	57,221
Finance costs	10	31,233	24,668
Impairment of financial instruments	11	1,655	1,869
Disposal of property, plant and equipment	13	1,078	-
Insurance claim settlement	11	-	(1,800)
Operating cash flows before working capital adjustments		**(85)**	**1,426**
Working capital adjustments:			
Change in trade and other receivables		(579)	(601)
Change in inventories		(98)	(1,182)
Change in trade and other payables		3,410	(4,647)
Change in other taxes receivable/payable		(2,488)	340
Net cash flows from/(used in) operating activities		**160**	**(4,664)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangibles		(46,437)	(35,225)
Net cash used in investing activities		**(46,437)**	**(35,225)**
Cash flows from financing activities			
Proceeds from loans and borrowings	20	92,115	59,585
Repayments of loans and borrowings	20	(4,008)	(3,655)
Interest paid	20, 24	(40,940)	(19,307)
Other financing charges paid		(333)	(1,727)
Net cash generated from financing activities		**46,834**	**34,896**
Net increase/(decrease) in cash and cash equivalents		**557**	**(4,993)**
Effect of exchange rate changes on cash and cash equivalents		(514)	482
Cash and cash equivalents at the beginning of the period		7,511	12,022
Cash and cash equivalents at the end of the period		**7,554**	**7,511**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Finance Director

Notes to the Consolidated Financial Statements
for the year ended 31 December 2016
(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 2016 were approved by its Board of Directors on 24 April 2017.

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

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

Details of subsidiaries consolidated within the Group are as follows:

Company	Business activity	Country of incorpo-ration	Registered office address	Year of incorpo-ration	Effective ownership 31 December 2016	2015
Ruspetro Holding Limited	Holding company	Republic of Cyprus	Naousis, 1, Karapatakis building, Suite 2, 4TH floor 6018, Larnaca, Cyprus	2007	100%	100%
Ruspetro JSC ('Ruspetro Russia')	Crude oil sale	Russian Federation	Leningradsky pr. 37A bldg.4 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 2016 the Group reported net current liabilities of US$25,477 thousand (2015: US$31,651 thousand), which included cash in bank of US$7,554 thousand (2015: US$7,511 thousand). The Group had positive operating cash flow of US$160 thousand in the reporting period (2015: negative US$4,664 thousand).

The Group's continuing operations are dependent upon its ability to make further investments in field development in order to grow its hydrocarbon production and sales. In the short term, this field development is planned to involve, in particular, the drilling of a number of horizontal wells, the success of which will only be known with certainty once each well is completed. In the light of these results, the nature and extent of the Group's drilling programme may change over time, with a consequent change in investment requirements.

Accordingly, the ability of the Group to generate sufficient cash from operations may be materially affected by the results of the Group's current appraisal activity and the success of future drilling activities, as well as by a number of economic factors to which the Group's financial forecasts are particularly sensitive, such as crude oil prices, the level of inflation in Russia, and foreign exchange rates.

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 Group plans to raise additional financing during the next twelve months, but the success of such fundraising cannot be guaranteed.

The credit facilities obtained from Otkritie and Trust contain certain covenants, including production volume targets, which the Group needs to meet to avoid acceleration of the debt repayment schedule. Starting from the 1 July 2016 the Group was in the breach of certain covenants, and obtained respective waivers from the creditors (see Note 20 and Note 27) to remedy these breaches for all periods when the covenants were breached, except for the four quarters ending on 31 March 2017.

Despite the fact that Otkritie and Trust have not formally waived their right to demand early repayment of their loans in connection with the last production covenants test date of 1 April 2017, and the creditors have a formal right to demand repayment, the management of the Group believes that the creditors will not exercise their right to demand early repayment of the debt.

Currently, the Group has launched a structured effort to identify a strategic investor(s) either at the corporate level or at the asset level to finance the Group's long-term development plans. The creditor representatives of the Board are supportive of this process, with a positive development being supportive ensuring timely fulfilment of the Group's obligations under the current loan agreements.

In addition, during the reporting period, the Group obtained Russian ruble ("RUR") 750,000 thousand (US$11,349 thousand) and RUR 350,000 thousand (US$5,684 thousand) as forward oil sale prepayment from LLC EnergoResurs ("EnergoResurs") and US$10,000 thousand from Glencore Energy UK Ltd. ("Glencore") (see Note 22). Prepayments from forward oil sale agreements are one of the main sources of working capital. The renewal of such prepayments occurs regularly under normal course of business, but cannot be certain and, therefore, the Directors recognise that this, together with the ongoing need to raise finance and comply with production covenants, represents a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

However, on the basis of the assumptions and cash flow forecasts prepared management has assumed that the Group will continue to operate within both available and prospective facilities. Accordingly, the Group consolidated financial statements are prepared on the going concern basis and do not include any adjustments that would be required in the event that the Group were no longer able to meet its liabilities as they fall due.

3. Summary of significant accounting policies

Principles of consolidation

Subsidiaries

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

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

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

Oil and natural gas exploration, evaluation and development expenditure

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

Exploration expenditure

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

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

Development costs

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

Property, plant and equipment, Mineral rights and other intangibles

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

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

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

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

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

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

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

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

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

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

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

Operating leases
Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Share option plan
The share option plan, under which the Group has the ability to choose whether to settle it in cash or equity instruments at the discretion of the Board of Directors is accounted for as an equity settled transaction. The fair value of the options granted by the Company to employees is measured at the grant date and calculated using the Trinomial option pricing model and recognised in the consolidated financial statements as a component of equity with a corresponding amount recognised in selling, general and administrative expenses over the time share reward vest to the employee.

Modifications of the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement or is not otherwise beneficial to the employee, are accounted for as services *received in consideration for the equity instruments granted as if the modification had not occurred.*

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions
General
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using rates that reflect, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

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

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

Taxes

Income tax

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

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

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

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

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

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

Value added tax

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

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

Mineral extraction tax

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

Equity

Share capital

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

Other reserves

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

Revenue recognition

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

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

Other revenue is recognised in accordance with contract terms.

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

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

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

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

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

The US$ to RUR exchange rates were RUR60.66 and RUR72.88 as at 31 December 2016 and 31 December 2015, respectively and the average exchange rates for the year ended 31 December 2016 and 2015 were RUR67.19 and RUR61.29, respectively. The US$ to pounds sterling (£) exchange rates were £0.81 and £0.68 as at 31 December 2016 and 31 December 2015, respectively and the average exchange rates for the year ended 31 December 2016 and 2015 were £0.74 and £0.65, respectively. The increase in the US$ to RUR exchange rate for the year ended 31 December 2016 has resulted in a gain of US$47,723 thousand in the consolidated statement of profit or loss and other comprehensive loss and an adjustment of US$4,848 thousand in other comprehensive loss (refer to Notes 13 and 14).

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.

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

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

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

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

Other non-production assets
Property, plant and equipment other than oil and gas properties are depreciated on a straight-line basis over their useful 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**	
	2016	**2015**
+ 10%	(2,591)	(2,563)
- 10%	3,167	3,133

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

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

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

During the year ended 31 December 2016 the economy was negatively impacted by a number of factors including but not limited to low prices of oil. This has resulted in a review of the Group's non-current assets (Oil and Gas properties and Mineral Rights) to determine whether they are impaired as at the reporting date.

The recoverable amount was estimated using the value in use approach. The models developed by management to calculate value in use involved assumptions as to future hydrocarbon prices, taxes, production volumes, and inflation. The models also use estimates of proved developed reserves at 31 December 2016 as calculated by the management of the Group. Estimated cash flows were discounted with a risk adjusted discount rate derived as the weighted average cost of capital (WACC). For the Group's businesses the pre-tax nominal discount rate is estimated at 15.3 percent (2015: 15.2 percent).

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

Based on the impairment analysis performed, management does not consider that the Group's non-current assets are impaired as at 31 December 2016.

Assumptions used in developing cash flow forecasts of the Group

Assumption	31 December 2016	31 December 2015
Average crude oil price	US$55 in 2017, US$61 in 2018, US$62 from 2019 onwards inflated by US$ inflation according to Bloomberg	gradual increase from US$40 to US$70 per barrel by June 2019
MET on crude oil	based on increase in MET base rate to RUR919 per ton in January 2017 and expiration of 15 years 80% MET relief in September 2028	based on increase in MET base rate to RUR919 per ton in January 2017 and expiration of 15 years 80% MET relief in September 2028
Production volume of crude oil over economic life of the fields	297,480 thousand barrels	108,770 thousand barrels

Taxation

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

Segment reporting

Management views the Group as one operating segment and uses reports for the entire Group to make strategic decisions. 99% of total revenues from external customers in 2016 were derived from sales of crude oil and gas condensate (2015: 99%). These sales are made to domestic and international oil traders. Although there are a limited number of these traders, the Group is not dependent on any one of them as crude oil is widely traded and there are a number of other potential buyers of this commodity. The Group's operations are entirely located in Russia.

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

5. Adoption of the new and revised standards

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 and IFRS Interpretations Committee in the year ended 31 December 2016 or earlier, but are not yet effective and therefore have not been applied:

(i) Not endorsed by the European Union

New standards and interpretations

- **IFRS 14 - Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).**
- **IFRS 16 – Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).**

Amendments

- **Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 but deferred indefinitely).**
- **Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).**
- **Amendments to IAS 7 – Disclosure Initiative (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).**
- **Amendments to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).**
- **Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).**
- **Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).**
- **IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).**

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

(ii) Endorsed by the European Union

New standards and interpretations

- IFRS 9 – Financial Instruments (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018).
- *IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15:* Effective date of IFRS 15 (issued on 11 September 2015 and effective for annual periods beginning on or after 1 January 2018).

Amendments

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception (issued on 18 December 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Amendments to IAS 1 – Disclosure Initiative (issued on 18 December 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2012–2014 Cycle (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Amendments to IAS 19 - Defined benefits Plans: Employee Contributions (issued in November 2013 and effective for the annual periods beginning 1 July 2014).

Management expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Group.

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	
	2016	**2015**
Revenue from crude oil sales	43,425	43,254
Other revenue	567	621
Total revenue	**43,992**	**43,875**

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

For the years ended 31 December 2016 and 2015, revenue from export sales of crude oil amounted to US$13,471 thousand and US$12,618 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	**2016**	**2015**
Customer 1	21,221	17,366
Customer 2	13,471	12,618
Customer 3	4,481	10,493
	39,173	40,477

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

8. *Cost of sales*

	Year ended 31 December	
	2016	**2015**
Depletion, depreciation and amortisation	27,844	27,355
Mineral extraction tax	8,678	9,069
Employee benefit expense	6,922	6,487
Production services	4,064	3,586
Change of inventories and cost of purchased oil	3,869	2,273
Repairs and maintenance	2,208	1,807
Taxes other than income tax	1,748	1,844
Transportation services	670	352
Reserves evaluation	-	200
Other	1,185	883
Total cost of sales	**57,188**	**53,856**

9. Selling and administrative expenses

	Year ended 31 December	
	2016	**2015**
Selling expenses		
Oil transportation costs	2,096	2,617
Administrative expenses		
Employee benefit expense	7,392	8,350
Professional services	2,025	1,595
Rent expenses	1,207	989
Depreciation and amortisation	657	838
Travel expenses	519	446
IT, telecom and other information services	225	256
Bank charges	103	64
Other	445	430
Total selling and administrative expenses	**14,669**	**15,585**

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	
	2016	**2015**
Fees payable to the Company's auditor and its associates for the audit of company and consolidated financial statements	265	353
Fees payable to the Company's auditor and its associates for other services:		
– Tax advisory services	24	45
– Other consulting services	76	41

Employee benefit expense

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

	Year ended 31 December	
	2016	**2015**
Wages and salaries	13,188	13,683
Social security costs	1,126	1,154
Total employee costs	**14,314**	**14,837**
Average number of employees (including Directors)	264	232

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

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

10. Finance costs

	Year ended 31 December	
	2016	2015
Interest expense on borrowings	28,595	22,526
Unwinding discount of provision for dismantlement (Note 21)	530	389
Other financial expenses	2,108	1,753
Total finance costs	**31,233**	**24,668**

For the years ended 31 December 2016 and 2015, borrowing costs amounting to US$3,792 thousand and US$2,070 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 2016 was 10% per annum (2015: 11%).

Other financial expenses include interest on the outstanding amount of Glencore and EnergoResurs prepayment facilities (see Note 22) and amortisation of payment for the Otkritie credit facilities.

11. Other expenses, net

Other expenses, net, include impairment charge of financial instruments in total amount of US$1,655 thousand (see Note 17) and an accrual of provision for VAT payable of US$493 thousand as a result of tax inspection. The Group will argue the tax inspection decision in court.

Other expenses, net, for 2015 mainly consisted of an insurance claim settlement received in total amount of US$1,800 thousand relating to an incident with damage to insured property during well construction and an impairment charge of financial instruments in total amount of US$1,869 thousand (see Note 17).

12. Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 were:

	Year ended 31 December	
	2016	2015
Current income tax expense	-	-
Deferred tax expense/(benefit)	5,067	(9,591)
Total income tax expense/(benefit)	**5,067**	**(9,591)**

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

	Year ended 31 December	
	2016	2015
Loss before income tax	**(14,829)**	**(108,725)**
Income tax benefit at applicable tax rate	2,966	21,745
Tax effect of losses for which no deferred income tax asset was recognised	(2,006)	(3,837)
Tax effect interest on shareholders' loans	(2,078)	(2,057)
Tax effect utilisation of previously unrecognised tax loss carry forwards	558	1,389
Tax effect previously not recognised on property, plant and equipment	-	(3,604)
Tax effect of losses for which deferred income tax asset was derecognised	-	(612)
Tax effect of losses expired	-	(416)
Tax effect of non-deductible expenses	(4,507)	(3,017)
Income tax (expense)/benefit	**(5,067)**	**9,591**

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.

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

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

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

	1 January 2015	Recognised in profit or loss	Translation difference	**31 December 2015**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Accounts payable	1,351	499	(387)	1,463
Tax loss carry-forward	3,260	12,413	(2,718)	12,955
Property, plant and equipment	(7,823)	(3,713)	1,638	(9,898)
Mineral rights and intangible assets	(46,290)	(280)	10,603	(35,967)
Inventories	(7)	(169)	15	(161)
Loans and borrowings	(300)	9,215	(1,397)	7,518
Accounts and notes receivable	352	(8,374)	1,251	(6,771)
Net deferred tax asset/ (liability)	**(49,457)**	**9,591**	**9,005**	**(30,861)**
Recognised deferred tax asset	-	9,232	(1,468)	7,764
Recognised deferred tax liability	(49,457)	359	10,473	(38,625)
Net deferred tax asset/ (liability)	**(49,457)**	**9,591**	**9,005**	**(30,861)**

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 will be revoked in principle (which means that losses incurred since 2007 will be carried forward until fully recognised). Limitations for the recognition of losses carried forward for the period from 2017 to 2020 have been also introduced. In accordance with the new rules, the amount of recognised loss carry forwards can't exceed 50% of the tax base of relevant year.

The Group did not recognise deferred income tax assets of US$67,834 thousand and US$56,859 thousand, in respect of losses that can be carried forward without limiting the year of expiration against future taxable income, amounting to US$338,076 thousand and US$284,446 thousand as at 31 December 2016 and 31 December 2015, respectively.

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

13. *Property, plant and equipment*

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

	Oil and gas properties	Other property, plant and equipment	Construction in progress	Total
Cost as at 1 January 2015	**184,384**	**6,100**	**22,670**	**213,154**
Additions	-	-	40,278	40,278
Transfers to fixed assets	22,062	1,047	(23,109)	-
Change in provision for dismantlement (Note 21)	2,507	-	-	2,507
Disposals	(1,094)	(570)	(43)	(1,707)
Effect of translation to presentation currency	(41,602)	(1,224)	(6,799)	(49,625)
Cost as at 31 December 2015	**166,257**	**5,353**	**32,997**	**204,607**
Accumulated depletion and impairment as at 1 January 2015	**(60,027)**	**(4,036)**	**(952)**	**(65,015)**
Charge for the period	(27,029)	(838)	-	(27,867)
Disposals	1,092	539	-	1,631
Effect of translation to presentation currency	16,260	1,145	217	17,622
Accumulated depletion and impairment as at 31 December 2015	**(69,704)**	**(3,190)**	**(735)**	**(73,629)**
Net book value as at 31 December 2015	**96,553**	**2,163**	**32,262**	**130,978**

For the years ended 31 December 2016 and 31 December 2015, 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 2016 and 2015, the construction in progress balance mainly represents production wells and oil production infrastructure not finalised (e.g. pads, electricity grids, etc.).

The Group's property, plant and equipment in total amount of US$31,315 thousand was pledged under the credit facility agreements with Otkritie and Trust as at 31 December 2016 (31 December 2015: US$7,841 thousand).

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

14. Mineral rights and other intangibles

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

	Mineral rights	*Other intangible assets*	Total
Cost as at 1 January 2015	**230,253**	**2,566**	**232,819**
Additions	-	1,622	1,622
Effect of translation to presentation currency	(52,520)	(843)	(53,363)
Cost as at 31 December 2015	**177,733**	**3,345**	**181,078**
Accumulated depletion and impairment as at 1 January 2015	**(1,063)**	**(194)**	**(1,257)**
Charge for the period	(164)	(162)	(326)
Effect of translation to presentation currency	268	70	338
Accumulated depletion and impairment as at 31 December 2015	**(959)**	**(286)**	**(1,245)**
Net book value as at 1 January 2015	229,190	2,372	231,562
Net book value as at 31 December 2015	**176,774**	**3,059**	179,833

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

15. Inventories

	31 December	
	2016	**2015**
Spare parts, consumables and other inventories	1,098	615
Crude oil	747	830
Total inventories	**1,845**	**1,445**

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

16. Trade and other receivables

	31 December	
	2016	**2015**
Trade receivables	2,625	1,821
Other receivables and prepayments	1,914	1,423
VAT recoverable	7,100	2,592
Total trade and other receivables	**11,639**	**5,836**

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

As at 31 December 2016 and 31 December 2015, the Group has impaired prepayments amounting to US$276 thousand and US$114 thousand, respectively. In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date.

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

17. Other current assets and liabilities

Other current assets
In November 2014 the Group purchased promissory notes denominated in RUR. Due to the change of management plans the promissory notes were returned to the seller in October 2015 for the agreed amount payable before 31 December 2016 and bearing an interest of 10% per annum. Because of the change of the recoverable amount of the receivables in comparison with the estimation of the value of the promissory notes, the Group recognised an impairment loss in other expenses in amount of US$1,655 thousand in (2015: US$1,869 thousand).

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

18. Cash and cash equivalents

	31 December	
	2016	2015
Cash in bank denominated in US$	6,316	5,376
Cash in bank denominated in RUR	1,128	1,968
Cash in bank denominated in £	108	163
Cash in bank denominated in EUR	2	4
Total cash and cash equivalents	7,554	7,511

Cash balances generally carry no interest. The Group holds its cash with Sberbank (Moody's rating Ba2/ ba2/NP (Negative) at 31 December 2016 and Ba2/ ba2/NP (Stable) at 31 December 2015), Bank of America (Moody's rating A1/baa2/P1 (Stable) at 31 December 2016 and A1/baa2/P1 (Stable) at 31 December 2015) and Bank of Cyprus (Moody's rating Caa2/caa2/NP (Positive) at 31 December 2016 and Caa3/caa3/NP (Stable) at 31 December 2015), Otkritie (Moody's rating (Ba3/b1/NP (Negative) at 31 December 2016 and (Ba3/b1/NP (Negative) at 31 December 2015) and Public Joint-Stock Company "National Bank Trust" (Trust) (no credit rating).

19. Shareholders' equity

Share capital

	31 December	
	2016	2015
Ordinary share capital	135,493	135,493

Issued and paid up share capital of the Company as at 31 December 2016 and 2015 consisted of 870,112,016 ordinary shares with a par value of £0.10 each.

20. Borrowings

	31 December	
	2016	2015
Current		
Short-term loans from shareholders of the Company	4,293	20,709
Otkritie	-	3,896
Trust	512	277
Total current borrowings	**4,805**	**24,882**

	31 December	
	2016	2015
Non-current		
Otkritie	271,257	185,118
Long-term loans from shareholders of the Company	87,025	83,932
Trust	24,507	13,494
Total long-term borrowings	**382,789**	**282,544**

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 2016, facilities in total amount of US$81,400 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 2015: US$24,400 thousand and US$21,344 thousand, respectively).

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

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

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 2016, total amount of US$25,600 thousand was drawn down under this facility (31 December 2015: US$13,841 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.

Loans from shareholders of the Company

The Group has a number of US$ denominated loans obtained from Shareholders of the Company. All of these loans are unsecured and the interest rate on most of these loans is Libor +10% per annum. Certain loans of an amount US$303 thousand have matured by 31 December 2016 and 2015 and are presented as current liabilities.

Covenants breach

As of 1 July and 1 October 2016 the Group was in non-compliance with the production covenants agreed with one of the banks. According to the cross default clauses, breach of production covenants leads to non-compliance with the provisions of all other debt agreements with banks and one of the shareholder's agreement. The Group received waivers from the respective banks and the shareholder, stating that the creditors would not recall the debt due to non-compliance with covenants, and consequently cross default for other debt agreement with creditors.

Foreign exchange gains/losses

The Group recognised a net foreign exchange gain amounting to US$47,723 thousand during the year ended 31 December 2016, out of which US$45,684 thousand relate to the US$ denominated credit facilities and outstanding accrued interest. The Group recognised a net foreign exchange loss amount to US$57,221 thousand during the year ended 31 December 2015, out of which US$51,322 thousand relate to the US$ denominated credit facilities and outstanding accrued interest.

21. Provision for dismantlement

The provision for dismantlement represents the net present value of the estimated future obligations for abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the oil and gas fields which is estimated to be in 25 years from 31 December 2016.

	2016	2015
As at 1 January	5,707	4,238
Additions for new obligations and changes in estimates (Note 13)	3,657	2,507
Unwinding of discount	530	389
Effect of translation to presentation currency	1,602	(1,427)
As at 31 December	11,496	5,707

This provision has been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate future dismantlement liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual dismantlement costs will ultimately depend upon future market prices for the necessary dismantlement works required which will reflect market conditions at the relevant time. Furthermore, the timing is likely to depend on when the fields cease to produce at economically viable levels. This in turn will depend upon future oil and gas prices and future operating costs which are inherently uncertain.

22. Trade and other payables

	31 December	
	2016	2015
Trade payables	16,267	5,383
Other non-financial liabilities	23,692	17,344
Total trade and other payables	39,959	22,727

Trade and other payables are denominated primarily in Russian roubles, except for the advance received from Glencore Energy UK Ltd. ("Glencore") in the amount of US$8,333 thousand presented as non-financial liabilities, which is denominated in US$.

On 31 May 2016 the Group signed a prepayment agreement with EnergoResurs for total amount of RUR750,000 thousand (US$11,349 thousand) with additional amount RUR350,000 thousand (US$5,684 thousand) received by the Group in December 2016, which was dependent on the Group's ability to meet certain production targets. The facility requires the Group to deliver 210,000 ton of crude oil to EnergoResurs during a period of eighteen months.

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

On 9 November 2016 the Group obtained a prepayment from Glencore Energy UK Ltd ("Glencore") in the amount of **US$10,000 thousand. The facility is for the period of twelve months and requires the Group to deliver 72,000 ton of crude oil to Glencore during the term of the contract.**

23. Capital commitments and other contingencies

Legal contingencies

As at 31 December 2016 the Group had two claims from one of the suppliers in total amount of RUR230.8 million (approx. US$3.8 million). Management does not agree with the claims and shall take all necessary steps to protect the position of the Group.

Capital commitments

As at 31 December 2016, the Group had contractual commitments for capital expenditures of US$20,248 thousand (31 December 2015: US$24,952 thousand).

Licence commitments

The Group's exploration and production licences require certain operational commitments. These include performance criteria certain of which have not been fully met during 2016. The Directors note that breach of licence performance conditions has not given rise to any material fines or penalties. Furthermore, management has been undertaking particular actions to meet required licence performance criteria. The Directors also note that the Group's production programme has been inspected by the Russian licensing authorities subsequent to 31 December 2016 and that no material fines or penalties have resulted.

Liquidity of subsidiary undertakings

In accordance with the legal framework in the Russian Federation, creditors and tax authorities may initiate bankruptcy proceedings against an entity with negative net assets. As at 31 December 2016, 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 2016 and 2015 were as follows:

	31 December	
	2016	**2015**
Within one year	**1,104**	**982**
After one year but not more than five years	**3,239**	**3,003**
More than five years	**51**	**627**
Total operating lease commitments and other contingencies	**4,394**	**4,612**

Operating risks and contingencies

Pledge of shares

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

Taxation contingencies

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

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

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

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

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

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

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

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

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

During 2016 the Russian economy was negatively impacted by low oil prices, 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. Russia's credit rating was downgraded to below investment grade. 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 management is of the opinion that there are no current legal proceedings or other claims outstanding that could have a material effect on the results of operations or financial position of the Group for the period until 31 December 2016, which have not been disclosed in these consolidated financial statements.

24. Related party disclosures

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

	Year ended 31 December	
	2016	**2015**
Employee remuneration	3,958	4,280
Benefits in kind	175	170
Non-executive Directors' fees	227	560
Total compensation of key management personnel of the Group	**4,360**	**5,010**

The highest paid director's compensation is shown below:

	Year ended 31 December	
	2016	**2015**
Employee remuneration	2,773	2,392
Benefits in kind	121	115
Total compensation	**2,894**	**2,507**

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

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

Loans and borrowings from related parties
The Group has a number of loans from shareholders of the Company with the following balances:

	2016	2015
As at 1 January	**104,641**	**99,354**
Interest accrued	10,392	10,287
Interest paid	(23,715)	(5,000)
As at 31 December	**91,318**	**104,641**

As at 31 December 2016 bank Otkritie and bank Trust became related parties of the Group. The balances are presented in Note 20.

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

Transactions with other related parties
Ruspetro Russia leased an office space in a building from a company, in which one of its shareholders has an interest, for an annual rent and service charge of RUR50,872 thousand/US$757 thousand (excluding VAT). The lease will terminate on 15 October 2021. Ruspetro Russia leased parking places at the office building from the same company for an annual rent and service charge of RUR3,352 thousand/US$50 thousand (excluding VAT). This lease will terminate on 1 October 2021.

25. Financial risk management objectives and policies

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

It is, and has been throughout the years ended 31 December 2016 and 2015, 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 2016 and 2015 using the amounts of debt and other financial assets and liabilities held as at those statement of financing position dates.

Capital risk management
The Group considers capital to comprise both debt and equity. Total debt comprises long-term and short-term loans and borrowings, as shown in the consolidated statement of financial position. Equity of the Group comprises share capital, share premium, other reserves and retained earnings. Equity of the Group was equal to negative US$55,000 thousand and US$39,952 thousand as at 31 December 2016 and 2015 respectively.

The Group's total debt was equal to US$387,594 thousand and US$307,426 thousand as at 31 December 2016 and 31 December 2015 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 2016 and 2015, the Group was not subject to any externally imposed capital requirements (except for described in Note 23). As at 31 December 2016 the Group is subject to certain covenants (Note 20).

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

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

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 2016	2015
Favourable +50%	21,713	21,627
Unfavourable -50%	(21,713)	(21,627)

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.

Increase/decrease in interest rate	Year ended 31 December Effect on loss before tax 2016	2015
+1.0%	910	1,043
-1.0%	(910)	(1,043)

Foreign currency risk

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

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

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

US$ strengthening/weakening against RUR	Year ended 31 December Effect on loss before tax 2016	2015
US$ strengthening by 50%	(101,563)	(76,284)
US$ weakening by 50%	304,689	228,851

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 2016 and 2015 based on contractual undiscounted payments.

31 December 2016	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
Borrowings (including interest)	303	11,071	384,658	99,758	-	495,790
Trade payables	-	16,267	-	-	-	16,267
	303	**27,338**	**384,658**	**99,758**	**-**	**512,057**

31 December 2015	On demand	Less than 1 year	1 to 2 years	2 to 5 years	> 5 years	Total
Borrowings (including interest)	303	43,579	20,937	356,254	-	421,073
Trade payables	-	5,383	-	-	-	5,383
	303	**48,962**	**20,937**	**356,254**	**-**	**426,456**

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

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

The Group had one major customer being an international oil trader and accounting for at least 31% of total sales in 2016 (2015: 29%). 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 2016, the Group had three counterparties (2015: four counterparties) with aggregated receivables balances US$2,634 thousand (2015: 1,814) or 23% of the gross amount of trade and other receivables (2015: 31%).

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. These are measured at level 3 category.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values in level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

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 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Financial assets				
Cash and cash equivalents	7,554	7,511	7,554	7,511
Trade receivables	2,625	1,821	2,625	1,821
Other current assets	1,655	2,533	1,655	2,533
Financial liabilities				
Trade payables	16,267	5,383	16,267	5,383
Borrowings	387,594	307,426	383,788	312,040

26. Loss per share

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

	Year ended 31 December	
	2016	**2015**
Loss attributable to equity holders of the Company	19,896	99,134
Weighted average number of ordinary shares in issue	870,112,016	870,112,016
Basic Loss per share (US$)	0.02	0.11

Diluted

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

The Company has incurred a loss from continuing operations for the year ended 31 December 2016 and the effect of considering the exercise of the options on the Company's shares would be anti-dilutive, that is, it would reduce the loss per share.

27. Events after the statement of financial position date

As of 1 January 2017 and 1 April 2017 the Group was in non-compliance with the production covenants agreed with the banks. According to the cross default clauses, breach of production covenants leads to non-compliance with the provisions of all other debt agreements with banks and one of the shareholder's agreement. The Group received waivers from the respective banks and the shareholder for all periods when the covenants were breached, except for the waiver from a shareholder for the test date of 1 January 2017 and the waivers from both banks and a shareholder for the test date of 1 April 2017. The waivers state that the creditors would not recall the debt due to non-compliance with covenants, and consequently cross default for other debt agreement with creditors. The management of the Group believes that the creditors will not exercise their right to demand early repayment of the debt.

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

28. Supplementary information (unaudited)

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

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

Estimates of proved and probable and 2C Contingent oil, condensate and gas reserves as at 31 March 2016 are shown in the table set out below.

	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)	107,906	152,431	8,300	250	134,945
2C Contingent	223,305	301,462	10,000	450	275,665
Total	**331,211**	**453,893**	**18,300**	**700**	**410,610**

Independent auditors' report to the members of Ruspetro Limited

Report on the Parent company financial statements

Our opinion

In our opinion, Ruspetro Limited's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the Parent company's affairs as at 31 December 2016 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Parent company's ability to continue as a going concern. This ability is dependent on whether the Group can obtain additional financing for the purposes of working capital and investment in field development, and on the Group meeting the production targets included in the covenants attached to its bank borrowings as well as on the creditors not claiming immediate debt repayment due to non-compliance with covenants. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Parent company was unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Ruspetro Limited for the year ended 31 December 2016. That report includes an emphasis of matter.

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
25 April 2017

- The maintenance and integrity of the Ruspetro Limited website 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 website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Financial position
as at 31 December 2016
(presented in US$ thousands, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment		-	64
Investments in subsidiaries	5	480,476	480,476
Loans issued to subsidiaries		6,070	1,850
		486,546	**482,390**
Current assets			
Receivables from Ruspetro JSC		1,738	7,785
Receivables from Ruspetro Holding Limited		782	-
Trade and other receivables		12	98
VAT recoverable		23	18
Cash and cash equivalents	6	226	507
		2,781	**8,408**
Total assets		**489,327**	**490,798**
Shareholders' equity			
Share capital	7	135,493	135,493
Share premium	7	389,558	389,558
Retained loss		(43,676)	(41,967)
Other reserves		7,221	7,221
Total equity		**488,596**	**490,305**
Liabilities			
Non-current liabilities			
Other non-current liabilities		-	-
		-	-
Current liabilities			
Payables to Ruspetro JSC		518	420
Trade and other payables		213	73
		731	**493**
Total liabilities		**731**	**493**
Total equity and liabilities		**489,327**	**490,798**

Alexander Chistyakov
Executive Chairman

Alexander Betsky
Finance Director

Statement of Changes in Equity
as at 31 December 2016
(presented in US$ thousands, unless otherwise stated)

	Share capital	Share premium	Retained loss	Other reserves	Total equity
Balance as at 1 January 2015	135,493	389,558	(42,990)	7,221	489,282
Profit for the period	-	-	1,023	-	1,023
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	1,023	-	1,023
Balance as at 31 December 2015	135,493	389,558	(41,967)	7,221	490,305
Balance as at 1 January 2016	135,493	389,558	(41,967)	7,221	490,305
Loss for the period	-	-	(1,709)	-	(1,709)
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	(1,709)	-	(1,709)
Balance as at 31 December 2016	135,493	389,558	(43,676)	7,221	488,596

Statement of Cash Flow
for the year ended 31 December 2016
(presented in US$ thousands, unless otherwise stated)

	Year ended 31 December	
	2016	2015
Cash flows from operating activities		
(Loss)/Profit before income tax	(1,709)	1,023
Adjustments for:		
Depreciation, depletion and amortisation	-	27
Foreign exchange (gain)/ loss	(141)	811
Finance income	(225)	(5,496)
Loss on disposal of property, plant and equipment	64	4
Operating cash flow before working capital adjustments	**(2,011)**	**(3,631)**
Working capital adjustments:		
Change in trade and other receivables	5,351	2,597
Change in trade and other payables	380	(2,261)
Change in other taxes receivable/payable	(5)	816
Net cash flows from/(used in) operating activities	**3,715**	**(2,479)**
Cash flows from investing activities		
Loans given to Ruspetro Holding Limited	(5,996)	-
Repayment of loans given to Ruspetro JSC	2,000	3,835
Purchase of property, plant and equipment	-	(70)
Investments in Ruspetro JSC	-	(8,900)
Net cash used in investing activities	**(3,996)**	**(5,135)**
Cash flows from financing activities		
Proceeds from loans and borrowings	-	-
Net cash generated from financing activities	-	-
Net decrease in cash and cash equivalents	**(281)**	**(7,614)**
Cash and cash equivalents at the beginning of the period	507	8,121
Cash and cash equivalents at the end of the period	**226**	**507**

Notes to the Parent Company Financial Statements for the year ended 31 December 2016 (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 2016 were approved by its Board of Directors on 24 April 2017.

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 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 2016
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$1,709 thousand

Going concern

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

At 31 December 2016, the Company had net current assets of US$2,050 thousand, which included cash in hand of US$226 thousand.

Management considers that the continued operational existence of the Company is dependent upon the ability to make further investment in field development of the subsidiaries in order to increase hydrocarbon production and sales. In the short term, this field development is planned to involve, in particular, the drilling of a number of horizontal wells, the success of which will only be known with certainty once each well is completed. In the light of these results, the nature and extent of the subsidiaries' drilling programme may change over time, with a consequent change in investment requirements.

Accordingly, the ability of the Company to generate sufficient cash from operations may be materially affected by the results of the Company's current appraisal activity and the success of future drilling activities, as well as by a number of economic factors to which the Group's financial forecasts are particularly sensitive, such as crude oil prices, the level of inflation in Russia, and foreign exchange rates.

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 Company plans to raise additional financing during the next twelve months, but the success of such fundraising cannot be guaranteed.

The credit facilities obtained by subsidiaries from Otkritie and Trust contain certain covenants, including production volume targets, which the subsidiaries need to meet to avoid acceleration of the debt repayment schedule. Starting from the 1 July 2016 the subsidiaries were in the breach of certain covenants, and obtained respective waivers from the creditors to remedy these breaches for all periods when the covenants were breached, except for the four quarters ending on 31 March 2017.

Despite the fact that Otkritie and Trust have not formally waived their right to demand early repayment of their loans in connection with the last production covenants test date of 1 April 2017, and the creditors have a formal right to demand repayment, the management of the Company believes that the creditors will not exercise their right to demand early repayment of the debt.

Currently, the Company has launched a structured effort to identify a strategic investor(s) either at the corporate level or at the asset level to finance the Group's long-term development plans. The creditor representatives of the Board are supportive of this process, with a positive development being supportive ensuring timely fulfilment of the Group's obligations under the current loan agreements.

In addition, during the reporting period, the Company's subsidiary obtained Russian ruble ("RUR") 750,000 thousand (US$11,349 thousand) and RUR 350,000 thousand (US$ 5,684 thousand) as forward oil sale prepayment from LLC EnergoResurs ("EnergoResurs") and US$10,000 thousand from Glencore Energy UK Ltd. ("Glencore"). Prepayments from forward oil sale agreements are one of the main sources of working capital. The renewal of such prepayments occurs regularly under normal course of business, but cannot be certain and, therefore, the Directors recognise that this, together with the ongoing need to raise finance and comply with production covenants, represents a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

However, on the basis of the assumptions and cash flow forecasts prepared, management has assumed that the Company will continue to operate within both available and prospective facilities. Accordingly, the Company's financial statements are prepared on the going concern basis and do not include any adjustments that would be required in the event that the Company were no longer able to meet its liabilities as they fall due.

3. Summary of significant accounting policies

Investments

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

Impairment of non-financial assets

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

Financial instruments

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

Loans and receivables

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

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

Cash and cash equivalents

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

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

Borrowings and accounts payable

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

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

Impairment of financial assets

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

Taxes

Income tax

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

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

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

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

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

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

Equity

Share capital

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

Foreign currency translation

Foreign currency transactions are initially 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 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 0.81 and 0.68 as at 31 December 2016 and 31 December 2015, respectively and the average rates for the year ended 31 December 2016 and 2015 were 0.74 and 0.65 respectively.

Share option plan

The share option plan, under which the Group has the ability to choose whether to settle it in cash or equity instruments at the discretion of the Board of Directors is accounted for as an equity settled transaction. The fair value of the options granted by the Parent to employees is measured at the grant date and calculated using the Trinomial option pricing model and recognised in the financial statements as a component of equity with a corresponding amount recognised in selling, general and administrative expenses over the time share reward vest to the employee.

Modifications of the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement or is not otherwise beneficial to the employee, are accounted for as services received in consideration for the equity instruments granted as if the modification had not occurred.

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

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. Investments in subsidiaries

	31 December 2016	2015
Ruspetro Holding Limited	219,638	219,638
Ruspetro JSC	260,838	260,838
Total investments in subsidiaries	**480,476**	**480,476**

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).

6. Cash and cash equivalents

	31 December 2016	2015
Cash in bank denominated in US$	118	343
Cash in bank denominated in £	108	164
Total cash and cash equivalents	**226**	**507**

Cash balances generally bear no interest. The Company holds its cash with Bank of America (Moody's rating A1/baa2/P-1 (Stable) at 31 December 2016 and A1/baa2/P-1 (Stable) at 31 December 2015).

7. Shareholders' equity

Share capital

	31 December 2016	2015
Ordinary share capital	135,493	135,493

Issued and paid up share capital of the Company as at 31 December 2016 and 2015 consisted of 870,112,016 ordinary shares with a par value of £0.10 each.

COMPANY SECRETARY
RUSPETRO LTD
No. 07817695