EXILLON ENERGY PLC
ANNUAL REPORT 2017

Contents

3	Chief Executive's Statement
5	Operational Review
8	Key Performance Indicators
10	Financial Review
13	Corporate Social Responsibility
16	Directors' Report
26	Remuneration Report
33	Corporate Governance Report
38	Audit Committee Report
44	Statement of Directors' Responsibilities
45	Auditors' Report
53	Consolidated Financial Statements
57	Notes to the Consolidated Financial Statements
87	Corporate Directory

Exillon Energy is a London listed independent oil producer with assets in two oil-rich regions of Northern Russia: Exillon TP in Timan-Pechora and Exillon WS in West Siberia. Exillon Energy plc is incorporated in the Isle of Man, with operational centres in Urai and Usinsk, Russian Federation.

The financial and production data presented in the document are for the period from 1 January 2017 to 31 December 2017 and all other information, including details on operations covers the period to 26 April 2018. This document may contain forward-looking statements concerning our financial condition and results of operations. Forward-looking statements are statements of future expectations that are based on our current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. No assurances can be given as to future results, levels of activity and achievements and actual results, levels of activity and achievements may differ materially from those expressed or implied by any forward-looking statements contained in this report. We do not undertake any obligation to update publicly or revise any forward-looking statement as a result of new information, future events or other information.

From the Chief Executive

- Net profit increased by 18% to US$47.6 million (US$40.5 million in 2016)
- EBITDA increased by 14% to US$80.5 million (US$70.8 million in 2016)
- EBITDA per barrel increased by 48% to US$20.8 per barrel (US$14.1 per barrel in 2016)
- Production decreased by 23% to 3.9 million bbls (5.0 million bbls in 2016)

Dear Shareholders,

2017 was a reasonably successful year for Exillon. Despite the decline in our production, we delivered robust financial performance with significant recurring EBITDA and net profit.

Financial Position and Performance

Our EBITDA increased by 14% from US$70.8 million to US$80.5 million, with a net profit of US$47.6 million (compared to a net profit of US$40.5 million in 2016). Our revenue increased from US$127.0 million to US$136.8 million, while our netback (which we define as revenue less mineral extraction tax, export duty and Transneft charges) increased by 8% from US$103.7 million to US$111.8 million. The growth in our revenue was primarily a consequence of higher average oil prices during 2017 as compared to 2016, reflecting the movements in global oil prices. This was offset by a decrease in our sales volumes, resulting from the decline in our production. Rising average oil prices led to a simultaneous significant increase in mineral extraction tax, despite the ongoing application of certain tax exemptions by Exillon TP and Exillon WS.

Our EBITDA per barrel after allocation of central costs was equivalent to US$20.8 per barrel compared to US$14.1 per barrel in 2016. This improvement was driven by increase in average oil prices and appreciation of the Russian Rouble, which enhanced the US dollar equivalent of our netback and EBITDA.

77% of our oil production in 2017 was from Exillon WS and 23% from Exillon TP (2016: 78% and 22%, respectively). Both units were profitable in 2017 although Exillon WS is still larger and enjoys greater economies of scale than Exillon TP. EBITDA per barrel on an operating level (before central costs) was US$25.6 per barrel in Exillon WS (2016: US$17.9 per barrel) and US$6.1 per barrel in Exillon TP (2016: US$6.5 per barrel). The spread in EBITDA per barrel is growing wider between operating segments due to mineral extraction tax exemptions applied by Exillon WS.

We ended the reporting period with US$5.6 million of cash and cash equivalents (31 December 2016: US$146.5 million). In March 2017, the final instalment of the term loan of US$100.0 million, which we took out in March 2012, was fully repaid. In April 2017, we entered into new facility agreements with Gazprombank JSC for an aggregate principal amount of up to US$206 million. As at 31 December 2017, the outstanding debt under these facilities amounted to US$124.7 million. The total outstanding amount is due for repayment in September 2018. Currently, we are at the final stage of negotiation process with the bank for the restructuring of our debt. As at 31 December 2017, our net debt position was US$119.2 million (31 December 2016: outstanding debt of US$7.7 million and net cash position of US$138.8 million).

As at 25 April 2018 our cash balance amounted to US$2.9 million resulting in a net debt position of US$121.8 million.

Production

Our oil production decreased by 23% from 5.0 million to 3.9 million barrels equivalent to a decrease from 13,724 bpd in 2016 to 10,615 bpd in 2017. Further details are provided in the operational review for Exillon TP and Exillon WS.

The decrease in our production is reflecting natural production decline curve due to the natural field depletion; this did not result in any impairment of oil and gas properties.

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

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
PLC peak, bpd	12,346	12,228	11,611	11,364	10,962	10,327	10,690	10,681	10,658	10,295	10,462	10,044
PLC average, bpd	12,069	11,851	11,221	10,881	10,683	10,032	10,353	10,267	10,209	9,972	10,207	9,716
Exillon TP average, bpd	2,589	2,799	2,726	2,764	2,676	2,302	2,353	2,383	2,299	2,015	2,333	2,205
Exillon WS average, bpd	9,480	9,052	8,495	8,117	8,007	7,730	8,000	7,884	7,910	7,957	7,874	7,511

Reserves

Our latest reserves report provides the estimates on reserves as of 30 June 2016 and was published in our 2016 Annual Report. Proved and probable reserves (2P) at 30 June 2016 were 500 million barrels (31 December 2014: 506 million barrels). Total production for the year 2017 and the second half of 2016 amounted to 6.2 million barrels.

Dmitry Margelov
Chief Executive Officer

Operational Review

Strategy

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

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

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

Outlook

In 2017, the investment program for the years 2017-2021 was approved by the Board of Directors and Extraordinary General Meeting of shareholders.

In 2018, we will focus our capital investments on further development of EWS I and EWS II oil fields in Exillon WS. We are planning to drill 22 new production oil wells and invest in construction of general infield infrastructure, such as power lines, infield pipelines and roads, and development of relevant oil well pads.

In 2018, we are planning to drill 8 new wells at Exillon TP and continue development of relevant well pads and required general infrastructure.

Business Model

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

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

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

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

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

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

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

Drilling

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

Oil field	Well pad	Well №	Type of well	Spudded on	Drilling completed, days	Current production, bpd
Lumutinskoe	8L	803P	Producer	23 April 2017	48	402
Lumutinskoe	8L	801	Producer	11 June 2017	17	424
Lumutinskoe	8L	800	Producer	29 June 2017	14	15
Lumutinskoe	8L	807	Producer	13 July 2017	16	371
Lumutinskoe	8L	809	Producer	30 July 2017	16	n/a, under development
Lumutinskoe	8L	810	Producer	16 August 2017	11	121
Lumutinskoe	8L	806	Producer	28 August 2017	15	250
Lumutinskoe	8L	808	Producer	13 September 2017	14	227
Lumutinskoe	8L	805	Producer	28 September 2017	18	8
Lumutinskoe	8L	802	Producer	17 November 2017	37	114
Lumutinskoe	8L	804	Producer	25 November 2017	47	n/a, under development
Kayumovskoe	11K	1107	Producer	21 November 2017	30	n/a, waiting for fracturing

Production

Exillon WS produced 2,979,736 bbl and generated revenue of US$106.4 million (2016: produced 3,906,767 bbl and generated revenue of US$99.1 million). A 24% decrease of production in Exillon WS is reflecting the natural production decline curve due to the natural depletion.

Exillon TP produced 894,654 bbl and generated revenue of US$30.4 million (2016: produced 1,116,064 bbl and generated revenue of US$27.9 million). A 20% decrease of production in Exillon TP is reflecting the natural production decline curve due to the natural depletion.

Financial

In 2017, cash capital expenditure for completed and accepted construction works and services was US$17.9 million (2016: US$9.1 million), 99% of which was incurred in Exillon WS and 1% in Exillon TP (2016: 96% in Exillon WS and 4% in Exillon TP). Of this total, US$11.5 million was attributable to drilling and US$6.4 million to infrastructure (2016: US$2.0 million was attributable to drilling, US$6.9 million to infrastructure and US$0.2 million to seismic data acquisition and interpretation). In 2017, advance payments for property, plant and equipment in the amount of US$270.2 million were made in relation to drilling of wells and construction of infield infrastructure under the Group's investment program for the years 2017-2021, which was approved by the Board of Directors and Extraordinary General Meeting of shareholders held on 30 August 2017. These advance payments form part of additions to property, plant and equipment and investing cash flows. The advances were made in order to secure the cost of drilling and construction works and services which provides greater confidence over the returns we are targeting from the investment program.

During the year we held the majority of our cash in Russian banks, which provide more beneficial terms for our liquid funds with higher returns in comparison to the international banks. As of 31 December 2017, US dollars accounted for approximately 44% of our cash with the remaining 56% held in Russian Roubles (2016: 21% and 79%, respectively).

Key Performance Indicators

Key Performance Indicator	Unit	2017 result	2016 result
Revenue	US$ million	136.8	127.0
Achieved oil price			
Export sales	US$/bbl	-	29
Domestic sales	US$/bbl	35	25
Average sales price	US$/bbl	35	25
Operating Costs[1]	US$ million	41.8	36.0
EBITDA[2]	US$ million	80.5	70.8
EBITDA per barrel[3]	US$/bbl	20.8	14.1
Net Profit	US$ million	47.6	40.5
Profit per share			
Basic	US$	0.30	0.25
Diluted	US$	0.30	0.25
Capital Expenditure[4]	US$ million	17.9	9.1
Total production	Bbl	3,874,390	5,022,831
Lifting costs per barrel[5]	US$/bbl	4.5	3.4
ROCE[6]	%	11.0%	10.3%
Lost time injury rate	Incidents	-	-

[1] Cost of sales excluding depletion and depreciation costs. This indicator is a better measure of the cash-based operating costs incurred by the Group in carrying out its operating activities:

	For the year ended 31 December	
	2017	**2016**
Cost of sales, US$ thousand	58,344	52,204
Less: depreciation and depletion, US$ thousand	(16,553)	(16,210)
Operating Costs, US$ thousand	**41,791**	**35,994**

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

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

	For the year ended 31 December					
	2017			**2016**		
	Exillon TP	**Exillon WS**	**Total**	**Exillon TP**	**Exillon WS**	**Total**
EBITDA, US$ thousand	5,286	76,805	80,489	7,307	69,863	70,837
Barrels of crude oil sold	873,344	3,005,103	3,878,447	1,116,847	3,900,350	5,017,197
EBITDA per barrel, US$/bbl	**6.1**	**25.6**	**20.8**	**6.5**	**17.9**	**14.1**

[4] Cash capital expenditure for completed and accepted construction works and services.

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

	For the year ended 31 December	
	2017	**2016**
Operating Costs, US$ thousand	41,791	35,994
Less: mineral extraction tax, US$ thousand	(24,248)	(18,735)
Lifting costs, US$ thousand	**17,543**	**17,259**
Barrels of crude oil sold	3,878,447	5,017,197
Lifting costs, US$/bbl	**4.5**	**3.4**

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

	For the year ended 31 December	
	2017	**2016**
Operating profit, US$ thousand	63,132	51,503
Total assets, US$ thousand	725,733	548,169
Less: current liabilities, US$ thousand	(151,513)	(47,386)
	574,220	500,783
ROCE	**11.0%**	**10.3%**

Financial Review

The Consolidated Financial Information and notes which follow should be read in conjunction with this review which has been included to assist in the understanding of our financial position as at 31 December 2017 and financial performance for the year then ended.

Summary

EBITDA increased by 14% from US$70.8 million in 2016 to US$80.5 million in 2017.

Net profit for the year, which includes depreciation costs, foreign exchange translation effects and gain/loss on disposal of non-current assets amounted to US$47.6 million compared to net profit of US$40.5 million in 2016.

Revenue

Our revenue for the year ended 31 December 2017 increased by 8% year-on-year, reaching US$136.8 million (2016: US$127.0 million), of which 100% came from domestic sales of crude oil (2016: US$14.1 million or 11% came from export sales of crude oil and US$112.9 million or 89% came from domestic sales of crude oil). This change in revenue is attributable to:

- a decrease in production leading to a 23% decrease in sale volumes from 5,017,197 bbl in 2016 to 3,878,447 bbl in 2017;
- an increase in average commodity prices: we achieved an average oil price of US$35 / bbl for domestic sales (2016: US$25 / bbl). In 2016, we achieved an average oil price of US$29 / bbl for export sales;
- change in our sales mix to 100% domestic sales, as a result of ongoing adjustment responding to changes in oil prices (and mineral extraction tax) in order to maximise our trading results; and
- Russian Rouble appreciation, which increased the US dollar equivalent of our revenue. The effective average exchange rate was 67.0349 Russian Roubles to one US dollar (Rouble/US$) in 2016 and 58.3529 Rouble/US$ in 2017.

As a result, our total netback for domestic and export sales increased by 8% from US$103.7 million to US$111.8 million year-on-year.

Operating Results

Cost of sales excluding depreciation and depletion expenses increased to US$41.8 million (2016: US$36.0 million), despite the decrease in production by 23% to 3,874,390 bbl (2016: 5,022,831 bbl). The difference between the production volumes and sales volumes is due to the change in the oil inventory balance during the period. The major increase occurred in mineral extraction tax from US$18.7 million in 2016 to US$24.2 million in 2017. It was a combined result of:

- both operating segments: substantial increase in average crude oil prices used in the calculation of the tax, the increase of the base tax rate from 857 Russian Roubles per tonne of crude oil in 2016 to 919 Russian Roubles per tonne in 2017 and Russian Rouble appreciation, which increased the US dollar equivalent of mineral extraction tax;
- Exillon TP: during both periods Exillon TP applied decreasing factors to the base mineral extraction tax rate, which reflect the specific characteristics of oil production from the ETP V and ETP VI oil fields (Note 7). This tax exemption had a similar effect for both periods, while the decrease in Exillon TP production partially offset the general increasing factors mentioned above; and

- Exillon WS: during both periods Exillon WS applied a 0% mineral extraction tax rate to the oil produced from a certain oil reservoir, which includes oil production from the majority of oil wells located at EWS I and EWS II oil fields. The tax exemption for this oil reservoir was introduced by Russian legislation in the second half of 2015 with an effective date of 1 January 2015 (Note 7). In 2017, Exillon WS produced 2,979,736 bbl of crude oil and applied a 0% tax rate to 75% or 2,247,204 bbl (2016: total production of 3,906,767 bbl; with a 0% tax rate applied to 82% or 3,213,668 bbl). As a result, Exillon WS accrued the tax for 732,532 bbl of crude oil in 2017 as compared to 693,099 bbl in 2016, which contributed to the increase in mineral extraction tax. In 2017, Exillon WS applied a reducing factor to the mineral extraction tax rate, which reflects the specific characteristics of the remaining oil production from the EWS II oil field. In 2017, Exillon WS also applied for and was granted both tax exemptions in respect of production for 2014 and the reducing factor tax exemption for production of 2015 and 2016 (Note 7). This partially offset the increase in mineral extraction tax from higher taxable production volumes in Exillon WS and the general increasing factors mentioned above.

Depreciation, depletion and amortisation costs (“DD&A” costs) primarily relate to the depreciation of proved and probable reserves and other production and non-production assets. In 2017, these costs amounted to US$17.0 million (2016: US$16.6 million). The increase in DD&A costs was driven by Russian Rouble appreciation, since most of DD&A costs are nominated in Russian Roubles, and DD&A charge on the additions in 2017 to property, plant and equipment. This was offset by a decrease in the depletion charge for oil and gas properties as a result of lower production volumes.

Selling expenses for 2017 amounted to US$4.9 million (2016: US$9.6 million) and comprised of transportation services of US$3.8 million and services of the Transneft crude oil metering system of US$1.1 million (2016: export duties of US$3.0 million, transportation services of US$5.2 million and services of the Transneft crude oil metering system of US$1.4 million). The major decrease related to export duty as a result of change in our sales mix. Transportation services included services provided by Transneft and trucking services from the infield oil filling stations to oil terminals at Transneft. In 2016, transportation services provided by Transneft of US$1.6 million related to export sales of crude oil. While in 2017, transportation services provided by Transneft of US$0.8 million related to domestic sales of crude oil in Exillon TP for the period from January to April 2017. During 2016 and the period from May to December 2017 domestic customers of both operating segments have been paying directly to Transneft for its transportation services. Exillon TP used Transneft crude oil metering system services at a cost of US$1.1 million in 2017 as compared to US$1.4 million in 2016. The decrease is a result of reduced production volumes. The decrease in Russian Rouble denominated trucking services to Transneft from US$3.6 million in 2016 to US$3.0 million in 2017 is a result of lower production volumes partially offset by the appreciation of the Russian Rouble against US dollar.

Administrative expenses (excluding depreciation and amortisation) amounted to US$9.0 million (2016: US$12.1 million), with the main decrease attributable to consulting services.

In 2017, interest income amounted to US$4.3 million (2016: US$2.4 million) resulting from surplus cash being held on short-term bank deposits and purchase of short-term interest-bearing bank bills of exchange.

In 2017, finance cost amounted to US$1.7 million (2016: US$2.1 million). Despite the receipt of the new loan in April 2017 described further below under “Financial Position”, finance cost decreased due to capitalization of US$4.3 million of borrowing costs.

In 2017, income tax expense of US$18.1 million (2016: US$11.3 million) comprised an income tax charge of US$17.3 million (2016: US$12.0 million) and a deferred tax charge of US$0.8 million (2016: deferred tax credit of US$0.7 million). The basic corporate income tax rate in the Russian Federation is 20%. In 2017, Exillon WS applied a reduced rate of 17% in compliance with local tax legislation (2016: there were no income tax exemptions available for subsidiaries incorporated in the Russian Federation).

In 2017, a foreign exchange loss of US$0.5 million (2016: US$2.7 million) has been included in our net profit arising from the revaluation of foreign currency monetary items (cash and cash equivalents, accounts receivable and payable, other assets, borrowings) using the closing rate at the reporting date. The foreign exchange loss recognised in 2016 was a result of the exchange rate decrease from 72.8827 Rouble/US$ as of 31 December 2015 to 60.6569 Rouble/US$ as of 31 December 2016. During 2016, the foreign exchange loss arising on US dollar denominated cash held by Russian subsidiaries was partially offset by foreign exchange gain attributable to the intercompany loan, which was expected to be settled to fund repayments of the Group’s external debt and was not considered to be as permanent as equity (Note 5). In 2017, the exchange rate decreased from 60.6569 Rouble/US$ as of 31 December 2016 to 57.6002 Rouble/US$ as of 31 December 2017. The foreign exchange loss arising on US dollar nominated cash and cash equivalents held by Russian subsidiaries was offset by foreign exchange gain arising on US dollar nominated loan, received by Russian subsidiary in April 2017 (Note 25). In 2017, the exchange rate experienced decreasing volatility: while in 2016 it fluctuated between the highest rate of 83.5913 Rouble/US$ achieved on 22 January 2016 and the lowest rate of 60.273 Rouble/US$ achieved on 30 December 2016; in 2017 the highest rate of 60.7503 Rouble/US$ was achieved on 4 August 2017 and the lowest rate of 55.8453 Rouble/US$ was achieved on 26 April 2017. A foreign exchange gain of US$21.9 million (2016: US$63.8 million) has been recognised in other comprehensive income as part of the translation reserve.

As a result of the above, in 2017 we reported a profit after tax of US$47.6 million compared to a profit of US$40.5 million in 2016.

Financial Position

We ended the period with US$5.6 million of cash and cash equivalents and outstanding borrowings of US$124.7 million (31 December 2016: US$146.5 million and US$7.7 million, respectively). In March 2017 the loan principal of US$7.7 million has been repaid to Credit Suisse in compliance with the repayment schedule, being the final instalment under a term loan of US$100.0 million, which we took out in March 2012. In April 2017, we entered into new facility agreements with Gazprombank JSC and received US$125.0 million (Note 25). The difference of US$0.3 million between proceeds from borrowings and the outstanding borrowings relates to unamortized amounts of borrowing costs. As at 31 December 2017, the entire borrowings of US$125.0 million are due for repayment within 12 months after the reporting date. Currently, we are at the final stage of negotiation process with Gazprombank JSC for the restructuring of our debt. The Directors have a reasonable expectation that the existing loan will be successfully restructured, as described further in the Directors' Report under "Going concern" on page 25.

The additions to the property, plant and equipment of US$292.6 million included US$4.3 million of capitalised interest, US$0.2 million of additions to provision for decommissioning, US$17.9 million of completed and accepted drilling services of oil wells and further development of infield infrastructure in Exillon WS and Exillon TP and US$270.2 million of advances issued for capital construction. This was partially offset by depreciation and depletion of US$17.0 million, while the overall increase was enhanced by the translation difference of US$17.7 million, due to the appreciation of the Russian Rouble against the US dollar at the reporting date. There is no tax relief related to the capitalised borrowing costs (Note 17).

At the date of the approval of these financial statements, there are pending litigation matters in connection with the two claims brought against Kayumneft JSC and one claim brought against Nem Oil CJSC in the court by the Temporary Administrators of Bank Ugra in November and December 2017 (Note 27). The plaintiff demands to set aside a number of alleged transactions as the part of the bankruptcy case of Bank Ugra. The Group disputes the existence of the alleged transactions. Having carefully considered the nature of the risks arising from pending litigation against the Company's subsidiaries, and having received advice from external legal counsel, the Board noted that, while it is difficult to predict the ultimate outcome of pending litigation, it estimates that the risk of a material financial outflow arising from pending litigation against the Company's subsidiaries is less than probable.

Cash Flow

Operating cash flow before working capital changes amounted to an inflow of US$81.8 million in 2017 compared to an inflow of US$71.1 million in 2016. Net cash generated from operating activities in 2017 decreased to US$50.3 million compared to a US$107.4 million inflow in 2016. The main reason for the decrease in net operating cash flows is the working capital movements, which had an overall total positive effect in 2016 and a strong negative effect in 2017. The positive effect in 2016 is mostly explained by a one-off cash reimbursement of US$26.8 million received in April 2016 for mineral extraction tax, due to the tax exemption applied in 2015. In 2017, the negative impact relates mostly to the decrease in trade payables following payments to suppliers and contractors, and decrease in other payables due to payments for consulting services on a potential M&A transaction. The negative effect was also a consequence of a decrease in advances received from customers due to the timing of scheduled payments.

In 2017, cash capital expenditure for completed and accepted drilling services of oil wells and the development of infield infrastructure was US$17.9 million (2016: US$9.1 million).

Advance payments for property, plant and equipment of US$404.6 million included:

- US$270.2 million of advances issued for the capital construction, including well drilling, construction and development of infield infrastructure. These advances were made under the Group's investment program for the years 2017-2021, which was approved by the Board of Directors and Extraordinary General Meeting of shareholders;
- US$5.3 million, which was paid in the period and agreed to be refunded prior to 31 December 2017. This amount is shown as other receivables (Note 19) rather than additions to property, plant and equipment, but is included in investing cash flows. The refund was received after 31 December 2017 and will be shown as a reduction to investing cash flows in 2018; and
- US$129.1 million of advances paid and refunded during the year ended 31 December 2017. In January-February 2017, advance payments of US$97.8 million were made for a potential purchase of office buildings; while advance payments of US$31.3 million were made for the drilling of oil wells and further development of infield infrastructure. The transactions did not proceed and consequently are not reflected in additions to property, plant and equipment. The amount of US$135.3 million was refunded in full in March and October 2017. The difference of US$6.3 million between amounts of advance payments and refunds relates to translation gain that is part of other comprehensive income.

Cash flow generated from financing activities was US$116.2 million (2016: US$32.1 million used in financing activities), resulting mostly from the receipt of new loan facilities in the amount of US$125.0 million; with the outflow of relevant transaction costs of US$0.5 million. The loan principal of US$7.7 million outstanding at 31 December 2016 has been repaid in compliance with the repayment schedule, being the final instalment under a term loan, which we took out in 2012. We also paid US$4.8 million of loan interest, of which US$4.3 million was capitalised.

Corporate Social Responsibility

There is always room for improvement in developing further our overall CSR strategy and policies. We are committed to doing this. Sound corporate social responsibility is not only important for the sustainable development of the communities, in which we operate and for all of our stakeholders, it is a key to the sustainable growth and development of our business. CSR continues to be a key strategic issue for us and a regular agenda item at our Board and management meetings.

CSR Oversight and Implementation

In 2017, the members of the committee were Natalya Shternberg (Chairman of the CSR Committee), Sergey Koshelenko (Chairman of the Board of Directors) and Dmitry Margelov (Chief Executive Officer).

In compliance with the terms of reference, the CSR committee met twice in 2017 with all members attending both meetings. The committee is responsible for reviewing and making recommendations to the Board with respect to the Group's CSR policies and their implementation. The CSR committee is directing CSR activities across the Group and monitoring CSR best practice developments. The CSR committee is also responsible for reviewing management's investigation of health, safety and environmental incidents and accidents that occur in order to assess whether policy improvements are required. The ultimate responsibility for approving CSR policies remained with the Board, and management was charged with implementing such policies. The terms of reference of the CSR committee are available on request.

We are committed to embedding the principles of sound corporate social responsibility throughout our businesses. We adopted a revised, clearer and shorter statement of business practice for the guidance of employees.

Employees are made aware of the statement at the time of employment and are required annually to acknowledge in writing that they have once again reviewed it. We have a Whistle-blower Policy that encourages the detection and reporting of malpractice. We recognise that incidents of workplace fraud, wrongdoing or mismanagement are possible in any business and we are committed to ensuring that any such malpractice is prevented from happening and immediately dealt with if it does arise. We encourage employees to raise their concerns about any malpractice at the earliest possible stage and the policy sets out the correct method for raising any such concerns. The policy confers no contractual rights on employees.

At the operational level, designated members of local management who report to the General Director of their respective companies manage Health, Safety and Environment ("HSE") at Exillon WS and Exillon TP.

Health and Safety

Exillon Energy plc is subject to a wide range of Russian Federal regulations relating to health and safety, notably the Federal Law "On Industrial Safety of Hazardous Industrial Facilities" and various parts of the Russian Labour Code. We comply with GOST standards[7] on environmental and production safety. We have a comprehensive Environmental and Production Safety Programme (EPSP), which includes policies related to personnel safety, emergency control and production safety.

Employees receive regular mandatory training and drills on emergency response, well blow-out prevention, oil and other hazardous liquid spills prevention, hydrogen sulphide safety knowledge, first aid training, fire safety and firefighting equipment. The Federal Service for Ecological, Technological and Nuclear Supervision (Rostekhnadzor), which ensures compliance with safety rules, periodically inspects our field operations and has found them compliant to date in all material respects. In addition, our Health,

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

Safety and Environment Department carries out quarterly safety audits of our field operations. Findings on these audits are presented to the General Directors of Exillon TP and Exillon WS. Currently there are no significant recommendations arising from these audits.

In 2017, we once again reported no fatalities and no work-related injuries. Our Lost Time Injury Frequency Rate for 2017 was therefore zero and our long-term target would be to sustain this impressive level. Any incidents are a cause of grave concern and we remain committed to providing a safe and supportive work environment for all. We did not pay any compensation claims in 2017.

In 2017, social contributions for compulsory medical insurance were withheld from all of our employees of Exillon TP and Exillon WS and were payable directly to the relevant state funds.

Environment

Exillon Energy recognises the importance of protecting the environment in all of our activities and aims to fulfil this commitment by complying with relevant environmental legislation and regulations, continuous improvement of environmental management practices and preventing pollution.

The Group's operations are subject to various environmental laws and regulations in Russia, including those governing emissions, wastewater discharges, the reclamation of contaminated soil and the use, handling and disposal of hazardous substances and wastes.

In addition, the Group has long-term obligations relating to the decommissioning of operational facilities and land remediation.

Exillon Energy seeks to meet high standards for environmental protection. Our commitment to the GOST standards includes specific requirements for environmental protection and hazard control.

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

- Sampling of air, water and soil
- Control of stationary sources of air pollution emission
- Laboratory analysis of surface water
- Monitoring condition of streams, water conservation zones, coastal slopes
- Transporting sewage to treatment facilities
- Installation of equipment for storing dangerous refuse
- Forsage-1 industrial waste furnaces
- Training managers and staff in environmental protection and hazard control
- Recycling of domestic waste
- Installation of power generators utilising gas that otherwise would be flared

According to the changes in environmental regulations, which became effective on 1 January 2012, oil producers are permitted to flare 5 percent or less of the gas associated with production. The volumes exceeding this limit are taxable at the increased rates. To minimise penalties we continue constructing new gas utilisation facilities as well as selling the portion of associated gas. Due to these measures, we have achieved a low sustainable level in expenses for gas flaring penalties, which amounted to US$0.1 million in 2017 and US$0.1 million in 2016 (please see Note 7 to the Consolidated Financial Statements on page 68).

Total expenses on environmental protection in 2017 approximated US$0.78 million (2016: US$0.6 million), of which US$0.34 million was spent at Exillon TP (2016: US$0.09 million) and US$0.44 million was spent at Exillon WS (2016: US$0.51 million).

Employees

At the end of 2017, we employed 418 staff, of whom 292 were employed by Exillon WS and 126 by Exillon TP.

Our success depends to a large degree on our ability to recruit, motivate and retain senior management and highly skilled employees in a competitive job market. We support our employees' career development and career progression, by providing stable and fair compensation and benefits, as well as extensive training.

Key engineering staff receive compulsory training in production safety, which is delivered by the state authorities or service providers certified by the authorities.

Staff are tested on industrial safety and subsoil protection once every three years. Other training deals with fire fighting, first aid dressing, oil spill responses, and labour and industrial safety.

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

Diversity

At the moment, there is no diversity policy applied to the Company's administrative, management and supervisory bodies with regard to aspects such as age, gender, or educational and professional backgrounds. Exillon is generally supportive of relevant diversity in the workplace. However, as a young and still small organisation, it is too soon to establish meaningful medium-term quantitative targets for age, gender, educational and professional diversity, including for women on our Board of Directors. We will however make every effort, reflecting our current scale and consistent with our core objective to sustain and generate shareholder value, to recruit and train suitably qualified women at every level of the organization as well as support age, educational and professional background diversity among our employees.

The Board of Directors is composed of five members, one of whom is a woman. We have approximately 418 employees of whom 78 are female, making up 19% of our workforce.

Directors' Report

The Board of Directors of Exillon Energy plc

As of 26 April 2018, Exillon Energy's Directors comprise:

Sergey Koshelenko

Non-Executive Chairman

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

Dmitry Margelov

Chief Executive Officer

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

Alexander Markovtsev

Senior Independent Non-Executive Director

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

Roman Kudryashov

Independent Non-Executive Director

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

Natalya Shternberg

Independent Non-Executive Director

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

Introduction

The Directors present their Annual Report and Consolidated Financial Statements to shareholders for the financial year ended 31 December 2017.

Exillon Energy plc (the "Company") is the holding company of the Group and all its issued ordinary shares were admitted to listing on the main market of the London Stock Exchange on 17 December 2009. As at 30 January 2018, the Company's shares have been delisted from trading on the Warsaw Stock Exchange.

The Corporate Governance Statement on pages 33 to 37 forms part of the Directors' Report.

Principal Activities

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

Business Review

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

- Chief Executive Officer's Statement on pages 3 to 4
- Business Review on pages 5 to 15 incorporating the Operational Review on pages 5 to 7 and the Financial Review on pages 10 to 12 and the CSR Report which includes information on employees, environmental and social matters on pages 13 to 15
- Key Performance Indicators on pages 8 to 9
- Principal risks and uncertainties on pages 20 to 23

Duties and disclosure in accordance with good practice are described in the Corporate Governance Report on pages 33 to 37, which also sets out the Company's compliance with the provisions of section 7.2 of the Disclosure & Transparency Rules of the Financial Conduct Authority. Shareholders who wish to read the full version of the UK Corporate Governance Code ("Governance Code") are directed to the Financial Reporting Council's website: www.frc.org.uk

Financial risk management policy

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

- Financial Review on pages 10 to 12
- Note 25 to the Consolidated Financial Statements on pages 77 to 78
- Note 29 to the Consolidated Financial Statements on pages 81 to 85

Results and Dividends

The Consolidated Financial Statements for the year ended 31 December 2017 are as set out on pages 53 to 56. We declared no dividend for the year ended 31 December 2017 (2016: nil). It is the Directors' current intention that we will not pay a dividend for the foreseeable future in order to conserve cash resources for future investments in the business.

Directors

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

Sergey Koshelenko
Dmitry Margelov
Alexander Markovtsev
Roman Kudryashov
Natalya Shternberg

Further details about the Directors and their roles are given in the Corporate Governance Report on pages 33 to 37. Details of the Directors' remuneration and their interests in the Company shares are set out in the Remuneration Report on pages 26 to 32.

Appointment and Replacement of Directors

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

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

Powers of the Directors

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

Share Capital and Shareholders' Restrictions

We have one class of share capital that is divided into 161,510,911 ordinary shares (2016: 161,510,911) of US$0.0000125 each ("Ordinary Shares"). Further details of the share capital together with the specific movements in share capital during the year are included in Note 26 to the Consolidated Financial Statements on page 78.

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

There are no restrictions on the transfer of the Ordinary Shares other than as set out in the Articles of Association and:

- certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Conduct Authority whereby certain Directors, officers and our employees require Company's approval to deal in the Ordinary Shares.

Subject to any rights or restrictions attached to any shares, on a show of hands every shareholder present in person or by proxy (or being a corporation present by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on our website after the meeting.

No shareholder holds shares carrying special rights as to the control of the Company. There are no limitations on the holding of shares. We do not know of any agreements between holders of shares, which may result in restrictions on the transfer or on voting rights.

Any of the rights attached to any class of share may be varied by consent in writing of the holders of not less than three quarters in par value of the issued shares of the class or by special resolution passed at a separate meeting of the holders of shares of the class.

Authority to Purchase Own Shares

Powers relating to the issuance and buy back of shares are also included in the Articles of Association and the authority to issue and buy back shares is renewed by shareholders each year at the Annual General Meeting. We were authorised by a shareholder resolution passed on 26 June 2017 to purchase up to 10% of our issued Ordinary Share capital. This authority will expire at the forthcoming Annual General Meeting and a resolution to renew the authority for a further year will be proposed.

We did not purchase any shares during the year.

Employee Share Plan

We established an employee benefit plan ("EBP") by which shares may be awarded to Executive Directors and senior managers. Participants holding restricted share awards may not vote shares held in the trust until after the end of the vesting period, but will be entitled to dividends. Participants holding conditional shares may not vote shares held in the trust and are not entitled to dividends until after the end of the vesting period.

The trustees of the EBP may vote or abstain from voting on shares held in the Employee Benefit Trust ("EBT") as they think fit and in doing so may take into account both financial and non-financial interests of the beneficiaries of the EBP or their dependants.

Substantial shareholdings

As of 31 December 2017 and 26 April 2018, the significant interests in the voting rights of our issued Ordinary Shares as notified in accordance with Chapter 5 of the Disclosure and Transparency Rules were as follows:

Name of shareholder	Voting rights attaching to issued Ordinary Shares of US$0.0000125 each	Percentage of total voting rights	Nature of holding Direct/Indirect
Seneal International Agency Ltd	48,437,122	29.99%	Direct
Sinclare Holdings Limited*	43,115,588	26.69%	Direct

* Sinclare Holdings Limited has entered into forward share purchase agreement in relation to Ordinary Shares with Nagelfar Trade & Invest Limited.

Events Since Reporting Date

There were no events, which took place after the reporting date for which disclosure is required.

Principal Risks and Uncertainties

In 2017, the Board had overall responsibility for ensuring that risks were managed effectively, while the Audit Committee monitored the effectiveness of our internal control system. The information on the committee's activities is set out on page 39 in the Audit Committee Report. The day-to-day responsibility for managing risk and maintaining our system of internal control lies jointly with the Chief Executive Officer and the Head of Financial Department. In 2017, the Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Plans to mitigate known risks and the effectiveness of and progress in implementing these plans are reviewed regularly in accordance with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Despite our best efforts to factor these known risks into our business strategy, inevitably risks will exist of which we are currently unaware.

Principal Risks and Uncertainties

Risk	Mitigation / control
Economic risks:	
Substantial and/or extended decline in the prices for crude oil.	The Group does not use any derivatives to manage oil price or foreign currency risk exposure. The Russian taxation regime serves as a hedge against oil price declines, as the most significant components of taxation such as Export Duty and Mineral Extraction Tax are linked to the average Urals prices and decline to zero as the oil price decreases to US$15/bbl. In 2017, the growth in our revenue was primarily a consequence of higher average oil prices, reflecting the movements in global oil prices. The positive effect on revenue was partially offset by the simultaneous increase of mineral extraction tax, due to higher average crude oil prices used in the tax calculation in 2017 as compared to 2016. Additionally, we are continuously developing our cost control system. In 2017, we continued to apply certain mineral extraction tax exemptions by Exillon TP and Exillon WS.

Risk	Mitigation / control
Fluctuations in currency exchange rates materially and adversely affecting our financial results and condition.	Our revenues from the sale of crude oil are linked to US dollars through global oil prices, while the great majority of our costs are denominated in Roubles. Accordingly, the real appreciation of the Rouble against the US dollar may negatively affect our profit, but we anticipate that such appreciation will most likely be the result of high crude oil prices, which would neutralise the effect. In 2017, the appreciation of Rouble against US dollar has increased our costs (effective annual average rate of exchange was 67.0349 Rouble/US$ in 2016 and 58.3529 Rouble/US$ in 2017), most of which are denominated in Roubles. The negative effect was neutralised by increase in our revenue, which was primarily a consequence of higher average oil prices during 2017 as compared to 2016.
Continued high levels of inflation in Russia.	High levels of inflation in Russia could increase our costs. We are continuously developing our cost control system in order to decrease our expenses, where it is appropriate. We also anticipate that in future high levels of inflation in Russia, and consequently expenses growth, will be balanced by Rouble depreciation and/or increase in revenue as a result of higher oil prices.
Financial risks:	
Potential significant capital expenditures that may be required to increase production levels and overall efficiency, and any inability to finance these and other expenditures.	We have in place detailed budgets to cover immediate capital expenditures needs and long-term business plans to provide for continuous development of production facilities. In 2017, investment program for the years 2017-2021 was approved by the Board of Directors and Extraordinary General Meeting of shareholders.
Liquidity risk in relation to the existing borrowings.	The Group's liquidity position is carefully monitored and managed, as well as its relationship with funding providers. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. As of 31 December 2017, the Group's current liabilities exceeded its current assets by US$111.5 million. The external loan of US$125.0 million is due for repayment in September 2018. Currently, the Group is at the final stage of negotiation process with the bank for the restructuring of the debt. The Directors have a reasonable expectation that the existing loan will be successfully restructured, as described further below under "Going concern" on page 25.
Regulatory risks:	
Suspension, restriction, termination or lack of extension to our exploration and production licences issued by the Russian authorities.	As part of the reorganisation undertaken in 2012 our licences were transferred among our subsidiaries which involved the relevant regional authorities re-issuing these licences. We believe that the successful reissuance of these licences by authorities evidences their validity. Russian oil and gas producers are subject to a number of rules, requirements and licence agreement conditions. The Company actively monitors and analyses its compliance with the licence agreements and the related system of controls. Our licences are subject to periodic review by the regional authorities and as part of the most recent reviews, the authorities indicated that we comply with the terms of our licences.

Risk	Mitigation / control
Potential claims and liabilities under environmental, health, safety and other laws and regulations.	In the last three years, the authorities have not imposed significant fines on Exillon WS and Exillon TP or instructed them to amend their procedures in relation to any health, safety and other laws and regulations. According to the changes in environmental regulations, which became effective on 1 January 2012, Exillon as an oil producer is permitted to flare 5 percent or less of the gas associated with oil production. The volumes exceeding this limit are taxable at the increased rates. Due to enhanced level of gas utilisation in 2016 and 2017, we have already achieved a low sustainable level in gas flaring penalties. To minimise relevant tax payments in the future we continue the construction of new gas utilisation facilities to provide for increasing volume of associated gas as a result of future oil production growth.
Potential tax audits by the Russian tax authorities, resulting in additional tax liabilities.	We are committed to complying with all the provisions of the Tax Code and management believes that the Group has paid or accrued all taxes that are applicable. The Company actively monitors developments including any proposed changes.
Operational risks:	
Drilling, exploration and production risks and hazards which may prevent us from realising profits resulting in substantial losses.	Our core technical and operational team have extensive experience gained from their work on a wide variety of projects in Russia.
Third party provision of some services, including transportation services.	Our assets are located in well developed regions, which means that services are available on commercially reasonable terms from a number of providers.
Transportation of produced crude oil via a single pipeline system operated by an external provider – Transneft.	Transneft is controlled by the Russian Federation. In addition, our oil is of high quality that makes it attractive for refinery and pipeline operators to transport. Dependence on Transneft services is partially eliminated by the terms of agreements with some customers, which set the self-collection of crude oil directly from the infield oil filling station.
Variable weather conditions at our oil fields which may limit the production during certain times of the year.	Exillon has contingency plans in place to minimize the impact of weather conditions, and these are regularly tested.
Other risks:	
Forced liquidation of some companies in the Group as a result of negative net assets.	All companies in the Group with negative net assets settle their liabilities on timely basis, such as liabilities for tax payments, salaries, accounts with suppliers and contractors, etc. As long as these companies meet their payment obligations, they are not subject to the compulsory liquidation.
Dependence on senior management personnel and on maintaining a highly qualified skilled workforce.	We have in place an appropriate succession plan, which takes into account the development of executives and senior management. In addition, we have in place appropriate remuneration incentives that seek to enable us to attract, motivate and retain talented executives and simultaneously to align executive and shareholder interests.
Failure to manage the Company's growth or to execute or integrate acquisitions.	All acquisitions are subject to thorough due diligence in order to deliver an integration plan to achieve the objectives of the acquisition.

Risk	Mitigation / control
Changes in the foreign policy of the Russian government and changes in its key global relationships leading to an adverse effect on the Russian political and economic environment in general.	We monitor the situation on an ongoing basis, and have contingency plans in place which are regularly updated.
Potential difficulties in enforcing court decisions and the discretion of governmental authorities to file and join claims and enforce court decisions preventing the Group or investors from obtaining effective redress in court proceedings.	There can be no assurance that court decisions will be enforced or that governmental authorities will not exercise their discretion. However, our legal team monitor all developments and is equipped to respond to any such failure to enforce decisions or respond to claims from the Government.

Viability Statement

In 2017, the investment program for the years 2017-2021 was approved by the Board of Directors and Extraordinary General Meeting of shareholders. Taking into account the Group's current position and principal risks, the Directors have assessed the prospects of the Group over the period of four years, which is the period covered by the approved investment program. The Directors believe that an assessment period of four years is appropriate based on management's reasonable expectations of the position and performance of the Group over this period, taking account of its medium-term business plan. The principal economic and financial risks (as indicated in the table above) include those which mainly affect the Group's solvency and liquidity. The magnitude of these economic risks has increased significantly since the last quarter of 2014 and remained high thereafter. In particular, substantial and extended decline in the prices for crude oil and adverse fluctuations in currency exchange rates could threaten the Group's viability. Please see the mitigating actions in the table above. As at 31 December 2017, the Group's current liabilities exceeded its current assets by US$111.5 million. The external loan of US$125.0 million is due for repayment in full in September 2018 (Note 25). As of the date of financial statements approval, there is no binding and unconditional agreement for refinancing of the loan. This resulted in a significant increase in the magnitude of liquidity risk (as indicated in the table above). The magnitude of the rest of the risks has remained at approximately the same level as compared to 2016.

The key assumption underlying the viability assessment relates to successful refinancing of the existing debt in order to achieve a debt maturity profile that matches the profile of net cash inflows from operating activities. Currently, the Group is at the final stage of negotiation process with Gazprombank JSC for the restructuring of the debt. The Directors have a reasonable expectation that the existing loan will be successfully restructured, as further discussed under "Going concern" below. For the purpose of assessing the Group's viability, the Directors prepared cash flow forecasts covering the period of four years, as indicated above. Other key assumptions included in the forecast were oil price and exchange rate. The Directors' assessment included a review of the financial impact of the most severe but plausible scenarios that could threaten the viability of the Group and the likely effectiveness of the potential mitigations that management reasonably believes would be available to the Group over this period. The Directors believe that no reasonably possible change in these key assumptions would critically affect the Group's viability over the assessment period. The implementation of the approved investment program is focused on production increase, which will allow to further increase EBITDA and operating cashflows.

The Directors believe that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment. Annually, the Directors also review the Group's strategic plan which takes account of longer-term forecasts including external environment factors and progress on the Group's investment program and endorse any updates required. This aims to preserve the Group's long-term viability and its ability to meet longer-term commitments such as debt and contractual obligations.

Significant Agreement – Change of control

At the date of this report, there are no circumstances connected with significant agreements to which we are a party that will take effect, alter or terminate upon a change of control following a takeover bid.

Key Relationships

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

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

Statement on Disclosure of Information to Auditors

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

1. so far as the Director is aware, there is no relevant audit information of which our auditors are unaware; and
2. the Director has taken all the steps that ought to have been taken as a Director to make the Director aware of any relevant audit information and to establish that our auditors are aware of the information.

Going Concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Group will realise its assets and discharge its liabilities in the normal course of business. As of 31 December 2017, the Group's current liabilities exceeded its current assets by US$111.5 million, primarily due to a US$125.0 million loan from Gazprombank which is due to be repaid in full on 28 September 2018. As of the date of approval of the consolidated financial statements, while the directors are taking steps to refinance this loan, no binding and unconditional refinancing agreement was in place. This indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In 2017, the Group's EBITDA increased by 14% to US$80.5 million, and net cash generated by operating activities was US$50.3 million. The business has continued to be cash generative in 2018. The Group has no debt other than the loan from Gazprombank JSC and, consequently, the directors believe there are a number of financing alternatives that could be pursued as necessary. The directors are in the process of negotiations with Gazprombank JSC to extend the repayment terms for the existing loan and have every expectation, based on its recent discussions with Gazprombank JSC, that the refinancing will be successfully concluded in the near term. However, the Company will pursue other options it has identified to refinance its existing loan should this become necessary. For a number of years, the Group has been able to successfully refinance its current liabilities and to generate sufficient cash flow to ensure that it does not face a liquidity shortfall or experience a default on its obligations.

Having considered the above matters, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future, being at least 12 months from the date of approval of the consolidated financial statements. For this reason the directors continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. The consolidated financial statements do not give effect to any adjustments which would be necessary should the Group be unable to continue as a going concern and, therefore, be required to realise its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the consolidated financial statements.

This report was approved by the Board of Directors on 26 April 2018.

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

Remuneration Report

Introduction

This report sets out information about the remuneration of the Company Directors and the work of the Remuneration Committee for the year ended 31 December 2017.

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

Part 1 – Unaudited Information

Remuneration Committee

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

According to the terms of reference the committee should meet not less than twice a year. Although the committee held one official meeting during the year, the members were also communicating and determining in regard to the matters within their responsibilities as deemed necessary. The terms of reference of the Remuneration Committee are available on request. Terms of reference have been approved for the Remuneration Committee and its primary duty is to determine and agree with the Board the framework or broad policy for the remuneration of the Group's Chief Executive Officer, the Chairman, the Executive Directors, the Company Secretary and such other members of senior management as it is designated to consider. The remuneration of the Non-Executive Directors is a matter for the Chairman and the Executive Directors. No Director may be involved in deciding their own remuneration.

The main responsibilities of the Committee are to:

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

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

Advisers

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

Remuneration Policy

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

In 2017, remuneration of senior executives consisted of basic salary without cash bonuses. Market forces necessarily influence salary levels, most significantly at the time of recruitment, and by the need to aim for parity of compensation of employees with comparable responsibilities. The details on the service agreements with the senior executives are set out on page 28.

The remuneration policy seeks:

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

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

We complied with all the relevant provisions set out in the Corporate Governance Code throughout 2017 except for the fact that total executive directors' remuneration was fixed and was not structured so as to link an appropriate portion to corporate and individual performance as required by Schedule A to the UK Corporate Governance Code.

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

Employee Share Plan

As outlined below, an Employee Share Plan is in place for granting awards of shares ("Awards") to eligible employees including Executive Directors, but excluding the Chairman. The Employee Share Plan specifies that the Remuneration Committee will determine those eligible employees to whom Awards are to be granted ("Participants"), and the number of Ordinary Shares comprised in each Award. Awards may be in the form of restricted shares, being Ordinary Shares transferred to the Participant on grant subject to restrictions, which will lapse at the end of the vesting period, if the Participant is still the Company employee ("Restricted Share Awards"). No payment will be required for the grant of a Restricted Share Award or for the transfer of shares comprising the Restricted Share Award. The Participants will not be entitled to vote using the Ordinary Shares subject to the Restricted Share Awards until after the end of the vesting period, although the Participants will be entitled to receive Company dividends in respect of those Ordinary Shares prior to the date of vesting.

Alternatively, awards may be in the form of conditional share awards, being a conditional right to acquire Ordinary Shares, that will vest subject to, and to the extent that, performance criteria determined at the time of grant have been satisfied ("Conditional Share Awards"). No payment will be required for the grant of a Conditional Share Award. Participants will have no voting rights or rights to receive dividends in respect of the Conditional Share Awards before such awards vest.

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

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

Timing of Grant of Awards

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

Performance Measures

Restricted Share Awards will be granted based on the Remuneration Committee's determination of the eligible employee's performance over the previous year.

Vesting and Lapse of Awards

A Restricted Share Award will vest on the third anniversary of the date of grant, if the Participant is still the Company employee on the date of vesting. On vesting, the employment restriction attached to the Ordinary Shares subject to the Restricted Share Award will lapse. The Ordinary Shares comprised in any Restricted Share Award, which does not vest, will be forfeited.

Employee Benefit Trust

Share awards under the Employee Share Plan are delivered through the Exillon Energy plc Employee Benefit Trust. The Trust is administered by the Trustees, Estera Trust (Jersey) Limited, for the benefit of employees. The Trustees have the power to acquire ordinary shares for the purpose of satisfying awards that we may grant in future under the Employee Share Plan. On Listing, the Trustees subscribed for 3,765,624 Company shares. Currently the Employee Benefit Trust contains 1,195,702 shares (2016: 1,195,702 shares).

Annual Bonus

There is no current annual bonus structure for Executive Directors, but the Remuneration Committee may determine a structure in due course, which it deems to be appropriate for the business. Such a structure may be developed in conjunction with the modification of the Employee Share Plan.

Service agreements, Notice periods and Termination payments

The Service Agreements for the Executive Directors are for no fixed term and may, under normal circumstances, be terminated by the Company giving three months' notice and the Executive Directors' twelve months' notice, at any time. The Company reserves the right and discretion to pay an Executive Director in lieu of notice. If the Company terminates the employment of an Executive Director by exercising its right to pay in lieu of notice, the Company is required to make a payment equal to the aggregate of basic salary only in lieu of the notice period.

At present, the Company has one Executive Director.

The key terms of the Executive Director's service agreement is as follows:

Director	Position	Appointment date	Notice period	Salary, current or at time of termination (p.a.)
Dmitry Margelov	Chief Executive Officer	24 March 2016	Twelve months from the employee; three months from the employer	US$240,000

Benefits-in-Kind

Under the service agreement, the Chief Executive Officer is entitled to medical, travel and evacuation insurance in accordance with our Company rules and policies relating to expenses in effect from time to time. As part of a cost reduction programme Mr. Margelov agreed not to benefit from the insurance in 2017.

Pensions

We do not have a pension scheme that is open to all employees. Social contributions are withheld from employees of Exillon TP and Exillon WS and are payable directly to local state funds. None of the Directors is entitled to pension provision at the Company's expense.

Non-Executive Directors

The remuneration of the Non-Executive Directors (including the Chairman) consists of fees that are payable monthly in arrears. The Chairman and Non-Executive Directors do not participate in any long-term incentive or annual bonus schemes, nor do they accrue any pension entitlement.

In 2017, a one-off cash bonus in the amount of US$500 thousand was paid to the Chairman, as described below. We do not have service contracts with the Non-Executive Directors; however, we have letters of appointment with each Non-Executive Director.

Non-Executive Directors' Letters of Appointment

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

Unless otherwise determined, neither the Company nor the Director may give less than three months' notice of termination of the appointment.

The Non-Executive Directors' fees have been set at a level to reflect the time commitment and level of involvement that they are required to make in the activities of the Board and its committees. No additional fees have been provided for the performance of duties of Senior Independent Director or a committee chairperson.

The key terms of the Non-Executive Directors' letters of appointment are as follows:

Director	Date of Appointment	Notice Period	Duration of term	Fees p.a.
Sergey Koshelenko	20 January 2014 (renewed on 29 June 2016)	3 months	3 years	US$84,000
Alexander Markovtsev	28 May 2014 (renewed on 28 May 2017)*	3 months	3 years	US$60,000
Roman Kudryashov	28 May 2014 (renewed on 28 May 2017)*	3 months	3 years	US$60,000
Natalya Shternberg	28 May 2014 (renewed on 28 May 2017)*	3 months	3 years	US$60,000

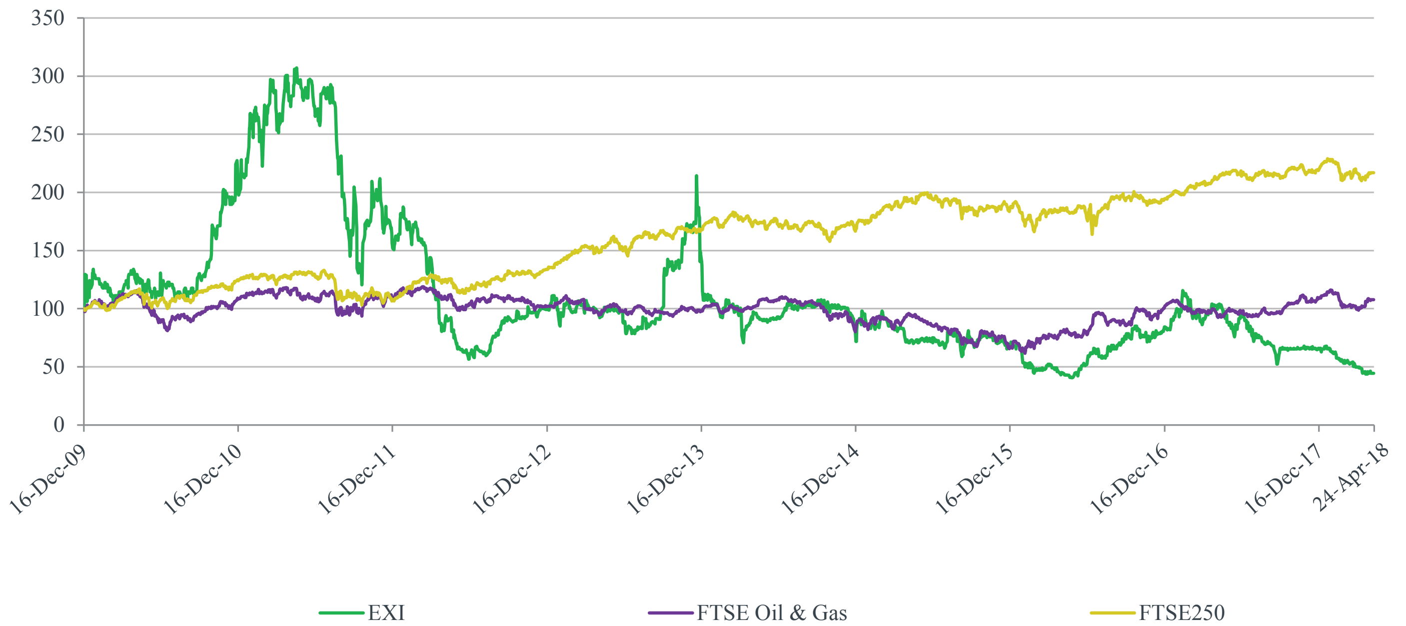
* On 25 May 2017, the Nomination Committee recommended to the Board and the Board approved the extension of appointment as a Non-Executive Director for additional term of three years commencing on 28 May 2017. No Director was involved in deciding their own reappointment.

External Appointments

It is the Board's policy to allow Executive Directors to accept directorships of other quoted companies provided that they have obtained the consent of the Company Chairman. Any such directorships must be formally notified to the Board. No amounts were received in respect of external directorships during the period under review.

The Directors' biographical details are set out on page 16.

Performance Review: Share Price



Part 2 – Audited Information

Directors' remuneration for the period from 1 January 2017 to 31 December 2017

Salary, fees and other benefits

US$	Salary/ Fees	Bonus	Benefits-in-Kind	Total 2017	Total 2016
Current Directors:					
Sergey Koshelenko	84,000	500,000	-	584,000	84,696
Dmitry Margelov	240,000	-	-	240,000	245,000
Alexander Markovtsev	60,000	-	-	60,000	72,696
Roman Kudryashov	60,000	-	-	60,000	72,696
Natalya Shternberg	60,000	-	-	60,000	72,696
Former Directors:					
Alexander Suchkov	-	-	-	-	214,247
Total	**504,000**	**500,000**	**-**	**1,004,000**	**762,031**

On 26 September 2017, the payment of a bonus in the amount of US$500 thousand to Mr. Koshelenko was approved by resolution of the Remuneration Committee, in consideration of substantial time commitment demonstrated by Mr. Koshelenko in his role as Chairman and Non-Executive Director of the Company significantly in excess of his contractual requirements under the letter of his appointment.

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

In 2016, total remuneration included US$100 thousand of payment to the outgoing Director Mr. Suchkov.

Former Directors:

There were no other payments made to any former director in 2017 and 2016, including consultancy agreements.

Directors' Interests in Ordinary Shares

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

	1 January 2017 or date of appointment if later (unaudited)	31 December 2017 or date of resignation if earlier (unaudited)
Sergey Koshelenko	-	-
Dmitry Margelov	-	-
Roman Kudryashov	-	-
Alexander Markovtsev	-	-
Natalya Shternberg	-	-

There have been no changes in the interests up to 26 April 2018.

This report was approved by the Board of Directors on 26 April 2018.

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

Corporate Governance Report

Introduction

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

This report describes how we have applied the principles set out in the Governance Code throughout 2017. The disclosures required by DTR 7.2.6 (Takeovers Directive Disclosures) are included in the Directors' Report.

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

Statement of Compliance

It is the Board's intention to comply with the relevant provisions of the Governance Code in all material respects. The Board considers that it complied with all relevant provisions set out in the Governance Code throughout 2017, except for the non-compliance in relation to the structure of executive directors' remuneration and the requirements of Schedule A to the Code, as disclosed in the Remuneration Report on page 27 (Code Provision D.1.1).

The formal evaluation of the Board was undertaken in 2017, as explained below.

Directors

Board of Directors

In 2017, the Board comprised Non-executive Chairman Sergey Koshelenko, Chief Executive Officer Dmitry Margelov and three Independent Non-Executive Directors. Alexander Markovtsev has been appointed the Senior Independent Director. The other two Non-Executive Independent Directors are Roman Kudryashov and Natalya Shternberg.

Biographical details of all Directors at the date of this report are set out on page 16. The Board is responsible for setting our objectives and policies, and providing effective leadership and the controls required for a publicly listed company. The Board has a formal schedule of matters specifically reserved for its decision including our strategy, business plan and annual budget, major capital expenditure, project approvals and contract awards, as well as key policies and procedures. Matters not reserved to the Board are generally delegated to management.

Directors receive a suite of briefing notes and reports for their consideration in advance of each Board meeting, including reports and regular updates on our operations, to ensure that they remain briefed on the latest developments and are able to make fully informed decisions. The Board met nine times during 2017, with all meetings held by telephone conferencing.

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

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

All Directors may take independent professional advice at the Company's expense in the furtherance of their duties. Directors have the right to request that any concerns they have are recorded in the appropriate Board or committee minutes. We maintain Directors' and Officers' Liability Insurance and indemnity cover, the level of which is reviewed annually.

Chairman, Chief Executive Officer, and Senior Independent Director

Different individuals hold the roles of the Chairman and Chief Executive Officer and there is a clear separation of roles. The Chairman's key responsibilities are the effective running of the Board, ensuring that the Board plays a full and constructive part in the development and determination of our strategy, and overseeing the Board's decision-making process. The key responsibilities of the Chief Executive Officer are managing our business, proposing and developing our strategy and overall commercial objectives in consultation with the Board and, as leader of the executive team, implementing the decisions of the Board and recommendations of its Committees.

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

Board Balance and Independence

During 2017, the Board comprised a Non-Executive Chairman, Chief Executive Officer and three independent Non-Executive directors (including the Senior Independent Director) and therefore met the requirements of the Governance Code for the board balance.

In 2017, the Board had considered the guidance criteria on independence of Non-Executive Directors under Provision B.1.1 of the Governance Code. In the opinion of the Board, the three Non-Executive Directors were independent throughout 2017.

The Board has also established a Conflicts Committee of independent Directors to consider and, if appropriate, approve related party transactions (in relation to any Director). A description of the Conflicts Committee can be found on page 36. It therefore considers that no single Director can dominate decision-making.

Appointments to the Board and Re-Election

In 2017, there were no new appointments to the Board. All Directors will submit themselves to annual election in 2018. While they are not required to do so under the laws of the Isle of Man, this is provided for in the Company's Articles of Association and is in compliance with the dominant practice followed by premium listed companies, notwithstanding their size, to comply with the requirement of the Corporate Governance Code for FTSE 350 companies to put directors up for annual re-election. The terms for the re-appointment of Directors are referred to more fully on page 18 of the Directors' Report. The letters of appointment of each Non-Executive Director are available for inspection at the registered office.

Information and Professional Development

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

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

Board Performance and evaluation

An annual performance evaluation of the Board, its Committees, the Chairman and individual Directors was undertaken in 2017 via a questionnaire. The dedicated team at Bridgehouse Company Secretaries Ltd, our Company Secretary, facilitated the process.

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

It was concluded that the Board and its Committees are of the right size and that its members, including the Chairman, have the balance of skills, independence, experience and diversity appropriate for the Company and that they were meeting the performance expectations of the directors individually and collectively throughout 2017. The process included the Non-executive Directors, led by the Senior Independent Director, and without the Chief Executive Officer being present, conferring to evaluate the Chairman's performance in leading the Board and in chairing meetings to conduct the Board's business.

Board Committees

The following table sets out individual attendance by the relevant members at the meetings of the Board and its Committees in 2017:

		Committee Meetings		
	Board Meetings	Audit	Remuneration	Nomination
Sergey Koshelenko	9	-	-	1
Dmitry Margelov	9	-	-	-
Alexander Markovtsev	9	3	1	1
Roman Kudryashov	9	3	1	2
Natalya Shternberg	9	3	1	2

Audit Committee

The information on the committee's role, responsibilities and activities is set out on pages 38 to 39 in the Audit Committee Report.

Remuneration Committee

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

Nomination Committee

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

In compliance with the terms of reference, the committee met twice in 2017. The Nomination Committee's terms of reference are to review regularly the structure, size and composition (including the balance of skills, experience, independence and knowledge) of the Board compared to its current position and make its recommendations to the Board with regard to any changes and to provide for any succession plans for executive or non-executive directors.

While the Company does not currently have a diversity policy applied to the administrative, management and supervisory bodies, its approach is explained on page 15 of the Corporate Social Responsibility Report. The Nomination Committee also considers the future composition of the Board, taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the Board. The terms of reference of the Nomination Committee are available on request.

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

Corporate Social Responsibility Committee

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

The Conflicts Committee

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

In 2017, the Conflicts Committee met immediately before and/or after each meeting of the Board, if it had business to consider, with all relevant members attending all meetings. There were no matters to be formally resolved by the Conflicts Committee. The role of the Conflicts Committee is to consider and make recommendations to the Board with respect to conflicts of interest authorisations for members of the Board, the approval of related party transactions and the schedule of matters reserved for the Board. The Conflicts Committee also considers and makes recommendations to the Board with respect to modifications to the Group's related party transaction policy and the conflicts of interest procedures set out in the Company's Articles of Association.

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

Going Concern

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

Share Capital Structure

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

Shareholder Relations

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

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

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

This report was approved by the Board of Directors on 26 April 2018.

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

AUDIT COMMITTEE REPORT

Introduction

This report provides details on the activities of the Audit Committee during the 2017 financial year, and particularly on the role of the Audit Committee, on behalf of the Board, in ensuring that the annual report, taken as a whole, is fair, balanced and understandable.

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

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

Composition of the Audit Committee

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

Roles and responsibilities of the Audit Committee

The duties of the Audit Committee include:

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

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

Activities in 2017 and 2018

The Audit Committee met three times in 2017 and once in 2018. During these meetings the Committee:

- reviewed the interim and year end results;
- in accordance with the request from the Board, considered the annual report and Consolidated Financial Statements for the year ended 31 December 2017 and provided advice that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The conclusion was made on the basis that the description of the business agrees with the Audit Committee's own knowledge and understanding, with significant changes from prior periods being highlighted and supported by relevant context and not obscured by immaterial details, the consistent measures of progress are used over time, the principal risks and uncertainties reflect the issues that concerned the Audit Committee, the discussion of performance properly reflects the developments of the year with appropriate balance provided between positive and negative factors, and that there is consistency provided between all areas of the narrative and the financial statements;
- reviewed the viability statement. The Committee examined and discussed the key assumptions used in the forecast and the period of assessment and was comfortable with them. In particular, the committee reviewed the level of crude oil price and agreed that it was in accordance with the recent market forecasts. The Committee also debated and agreed on the appropriateness and completeness of principal risks considered in the statement;
- considered if the going concern basis of accounting was appropriate in preparing the Consolidated Financial Statements. The Committee considered and discussed with the management the Company's budget, cash flow forecast, trading estimates, contractual arrangements, committed financing, exposure to contingent liabilities, financial covenant calculation, the principal risks and uncertainties and the viability statement. The discussion placed greater focus on significant net current liabilities as of reporting date and options available to management to resolve the situation, including debt restructuring. Based on the outcome of the above consideration the Committee concluded that the adoption of going concern basis of accounting was appropriate in preparing the Consolidated Financial Statements;
- received and considered reports from the external auditor in respect of their review of the interim results, the audit plan for year and the results of the annual audit. These reports included the scope of the interim review and annual audit, the approach to be adopted by the auditor to address and conclude upon key estimates and other key audit areas, the basis on which the auditor assesses materiality, the terms of engagement for the auditor and an ongoing assessment of the impact of future accounting developments on the Company;
- considered the effectiveness and independence of the external audit and recommended to the Board the reappointment of Ernst & Young LLP as external auditor;
- considered the review of material business risks, including review of internal control processes used to identify and monitor principal risks and uncertainties;
- considered the appropriateness of the systems and controls in place with regard to related parties transactions;
- carried out an annual review of the Audit Committee performance.

The Company's auditors were invited to attend all meetings during the year, including the meetings held after review of interim results, at the planning stage before the audit and after the audit at the reporting stage. In 2017, the Chairman of the Board, the Chief Executive Officer, other Directors and representatives from the finance function were invited to attend all or part of the meetings, as and when appropriate. At least once a year, the Committee must meet the Company's external auditors without the executive directors and senior management being present.

There was no internal audit function in place in 2017. A decision was made not to employ an internal auditor, due to the Company's limited size as well as cost saving reasons. The functions of internal auditor are provided by the sound system of internal control described below.

Significant issues considered in relation to the Consolidated Financial Statements

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

Risk of improper revenue recognition

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

Risk of management override of controls over financial accounting and reporting

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

Compliance with licence agreements

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

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

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

Going concern

Management provided the Audit Committee with a paper on the ability of the Group to continue as a going concern. This paper considered the future profitability of the Group, forecast of future cash flows, contractual arrangements, committed financing and exposure to contingent liabilities. The key judgments, assumptions and estimates underpinning this review were discussed and considered. In particular, the Committee examined macroeconomic assumptions, such as oil price and exchange rate, and application of mineral tax exemptions. Greater focus was placed on significant net current liabilities as of reporting date. As of 31 December 2017, the Group's current liabilities significantly exceeded its current assets. The external loan of US$125.0 million is due for repayment in September 2018. As of the date of approval of the financial statements, the Company has not secured an unconditional agreement for the refinancing of the loan, either with its existing bank or with alternative providers of finance. The Committee concurred with management's conclusion that this results in the existence of a material uncertainty that may cast doubt on the Group's ability to continue as going concern. The Committee discussed with management the progress of negotiations with the bank for the restructuring of the debt and considered if there was a reasonable expectation for successful refinancing. Following the review, the Audit Committee was able to conclude that the adoption of the going concern principle was justified for the foreseeable future.

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

According to the new policy implemented in 2015 in respect of the estimation of oil and gas reserves, the Committee concluded that it is appropriate to use the valuation report dated 30 June 2016 (adjusted by production for the second half of 2016 and the year 2017) for the purpose of depletion charge calculation for 2017. The Committee also considered the existence of any factors that may indicate material changes to the reserves, other than production. The Committee reviewed the consistency of the policy applied to the accrual of depletion for oil and gas properties, using the unit-of-production method, and concluded that it was appropriate.

Risk of impairment of non-current assets

The Committee analysed impairment indicators and duly discussed it with management. Taking into account rising average oil prices and its decreasing volatility in 2017, there were no indicators of potential impairment of oil and gas properties as of 31 December 2017. Consequently, the Committee concluded that no impairment test was necessary to the oil and gas properties as at 31 December 2017.

Risk of assets misappropriation - advances to suppliers

In 2017, the investment program for the years 2017-2021 was approved by the Board of Directors and Extraordinary General Meeting of shareholders. During 2017, significant advance payments were made to third party suppliers for construction of property, plant and equipment, including drilling of wells and construction of infield infrastructure, for a total amount of US$270.2 million. The Committee reviewed a progress analysis on the investment program prepared by management, with particular attention applied to the reconciliation of types of works and amounts with those prescribed by the investment program. The Committee also considered additional procedures performed by the external auditors, including those to identify any evidence of advances to related parties. The Committee concluded, that the advances issued for the capital construction as of 31 December 2017 are in compliance with its own knowledge and approved investment program.

Risks related to outstanding litigation matters

The Committee examined the status of litigation matters that are outstanding against Kayumneft JSC and Nem Oil CJSC as at the date of the approval of these financial statements (Note 27). The Committee discussed with management what actions have been taken in response to these claims and the assessment of possible outcomes. The Committee ensured that outstanding litigations have been appropriately disclosed in the financial statements.

Adoption of new accounting standards

IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial instruments are effective for annual periods beginning on or after 1 January 2018. Management performed an assessment of the effect of adoption of both new standards. The Committee discussed with the management all aspects of new standards, including those consistent with the Group's existing accounting policy and those which may require some changes. Based on the work performed, the Committee concluded that no significant impact is expected on the Group's consolidated financial statements from adoption of both new standards in 2018.

Debt covenants compliance

In April 2017, the Company entered into new facility agreements with Gazprombank JSC. Under the terms of the facility agreements, the Group is subject to two financial covenants and a number of general covenants. The Committee examined the calculations of the covenants for the year and concluded that the Company had complied with the facility agreements.

Current tax risks

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

Appointment of External Auditor

The Audit Committee has not undertaken a tendering exercise in 2017. However, it has conducted a review of the auditor's effectiveness, independence and objectivity. In making its assessment of the effectiveness of the external audit, the Audit Committee reviewed the composition of the engagement team, the scope of the annual audit, areas of audit focus and the approach to be adopted by the auditor as well as the results of the tests of internal controls. Subsequently the external audit findings and the management's team responses to these findings have been taken into consideration.

The Audit Committee also reviewed the independence and objectivity of the external auditor, accepting that both had been maintained throughout the audit process for the financial year. In its review the committee considered the policies and procedures implemented by the external auditor, such as rotation of partners and staff in senior positions, independent partner reviews and internal quality reviews. The current audit partner Andy Smyth is in his role since August 2017. The committee also considered and confirmed the absence of any financial or other interest of the external auditor in the Company.

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

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

Non-Audit Services

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

In 2017, there were no non-audit services provided by the external auditor. The Audit Committee will monitor in future the types of non-audit work that will be undertaken by the external auditors to ensure that their objectivity and independence is not compromised. The external auditor maintains safeguards to ensure the objectivity and independence of its service teams. These safeguards include the use of separate teams where appropriate and the review of prospective assignments to ensure compliance with regulations.

The fees analysis incurred for the financial year is provided in Note 11 to the Consolidated Financial Statements on page 70.

Internal Control

The Board has overall responsibility for our system of internal control, which includes risk management, and the Board is responsible for reviewing the effectiveness of the system of internal control. In 2017, the Board has delegated the responsibility for reviewing the effectiveness of its internal control systems to the Audit Committee. The Audit Committee has reviewed these systems, including reviewing risks, policies and processes for tendering, fraud and authorisation of expenditure, on a regular basis. Where the Committee was not satisfied with, or wherever it considered action or improvement was required concerning any aspect of risk management and internal control, financial reporting, or audit-related activities, it promptly reported these concerns to the Board. The day-to-day responsibility for managing risk and the maintenance of our system of internal control has been delegated to management.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks has been in place throughout the reporting year and up to the date of approval of the annual report. The Board regularly reviews this process, with no significant failings identified within the reporting period.

The Board regularly deals with the identification, evaluation and management of the significant risks, which we face. It reviews with management all material controls including economic, financial, regulatory, operational and other controls and risk management systems. During 2017, we continue to follow the enhanced approval procedure based on the compliance with the detailed operational budgets

for all payments and reimbursement of all expenses, including those in relation to third parties as well as all directors and employees. Due consideration of internal controls has been recorded in the minutes of the Board and the Audit Committee. We have followed current guidance on internal control issued by the Financial Reporting Council (the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting). The Audit Committee was assisting the Board in discharging its review responsibilities throughout 2017. A summary of the key risks which we face and mitigating actions are described on pages 20 to 23.

The Group's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead and investment program for the years 2017-2021, which was approved by the Board of Directors and Extraordinary General Meeting of shareholders. Performance is monitored and relevant action taken throughout the year using the monthly reporting of key performance indicators, updated forecasts for the year together with information on the key risk areas.

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

Responsibility for maintaining an effective control environment for financial reporting has been delegated to the Head of Financial Department. Managers at various levels also have operational responsibility within their respective areas. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements. The Consolidated Financial Statements are prepared on a semi-annual basis in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the Disclosure and Transparency Rules, and the Listing Rules of the United Kingdom's Financial Conduct Authority ("FCA"). Data consolidated into our financial statements is reconciled to the underlying financial systems and management accounts. A review of the consolidated data is undertaken by the Head of Financial Department to ensure that our true position and results are reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions. The Audit Committee reviewed and discussed half-year and annual financial statements for the 2017 financial year with management and our external auditor focusing on, without limitation, the quality and acceptability of accounting policies and practices, the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements.

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

This report was approved by the Board of Directors on 26 April 2018.

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

Statement of Directors' responsibilities

For stewardship purposes to assist the Directors to discharge their obligations under Section 4 of the Disclosure and Transparency Rules issued by the United Kingdom's Financial Conduct Authority, the Directors have prepared the Consolidated Financial Statements for the financial year. The Directors have prepared the Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). The Directors must not approve the Consolidated Financial Statements unless they are satisfied that they give a true and fair view of the state of the Group's affairs and of its profit or loss for that period. In preparing these Consolidated Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") have been followed, subject to any material departures disclosed and explained in the consolidated financial statements;
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that we will continue in business.

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

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

Each of the Directors, whose names and functions are listed in the Directors' Report on page 16, confirm that, to the best of their knowledge:

- the Consolidated Financial Statements, which have been prepared in accordance with International Financial Reporting Standards issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group taken as a whole;
- the Directors' Report contained on pages 16 to 25 includes a fair review of the development and performance of the business and position of the Group taken as a whole, together with a description of principal risks and uncertainties that the Group faces; and
- the annual report and the Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

For and on behalf of the Board.
Dmitry Margelov
Chief Executive Officer
26 April 2018

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

Opinion

In our opinion:

- Exillon Energy plc'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 2017 and of the Group's profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

We have audited the financial statements of Exillon Energy plc (the "parent company") and its subsidiaries (the "Group") for the year ended 31 December 2017 which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the related notes 1 to 30 to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with our engagement letter dated 17 April 2018. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements which indicates that the Group's current liabilities exceeded its current assets by US$111.5m as at 31 December 2017, primarily due to a US$125 million loan from Gazprombank JSC which is due to be repaid in full on 28 September 2018. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 20 to 23 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 20 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 57 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 23 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Risk of assets misappropriation - advances to suppliers • Risk of impairment of non-current assets • Risk of related party transactions not being appropriately accounted for and/or disclosed • Risks related to outstanding litigation matters
Audit scope	• We performed an audit of the complete financial information of two components and performed specified audit procedures for a further two components. • The components where we performed full or specified audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall Group materiality of $3.1m which represents 5% of Profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the **Material uncertainty related to going concern** section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of assets misappropriation - advances to suppliers Refer to the Audit Committee Report (page 41) and Note 17 of the Consolidated Financial Statements (page 74) In 2017, the Group adopted the approved Investment program for 2017-2021. During 2017, the Group made significant advance payments to third party suppliers for construction of property, plant and equipment, including drilling of wells and construction of infield infrastructure, for a total amount of US$270 million. Given the significance of this amount as well as the prepayment scheme for the procurement of these services, we considered the risks of assets misappropriation associated with such payments, including the risk of fictitious suppliers and transactions with related parties.	We performed the following procedures to address the risk: • we obtained a list of the suppliers to whom advance payments had been made; • we performed management inquiries to understand the purpose and the status of the Investment program; • we read the minutes of the Group's Extraordinary General Meeting and the Board of Directors meetings relating to the approval of the Investment program; • we read the minutes of the company's subsidiaries' Shareholder meetings approving respective construction agreements with the suppliers; • we obtained copies of all agreements with the suppliers and reconciled types of works and agreed the advance payment amounts with those prescribed by the Investment program; • we researched publicly available data sources in order to identify whether there was evidence of any supplier being a related party of the Group; • we verified supporting documents (e.g. signed acceptance acts) for work that had been completed by certain suppliers under the agreements; • to verify asset existence, we involved EY personnel with construction experience who performed physical observation of certain works in progress; and • we obtained reconciliations of payments between the Group and its major suppliers as of 31 December 2017 and compared the amounts with the accounting records.	Based on the procedures performed we were satisfied that there was no evidence of asset misappropriation in relation to the supplier advances. We did not identify any evidence of advances to related parties or other matters to report to the Audit Committee.
Risk of impairment of non-current assets Refer to the Audit Committee Report (page 41) and Note 5 of the Consolidated Financial Statements (page 66) In line with its 2017–2021 Investment program, the Group has invested heavily in developing its oil-fields resulting in a significant increase in the carrying amount of the non-current assets including construction-in-progress of $294 million (2016: US$16 million), much of which is represented by advances to suppliers of equipment and drilling services.	We evaluated management's assessment of impairment indicators of the Group's non-current assets. Our procedures included the following: • we obtained management's documentation relating to their assessment of impairment indicators (the "impairment analysis"), which includes discounted cash flow models for their cash-generating units (CGUs) that management maintain as part of their overall financial control framework; • we understood management's assessment process and discussed the drivers for their conclusion; • we ensured that the oil and gas reserves and resources estimates were appropriately considered in management's impairment analysis and verified that the reserve estimates were allocated to CGUs in a manner consistent with the most recent independent expert's report;	We concurred with management's conclusion that there were no impairment indicators during 2017 in respect of the Group's non-current assets.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management has reviewed its non-current assets for any indicators of impairment and has concluded that there were no such indicators during the year or as at 31 December 2017.	• we confirmed that there were no indicators of significant adverse changes in reserves volumes after the independent expert's reserves report date, and verified 2017 production volumes; • we reviewed management's budgets and business plans, including the forecast future cash flows from the approved Investment program; • we identified other factors and inputs that could materially impact the recoverable amount of the non-current assets, including oil prices and discount rates, and compared these to those in management's impairment analysis.	
Risk of related party transactions not being appropriately accounted for and/or disclosed Refer to the Audit Committee Report (page 40) and Note 28 of the Consolidated Financial Statements (pages 80 to 81) In the course of executing our audit procedures we put special emphasis on transactions with related parties. In the normal course of business the Group enters into various transactions with a significant number of new counterparties. There is also a risk of transactions being entered into with parties connected to the Group's directors and/or shareholders. It is important that these are identified by management and accounted for and disclosed appropriately.	We obtained a list of related parties from management and ensured the list had been updated and approved by the Group's Board. We identified and walked through controls over the identification and disclosure of related party transactions. We conducted external research and performed inquiries for all new suppliers and customers the Group transacted within 2017 to identify potential related parties. We also performed journal entry testing at all locations to identify any unusual journals that could indicate the existence of related party transactions not identified by management. We remained alert throughout the audit with regard to the identification and disclosure of related parties and transactions therewith.	Based on our procedures we considered that the disclosure of related parties is materially accurate and complete.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risks related to outstanding litigation matters Refer to the Audit Committee Report (page 41) and Note 27 of the Consolidated Financial Statements (page 80) The Group has disclosed contingent liabilities in relation to open litigation matters; accordingly, no liability has been recognised in the consolidated financial statements. The contingent liabilities are in respect of two claims brought against Kayumneft JSC and one claim brought against Nem Oil CJSC - both subsidiaries of the Group - in the Moscow Arbitration Court by the Temporary Administrators of Bank Ugra in November and December 2017. There is a risk that the Directors' assessment of the probability of these claims being successful is inaccurate, resulting in a material misstatement of the financial statements due to fraud or error.	We obtained the claims that had been received by the Group from the Temporary Administrators and discussed with management the steps that they had taken in response to these claims, including their consideration of the risk of fraud. We read letters management had received from the Group's legal advisers in relation to these claims. We also spoke directly to a representative of the Group's external legal counsel to validate our understanding of the claims and legal counsel's views on the probability of such claims being successful. We inspected the results from management's investigations, which included signed declarations from certain employees of Kayumneft JSC and Nem Oil CJSC. We performed searches of our historic audit files, including cash receipts and disbursement data and the confirmations received from Bank Ugra, for any evidence of the debt assignment and guarantee transactions that are the basis for the claims. Management provided us with their corporate contract registers and the minutes of Kayumneft JSC and Nem Oil CJSC shareholder meetings for the periods of the alleged transactions. We searched these registers and minutes for any evidence of the existence and/or approval of such transactions. We carried out external searches for any evidence of the alleged transactions, including the potential for fraud and/or related party relationships, and consulted with our forensic investigation specialists to further validate our audit response to the risks. We read management's disclosure of the litigation matters in the financial statements and evaluated this against the requirements of IAS 37: Provisions, Contingent Liabilities and Contingent Assets. We obtained management representations on their assessment of the likelihood of the claims being successful.	We did not identify any evidence that would cause us to disagree with management's conclusion that these are contingent liabilities which do not require recognition in the consolidated financial statements. We did not identify evidence of a material misstatement due to fraud. We consider that management's disclosure of these litigation matters in the financial statements is appropriate.

In the prior year, our auditor's report included key audit matters in relation to revenue recognition and management override. In the current year, the revenue recognition risk has been downgraded due to our reassessment of the established processes and controls that exist over revenue, while management override risks continue to be reflected in the more specific key audit matters described above.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

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

Of the two key locations selected, we performed an audit of the complete financial information of two components ("full scope components") – Exillon WS and Exillon TP – which were selected based on their size or risk characteristics. For the remaining components ("specified procedures scope components") we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's profit before tax, 100% (2016: 100%) of the Group's revenue and 100% (2016: 100%) of the Group's total assets. For the current year, the full scope components contributed 103% (2016: 117%) of the Group's profit before tax, 100% (2016: 100%) of the Group's revenue and 90% (2016: 90%) of the Group's total assets. The specified procedures scope components contributed -3% (2015: -16%) of the Group's profit before tax and 10% (2016: 10%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the components but will have contributed to the coverage of significant accounts tested for the Group.

Involvement with component teams

Audit work on all components performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be $3.1 million (2016: $2.5 million), which is 5% (2016: 5%) of Profit before tax. We believe that profit before tax provides us with the most appropriate measure upon which to calculate materiality being one of the key performance indicators used by the shareholders.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely $2.3m (2016: $1.9m). We have set performance materiality at this percentage as we believe that there is not a high risk of material misstatements and that the aggregate amount of identified misstatements would not exceed 25% of materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $1.9m to $1.2m (2016: $1.6m to $1.0m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.16m (2016: $0.13m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 44** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 40 to 41** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 33** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

London
26 April 2018

Notes:

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

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

Consolidated Financial Statements

for the year ended 31 December 2017

Consolidated statement of comprehensive income

	Note	For the year ended 31 December 2017	2016
		$'000	$'000
Revenue	6	**136,819**	126,972
Cost of sales	7	**(58,344)**	(52,204)
GROSS PROFIT		**78,475**	**74,768**
Selling expenses	8	**(4,870)**	(9,633)
Administrative expenses	9	**(9,394)**	(12,564)
Foreign exchange loss		**(457)**	(2,728)
Other income	10	**1,782**	2,335
Other expense	10	**(2,404)**	(675)
OPERATING PROFIT		**63,132**	**51,503**
Finance income	13	**4,295**	2,388
Finance cost	14	**(1,709)**	(2,096)
PROFIT BEFORE INCOME TAX		**65,718**	**51,795**
Income tax expense	15	**(18,071)**	(11,284)
NET PROFIT FOR THE YEAR		**47,647**	**40,511**
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**22,072**	65,043
Income tax effect		**(217)**	(1,242)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**21,855**	**63,801**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**69,502**	**104,312**
Profit per share for profit attributable to the equity holders of the Company			
– Basic ($)	16	**0.30**	0.25
– Diluted ($)	16	**0.30**	0.25

The notes on pages 57 to 86 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	2017	2016
		As at 31 December	
		$'000	$'000
ASSETS:			
Non-current assets:			
Property, plant and equipment	17	**685,641**	392,733
Intangible assets		**-**	50
Deferred income tax assets	15	**67**	328
		685,708	393,111
Current assets:			
Inventories	18	**2,891**	2,488
Trade and other receivables	19	**11,889**	4,787
Income tax receivable		**45**	516
Other current assets	20	**14,541**	738
Other current financial assets	21	**5,083**	-
Cash and cash equivalents	22	**5,576**	146,529
		40,025	155,058
TOTAL ASSETS		**725,733**	**548,169**
LIABILITIES AND EQUITY:			
Equity:			
Share capital	26	**1**	1
Share premium	26	**272,116**	272,116
Other invested capital		**68,536**	68,536
Retained earnings		**438,684**	391,037
Translation reserve		**(247,470)**	(269,325)
		531,867	462,365
Non-current liabilities:			
Provision for decommissioning	23	**11,686**	10,351
Deferred income tax liabilities	15	**30,667**	28,067
		42,353	38,418
Current liabilities:			
Trade and other payables	24	**8,852**	28,840
Other taxes payable		**16,138**	8,425
Income tax payable		**1,784**	2,405
Short-term borrowings	25	**124,739**	7,716
		151,513	47,386
TOTAL LIABILITIES AND EQUITY		**725,733**	**548,169**

The notes on pages 57 to 86 are an integral part of these consolidated financial statements.

The financial statements on pages 53 to 56 were authorised for issue by the board of directors on 26 April 2018 and were signed on its behalf.

Dmitry Margelov
Chief Executive Officer

Consolidated statement of changes in equity

	Share capital	Share premium	Other invested capital	Retained earnings	Translation reserve	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2016	**1**	**272,116**	**68,536**	**350,526**	**(333,126)**	**358,053**
Comprehensive income						
Net profit for the year	-	-	-	40,511	-	**40,511**
Other comprehensive income						
Translation difference	-	-	-	-	63,801	**63,801**
Total comprehensive income	**-**	**-**	**-**	**40,511**	**63,801**	**104,312**
Balance at 31 December 2016	**1**	**272,116**	**68,536**	**391,037**	**(269,325)**	**462,365**
Comprehensive income						
Net profit for the year	-	-	-	47,647	-	**47,647**
Other comprehensive income						
Translation difference	-	-	-	-	21,855	**21,855**
Total comprehensive income	**-**	**-**	**-**	**47,647**	**21,855**	**69,502**
Balance at 31 December 2017	**1**	**272,116**	**68,536**	**438,684**	**(247,470)**	**531,867**

The notes on pages 57 to 86 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	For the year ended 31 December 2017 $'000	2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**65,718**	51,795
Adjustments for:			
Depreciation, depletion and amortisation	17	**16,950**	16,637
Gain on disposal of property, plant and equipment	10	**(50)**	(31)
Finance income	13	**(4,295)**	(2,388)
Finance cost	14	**1,709**	2,096
Foreign exchange loss		**457**	2,728
Unused vacation accrual	7, 9	**421**	271
Bad debt expense	10	**852**	9
Operating cash flow before working capital changes		81,762	71,117
Changes in working capital:			
(Increase)/decrease in inventories		**(264)**	103
(Increase)/decrease in trade and other receivables	17	**(3,993)**	28,588
(Decrease)/increase in trade and other payables		**(21,365)**	11,452
Increase in taxes payable		**7,172**	6,105
Cash generated from operations		63,312	117,365
Interest received		**4,492**	2,266
Income tax paid		**(17,481)**	(12,188)
Net cash generated from operating activities		50,323	107,443
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(17,870)**	(9,062)
Interest paid (capitalised portion)		**(4,265)**	(569)
Advance payment for property, plant and equipment	17	**(404,617)**	(86,208)
Refund of advance payment for property, plant and equipment	17	**135,346**	94,698
Amounts deposited in advance of potential acquisitions of subsidiaries	20	**(11,580)**	(109,384)
Repayments of amounts deposited in advance of potential acquisitions of subsidiaries		**-**	113,685
Purchase of investment portfolio	21	**(5,000)**	-
Reclassification to restricted cash	28	**(852)**	-
Proceeds from sale of property, plant and equipment		**219**	692
Net cash (used in)/generated from investing activities		(308,619)	3,852
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of loan	25	**(7,692)**	(30,769)
Interest paid		**(551)**	(1,360)
Proceeds from borrowings	25	**125,000**	-
Transaction costs on borrowings	25	**(515)**	-
Net cash generated from/(used in) financing activities		116,242	(32,129)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(142,054)	79,166
Translation difference		**1,101**	2,768
Cash and cash equivalents at beginning of the year		**146,529**	64,595
Cash and cash equivalents at end of the year		5,576	146,529

Total interest paid for 2017 comprised $4,816 thousand (2016: $1,929 thousand).

The notes on pages 57 to 86 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. BACKGROUND

The principal activity of Exillon Energy plc (the "Company" or the "Parent") and its subsidiaries (together "the Group") is exploration, development and production of oil. The Group's production facilities are based in the Republic of Komi and the Khanty-Mansiysk Region of the Russian Federation. A list of the Company's subsidiaries is provided in Note 30.

Exillon Energy plc is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the Isle of Man. The company was formed on 27 March 2008. Its current registered address is First Names House, Victoria Road, Douglas, Isle of Man, IM2 4DF. (Before 01 August 2017 the registered address was Fort Anne, South Quay, Douglas, Isle of Man, IM1 5PD).

The Group's operations are conducted primarily through its operating segments, Exillon TP and Exillon WS.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). These standards are subject to interpretations issued from time to time by the International Financial Reporting Interpretation Committee ("IFRIC"). These consolidated financial statements have been prepared on a historical cost basis, modified for fair values where required under IFRS.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also necessitates management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Note 29 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit risk and liquidity risk.

Liquidity and Going Concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Group will realise its assets and discharge its liabilities in the normal course of business. As of 31 December 2017, the Group's current liabilities exceeded its current assets by US$111.5 million, primarily due to a US$125.0 million loan from Gazprombank which is due to be repaid in full on 28 September 2018. As of the date of approval of the consolidated financial statements, while the directors are taking steps to refinance this loan, no binding and unconditional refinancing agreement was in place. This indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In 2017, the Group's EBITDA increased by 14% to US$80.5 million, and net cash generated by operating activities was US$50.3 million. The business has continued to be cash generative in 2018. The Group has no debt other than the loan from Gazprombank JSC and, consequently, the directors believe there are a number of financing alternatives that could be pursued as necessary. The directors are in the process of negotiations with Gazprombank JSC to extend the repayment terms for the existing loan and have every expectation, based on its recent discussions with Gazprombank JSC, that the refinancing will be successfully concluded in the near term. However, the Company will pursue other options it has identified to refinance its existing loan should this become necessary. For a number of years, the Group has been able to successfully refinance its current liabilities and to generate sufficient cash flow to ensure that it does not face a liquidity shortfall or experience a default on its obligations.

Having considered the above matters, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future, being at least 12 months from the date of approval of the consolidated financial statements. For this reason the directors continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. The consolidated financial statements do not give effect to any adjustments which would be necessary should the Group be unable to continue as a going concern and, therefore, be required to realise its assets and discharge its liabilities in other than the normal course of business and at amounts different than those reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED STANDARDS

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

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

  The new standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. No change is expected to the accounting as lessor for the lease of aircraft (Note 17). It is anticipated that the changes to the accounting as lessee will have an impact on financial position and performance, since the Group leases apartments for offices, oil wells and associated land plots (Note 27). The Group does not expect to adopt IFRS 16 before 1 January 2019 and has not yet completed its evaluation of the effect of adoption of this standard.

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

  In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities; a single, forward-looking "expected credit losses" impairment model; and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

  The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and subject to changes arising from further information available to the Group in 2018 upon the application of IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity, including the effect of applying the impairment requirements of IFRS 9.

  Classification and measurement

  The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

  The Group expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities held as available-for-sale (AFS) with gains and losses recorded in other comprehensive income (OCI) are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows, but also to sell these financial assets.

  Currently the Group does not hold any financial instruments measured at fair value through profit or loss. Consequently, relevant classification and measurement requirements of IFRS 9 are not expected to impact the Group's financial position or performance.

  The classification of financial liabilities under IFRS 9 does not follow the approach for the classification of financial assets; rather it remains broadly the same as under IAS 39. The Group expects to continue accounting for existing borrowings at amortised cost.

  Impairment

  Under IFRS 9 all debt securities, trade and other receivables are subject to the new expected credit loss model, either on a 12-month or lifetime basis. For trade receivables that do not contain a significant financing component (as determined in terms of the requirements of IFRS 15 Revenue from Contracts with Customers), entities are required to apply the simplified approach. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group will apply the general approach for the rest of the financial assets. The expected increase in the loss allowance is not material.

  Hedge accounting

  Currently the Group does not use any hedging instruments. Thus, the hedging requirements of IFRS 9 are not expected to impact the Group's financial position or performance.

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

  The new standard removes inconsistencies and weaknesses in existing revenue recognition standards by providing clear principles for revenue recognition in a robust framework; provides a single revenue recognition model which will improve comparability over a range of industries, companies and geographical boundaries; and simplifies the preparation of financial statements by reducing the number of requirements to which preparers must refer. The Group plans to adopt the new standard on the required effective date. In 2017, the Group performed a detailed assessment of IFRS 15. Crude oil is sold only on its own in separately identified contracts with customers, with no bundled package of goods and/or services. Contracts with customers in which crude oil sale is the only performance obligation are not expected to have any significant impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. This is consistent with the Group's existing accounting policy for revenues.

During the year ended 31 December 2017 the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amendments effective on or after 1 January 2017:

- IAS 7 Statement of Cash Flows: Disclosure Initiative – Amendments to IAS 7 (effective on or after 1 January 2017)

  The amendments require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments affect presentation only and have no impact on the Group's financial position or performance.

Other new standards, interpretations and amendments effective as of 1 January 2017 are not relevant to the Group and have no impact neither on the Group's financial position and performance nor presentation of the Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segmental reporting – Operating segments are reported in a manner consistent with the internal reporting provided to the directors of the Company. The chief operating decision-maker, who is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments, has been identified as the Board.

Functional and presentation currencies – The items included in these consolidated financial statements relating to the Group companies are measured using their functional currency that is the currency of the primary economic environment in which they operate. These consolidated financial statements are presented in US dollars or $, which is the Exillon Energy plc functional and presentation currency. The functional currency of the Group's trading and oil extracting subsidiaries is the Russian Rouble and for the other companies it is the US dollar.

Foreign currency translation – Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income.

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

On consolidation, assets and liabilities denominated in foreign currencies are translated into US dollars at closing rates of exchange. Results of operations and cash flows of subsidiaries are translated into US dollars at average rates of exchange. The Group uses average monthly rates published by Central Bank of the Russian Federation to translate trading results denominated in Roubles into US dollars. Differences resulting from the retranslation of the opening net assets and the results for the year are taken to translation reserve.

The Group used the following exchange rates (Roubles per one US dollar):

	As of or for the year ended 31 December	
	2017	2016
Closing rates of exchange	**57.6002**	60.6569
Effective annual average rates of exchange	**58.3529**	67.0349

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

Property, plant and equipment – The Group uses the cost model by which items of property, plant and equipment are stated at historical purchase cost less accumulated depreciation and impairment.

Historical cost

Historical cost of property, plant and equipment items includes their acquisition cost, all the costs directly related to bringing the assets to the location and condition ready for their intended use and any costs of dismantling and removing the item or restoring the site on which it is located. Furthermore, such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met:

- When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.
- Staff costs and other operating expenses directly attributable to the construction of the asset are also capitalised. The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

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

Property, plant and equipment also include investments relating to oil and gas exploration, development and production activities.

Exploration and evaluation assets

Exploration and evaluation assets are measured at cost less provision for impairment, where required.

The Group recognises oil and gas exploration and evaluation activities using successful efforts accounting, whereby the accounting treatment of the various costs incurred is as follows:

I. The costs incurred in the acquisition of new interests in areas with proved and unproved reserves including exploration licence acquisition costs, are capitalised as incurred to the account "Exploration and Evaluation Assets" of the field concerned.

II. Exploration costs (geological and geophysical expenditures, expenditures associated with the maintenance of unproved reserves and other expenditures relating to the exploration activity), excluding exploratory drilling expenditures, are expensed as incurred.

III. Administrative expenses (office rent, office cars, administrative personnel, etc.) are expensed as incurred.

IV. Exploratory drilling costs are capitalised to the account "Exploration and Evaluation Assets" of the field concerned, pending determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort. If the well does not demonstrate potential economic oil and gas quantities, the well costs are expensed as a dry hole and are reported in exploration expenses. It is not unusual to have exploration wells carried in the statement of financial position for several years while additional appraisal drilling and seismic work on the potential oil and gas field is performed or while the optimum development plans and timing are established.

V. The Group classifies exploration and evaluation assets as tangible assets since its tangible element (underlying reserves) is significant.

VI. Activities preceding the acquisition of oil and gas properties are defined as pre-exploration (or pre-licence). All pre-exploration expenditures are recognised as an expense in the consolidated statement of comprehensive income when incurred and include project feasibility studies, surface mapping and appraisal activities, as well as other overhead costs related to pre-exploration activities.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource is proved. Once commercial reserves are found, exploration and evaluation assets are transferred to account "Oil and Gas Properties" and depleted using the unit-of-production method as described in paragraph "Depreciation and depletion" below.

Development costs

Expenditures related to the development of hydrocarbons are not recognised as exploration and evaluation assets but as oil and gas properties.

Development costs include the cost of development wells to produce proved reserves, the cost of production facilities (such as flow lines, separators, oil treatment facilities, heaters, storage tanks, improved recovery systems and gas processing facilities), borrowing costs and other costs necessary to obtain access to proved and probable reserves.

Borrowing costs directly attributable to the construction of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Depreciation and depletion

Property, plant and equipment related to oil and gas production activities are depreciated using the unit-of-production method as described below, except in the case of assets with shorter useful life than the lifetime of the field (roads, pipelines, pumps, etc.), in which case the straight-line method is applied.

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

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

III. Other development costs that cannot be attributed to particular producing units are allocated to cost centres of related oil fields based on their reserve share in the total portfolio. Such costs are depleted over Proved and Probable (2P) reserves on a field-by-field basis.

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

Since 2P reserves assume future development costs to access proved undeveloped and probable reserves, an adjustment is made to the depreciation base to reflect the effect of future development costs.

Property, plant and equipment, other than those described above, are depreciated using the straight-line method on the basis of the historical cost of the assets less their estimated residual value, over the years of estimated useful life of the assets, as follows:

Buildings and construction	5 to 30 years
Machinery, equipment and transport	3 to 20 years
Other	3 to 7 years

The residual values and useful lives of these assets are reviewed annually. Depreciation and depletion starts when the assets become available for use.

Impairment of assets – Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing impairment, assets are grouped into cash-generating units as they generate cash flows which are independent from other units. A cash-generating unit has been identified as an oil field.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax risk adjusted discount rate.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount, and an impairment loss is recognised in the consolidated statement of comprehensive income.

The basis for future depreciation or amortisation will take into account the reduction in the value of the asset as a result of any accumulated impairment losses.

When an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined in case no impairment loss had been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of comprehensive income. The reversal is capped at the value that the asset would have been held at had it continued to be depreciated. An impairment loss recognised for goodwill cannot be reversed in a subsequent period.

Impairment of oil and gas properties

For oil and gas properties, assets are tested for impairment whenever facts and circumstances indicate potential impairment. Impairment reviews compare the carrying amount of an asset with its recoverable amount. Recoverable amount is the higher of value in use and fair value less costs of disposal. As the company is in the development phase, recoverable amount is based on fair value less costs of disposal with the reference to market participant assumptions of the future cash flows to be obtained from the proved and probable reserves.

Recognition and measurement of financial instruments – The Group recognises financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligation of the instrument.

Financial assets and liabilities are initially recognised at fair value. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents comprise cash in hand, current balances with banks and similar institutions; and short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition. Bank deposits (or similar high-liquid investments) with longer maturity are also included into cash equivalents if, and only if, an early termination without loss of interest is available in compliance with a legally enforceable right set by a deposit agreement.

Available-for-sale (AFS) financial assets – AFS financial assets include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

AFS financial assets are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset. After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income until the investment is derecognised, at which time, the cumulative gain or loss is reclassified to profit or loss as a reclassification adjustment. If the investment is determined to be impaired, the cumulative loss is reclassified from other comprehensive income to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using effective interest method.

Trade and other receivables – Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Effective interest method

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

The primary factor that the Group considers when determining whether a receivable is impaired is its overdue status. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Trade and other payables – Trade and other payables are carried at payment or settlement amounts. Where the time value of money is material, payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate.

Borrowings – Borrowings are initially recognised at fair value, being the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. The existing borrowing is treated as a "general borrowing" for the purposes of capitalisation of borrowing costs on qualifying assets (see policy on "Property, plant and equipment").

Inventories – Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method and comprises direct purchase costs, cost of production, transportation and custom clearance costs.

Operating leases – Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are recognised on a straight-line basis over the period of the lease and charged to the consolidated statement of comprehensive income.

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

Provisions and contingencies – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost. Any change in the amount recognised for environmental and litigation and other provisions arising through changes in discount rates is included within finance cost.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Provision for decommissioning – Provision for decommissioning is recognised only to the extent of the expected costs needed to remediate the actual damage made to the environment. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

Income taxes – Income tax expense represents the sum of the current income tax and deferred tax. The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation.

Current income tax is based on the taxable profits for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Tax relating to items recognised in statement of profit or loss is recognised in statement of profit or loss and tax relating to items recognised in equity is recognised in equity.

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

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

Advances and prepayments – Advances and prepayments are carried at cost less provision for impairment. An advance or prepayment is classified as construction in progress when the advance or prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Advances or prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances and prepayments are written off to profit or loss when the goods or services relating to the advances or prepayments are delivered and accepted (but do not qualify for recognition as an asset). If there is an indication that the assets, goods or services relating to an advance or prepayment will not be received, the carrying value of the advance or prepayment is written down accordingly and a corresponding impairment loss is recognised in the consolidated statement of comprehensive income.

Revenue recognition – Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the crude oil is shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues are measured at the fair value of the consideration received or receivable, net of value added tax (“VAT”) and discounts. Interest income is recognised on a time-proportion basis using the effective interest method.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Details of the Group’s critical accounting estimates are set out below:

Decommissioning costs

Provision for decommissioning represents the present value of decommissioning costs relating to the Russian Federation oil and gas interests, which are expected to be incurred in a time period between 2025 and 2038. These provisions have been created based on the Group’s internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. Those estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Major assumptions used in estimation of decommissioning costs are set out below:

Exillon TP:

- As at 31 December 2017, undiscounted value of estimated future cash outflows is estimated at $6,192 thousand (2016: $5,951 thousand);
- Expected timing of future cash outflows – the majority of the expenditure is expected to take place in a range between 2026 and 2038 (2016: between 2026 and 2038);
- Discount rate (based on long-term maturity Russian government bonds) – 8% per annum (2016: 9%);
- Inflation rate (based on the external analysts forecasts) – 3-4% per annum (2016: 4-7%).

If the discount rate had increased by 1% to 9% at 31 December 2017, the decommissioning liability would have been $426 thousand lower (2016: $406 thousand lower).

Exillon WS:

- As at 31 December 2017, undiscounted value of estimated future cash outflows is estimated at $12,207 thousand (2016: $11,161 thousand);
- Expected timing of future cash outflows – the majority of the expenditure is expected to take place in 2025 (2016: 2025);
- Discount rate (based on long-term maturity Russian government bonds) – 8% per annum (2016: 9%);
- Inflation rate (based on the external analysts forecasts) – 3-4% per annum (2016: 4-7%).

If the discount rate had increased by 1% to 9% at 31 December 2017, the decommissioning liability would have been $617 thousand lower (2016: $606 thousand lower).

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in oil and gas reserves, particularly proved and probable reserves, will affect unit-of-production depreciation charges in the consolidated statement of comprehensive income.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Probable reserves are those additional Reserves which analysis of geoscience and engineering data indicate to have 50% of the likely recovery, while Possible reserves have a 10% chance of full extraction. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as depletion charges) that are based on Proved and Probable reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Changes to the Group's estimates of Proved and Probable reserves also affect the amount of depletion recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in Proved and Probable reserves will increase depletion charges (assuming constant production) and reduce profit.

Proved and Probable reserve estimates of the Group as of 30 June 2016 were based on the reports prepared by Miller and Lents Ltd, independent engineering consultants, adjusted by production for the second half of 2016 and the year 2017. Management considered the existence of any factors that may indicate material changes to the reserves and concluded that it is appropriate to use the valuation report dated 30 June 2016 for the purpose of depletion charge calculation for 2017.

As at 31 December 2017, the net carrying amount of oil and gas properties and related cost of production licences was $317,448 thousand (2016: $296,163 thousand).

Taxation

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

Litigation

The Group management exercises considerable judgment in measuring and recognising provisions and exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities (Note 27).

Judgment is necessary in assessing the likelihood that a pending claim against the Group will succeed, or a material liability will arise, and to quantify the possible amount of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the original estimations. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, where such exist, or with the support of external consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results of the Group.

2. Details of the Group's significant accounting judgments are set out below:

Impairment

The carrying value of the Group's assets can be significantly affected by change in oil prices. Taking into account rising average oil prices and its decreasing volatility in 2017, there were no indicators of potential impairment of oil and gas properties as of 31 December 2017. Consequently, there was no need to perform the assessment test as of 31 December 2017.

Net investment in foreign operations

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

In light of continued decline in oil prices and significant weakening of Russian Rouble leading to the decrease in the Group's profits, in June 2015 management reassessed the judgement and determined that this intercompany loan was expected to be settled to fund repayments of the Group's external debt. During the year ended 31 December 2017, a foreign exchange gain of $198 thousand on the intercompany loan has been recognized in profit or loss (31 December 2016: $4,809 thousand). The relevant Group external debt has been fully repaid in March 2017.

6. SEGMENTAL ANALYSIS

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

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

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

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

Segmental information for the Group for the year ended 31 December 2017 is presented below:

	Exillon TP	Exillon WS	Unallocated	Total
	$'000	$'000	$'000	$'000
Gross segment revenue	30,380	106,439	-	**136,819**
Revenue	30,380	106,439	-	**136,819**
Mineral extraction tax	(14,779)	(9,469)	-	**(24,248)**
Transportation services – Transneft	(755)	-	-	**(755)**
Net back	14,846	96,970	-	**111,816**
EBITDA	5,286	76,805	(1,602)	80,489
Depreciation and depletion	6,118	10,479	353	**16,950**
Finance income	(573)	(3,718)	(4)	**(4,295)**
Finance cost	220	1,489	-	**1,709**
Operating (loss)/profit	(1,077)	65,897	(1,688)	**63,132**
Capital Expenditure	43,347	244,763	-	288,110

In 2017, capital expenditure included $17,870 thousand of completed and accepted drilling services of oil wells and the development of infield infrastructure and $270,240 thousand of advances issued for the capital construction (Note 17). Capital expenditures do not include amount of capitalised interest in 2016 and 2017.

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

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

The transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. There were no intersegment revenues during the year ended 31 December 2017 and 2016.

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

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

Net back is defined as revenue less direct and indirect government taxation. The indicator is calculated as revenue less Mineral Extraction Tax, Export Duty and Transneft transportation services.

Reconciliation of profit/(loss) before income tax to EBITDA for the year ended 31 December 2017 is presented below:

	Exillon TP	Exillon WS	Unallocated	Total
	$'000	$'000	$'000	$'000
(Loss)/profit before income tax	(724)	68,126	(1,684)	**65,718**
Finance income	(573)	(3,718)	(4)	**(4,295)**
Finance cost	220	1,489	-	**1,709**
Foreign exchange (gain)/loss	261	463	(267)	**457**
Gain on disposal of property, plant and equipment	(16)	(34)	-	**(50)**
Depreciation and depletion	6,118	10,479	353	**16,950**
EBITDA	5,286	76,805	(1,602)	80,489

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

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

Activities by geographical areas

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

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Domestic sales		
Russian Federation	136,819	112,895
Export sales		
Italy	-	14,077
Total	136,819	126,972

In 2017, the Group earned revenues each exceeding 10% of the Group's revenues from three major customers: $29,179 thousand (attributable to domestic sales reported by Exillon TP), $23,016 thousand and $28,799 thousand (both attributable to domestic sales reported by Exillon WS).

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

As at 31 December 2017, non-current assets located outside the Russian Federation amounted to $9,629 thousand (31 December 2016: $9,982 thousand), being the carrying value of the aircraft, which was purchased in 2015 and subsequently leased to an unrelated third party for a period of ten years.

7. COST OF SALES

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Mineral extraction tax	**24,248**	18,735
Depreciation and depletion	**16,553**	16,210
Salary and related taxes	**4,598**	3,866
Repairs and maintenance	**3,866**	4,319
Operating lease rentals	**3,166**	3,125
Taxes other than income tax	**2,291**	2,176
Licence maintenance cost	**1,858**	2,300
Materials	**1,237**	1,209
Unused vacation accrual	**399**	185
Gas flaring penalties	**127**	79
Total	58,344	52,204

In 2017 and 2016, Exillon WS applied 0% mineral extraction tax rate to the oil produced from a certain oil reservoir, which includes oil production from the majority of oil wells located at EWS I and EWS II oil fields. The tax exemption for this oil reservoir was introduced in the second part of 2015 (with effective date from 1 January 2015). The tax exemption amounted to $41,330 thousand for the year ended 31 December 2017 and $35,700 thousand for the year ended 31 December 2016. In 2017, Exillon WS applied a reducing factor to the mineral extraction tax rate, which reflects the specific characteristics of the remaining oil production from the EWS II oil field. The tax exemption amounted to $147 thousand for the year ended 31 December 2017. In 2017, Exillon WS applied for and was granted both tax exemptions in respect of production for 2014 and the reducing factor tax exemption for production of 2015 and 2016. The total tax exemption for the years 2014-2016 amounted to $3,798 thousand.

In 2017 and 2016, Exillon TP applied reducing factors to the mineral extraction tax rate, which reflect the specific characteristics of oil production from ETP V and ETP VI oil fields. The tax exemption amounted to $1,282 thousand for the year ended 31 December 2017 and $908 thousand for the year ended 31 December 2016.

8. SELLING EXPENSES

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Transportation services - trucking to Transneft	**2,958**	3,555
Crude oil custody transfer metering system	**1,120**	1,481
Transportation services – Transneft	**755**	1,600
Other expenses	**37**	13
Export duties	**-**	2,984
Total	**4,870**	**9,633**

9. ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Salary and related taxes	**4,860**	3,695
Consulting services	**2,742**	7,062
Depreciation and amortisation	**397**	427
Operating lease rentals	**307**	344
Communication services	**109**	108
Banking services	**94**	102
Secretary services	**75**	189
Insurance	**74**	79
Software	**72**	69
Business travel	**56**	58
Current office maintenance	**36**	22
Annual fees to LSE and WSE	**32**	31
Unused vacation accrual	**22**	86
Other expenses	**518**	292
Total	**9,394**	**12,564**

In 2017, a reversal of bonuses in the amount of $375 thousand was included in salary and related taxes due to expiry of the statute of limitations.

In 2016, consulting services on a potential M&A transaction comprised $5,494 thousand and were included in other payables as of 31 December 2016 (Note 24). These costs related to corporate companies and were not tax deductible.

10. OTHER INCOME/(EXPENSE)

	Note	For the year ended 31 December	
		2017	2016
		$'000	$'000
Other income			
Rental income on aircraft		**1,560**	1,560
Gain on disposal of property, plant and equipment		**50**	31
Rendering of services for oil production		**14**	502
Write-off of provision for decommissioning	23	-	95
Penalties received		-	18
Other income		**158**	129
Total other income		**1,782**	**2,335**
Other expense			
Bad debt expense	28	**(852)**	(9)
Penalties paid		**(814)**	(249)
Fines for other taxes		**(365)**	(394)
Reversal of fines for other taxes		-	166
Other expense		**(373)**	(189)
Total other expense		**(2,404)**	**(675)**

11. AUDITORS' REMUNERATION

During the year, the Group obtained the following services from the Group's auditor as detailed below:

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Audit services		
Audit and audit-related services	**307**	303
Non-audit services		
Consulting services in relation to potential M&A transaction	-	1,605
Tax consulting services	-	34
Total	**307**	**1,942**

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

12. EMPLOYEE COSTS

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Wages and salaries	**7,661**	6,173
Social tax	**1,797**	1,388
Total	**9,458**	**7,561**

The average number of full time equivalent employees (including directors) during the year was as follows:

	Number of employees For the year ended 31 December	
	2017	2016
Exillon TP	**125**	176
Exillon WS	**280**	292
Total	**405**	**468**

13. FINANCE INCOME

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Interest income on cash in bank, short-term deposits and bank bills of exchange	**4,295**	2,388
Total	**4,295**	**2,388**

14. FINANCE COST

	Note	For the year ended 31 December	
		2017	2016
		$'000	$'000
Interest expense on borrowings	17	**551**	1,186
Unwinding of the present value discount on provision for decommissioning	23	**904**	796
Amortisation of borrowing costs	25	**254**	-
Interest expense on early advances received for export sales		**-**	144
Total		**1,709**	**2,096**

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

15. INCOME TAXES

	For the year ended 31 December	
	2017	2016
	$'000	$'000
Current tax	**17,327**	12,038
Deferred tax	**744**	(754)
Income tax expense	**18,071**	**11,284**

The income tax rate applicable to the major part of the Group's income is 20% (2016: 20%), being the statutory income tax rate in the Russian Federation. In 2017, Exillon WS applied a 17% income tax rate due to the decreased regional budget component of income tax. The tax exemption is granted by local tax authorities. The availability of tax reductions for subsequent periods and the applicable tax rates are determined annually after the end of reporting period and linked to a certain level of capital expenditures incurred during the period at the Khanty-Mansiysk region of the Russian Federation. In 2016, the tax exemption was not granted to Exillon WS, due to insufficient level of relevant capital expenditures. A rate of 20% was used in the calculation of deferred income tax for Exillon WS, due to uncertainty about the intention of local authorities to continue granting of tax exemptions. There are no income tax exemptions available for other subsidiaries incorporated in the Russian Federation.

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

	For the year ended 31 December	
	2017	**2016**
	$'000	**$'000**
Profit before income tax	**65,718**	51,795
Theoretical tax charge at statutory rate 20%	**13,144**	10,359
Effect of 0% tax rate for Cyprus, BVI and Isle of Man	**(365)**	547
Adjustments in respect of current income tax of previous years	**4,993**	-
Effect of 17% tax rate for Exillon WS	**(1,122)**	-
Effect of other non-deductible items	**1,421**	378
Income tax expense	**18,071**	**11,284**

In 2017, adjustment of $4,993 thousand was made in respect of current income tax of 2012-2014 in compliance with the tax audit accomplished by Russian tax authorities in Exillon TP.

Deferred taxation

Differences between carrying values of assets and liabilities in IFRS and statutory tax accounts give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%:

	31 December 2016	Charged/(credited) to profit or loss	Translation difference	31 December 2017
	$'000	$'000	$'000	$'000
Tax effect of deductible temporary differences and tax loss carry forwards				
Provision for decommissioning	(2,071)	(155)	(112)	**(2,338)**
Provision for unused vacation	(28)	(95)	-	**(123)**
Tax loss carry forward	(1,134)	(205)	(42)	**(1,381)**
Other	(54)	(21)	(4)	**(79)**
Gross deferred tax asset	**(3,287)**	**(476)**	**(158)**	**(3,921)**
Tax effect of taxable temporary differences				
Property, plant and equipment	31,026	1,220	2,275	**34,521**
Gross deferred tax liability	**31,026**	**1,220**	**2,275**	**34,521**
Net deferred tax liability	**27,739**	**744**	**2,117**	**30,600**
Reflected in the statement of financial position as follows:				
Deferred tax assets	328			67
Deferred tax liabilities	28,067			30,667

The tax effect of the movements in the temporary differences for the year ended 31 December 2016 are:

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

The Group estimates that $197 thousand (2016: $178 thousand) of gross deferred tax assets relating to tax losses and provision for decommissioning will be recovered within 12 months from the financial position date. Under Russian tax legislation for the period from 1 January 2017 to 31 December 2020, the tax base for the current year may not be reduced by losses incurred in prior periods by more than 50 per cent. Tax losses related to 2008-2016 periods could be offset against gains in the order in which they were incurred. The Group anticipate that total deferred tax assets recognised for tax losses will be utilised against relevant taxable profits in future. In addition, the Group estimates that no gross deferred tax liabilities relating to property plant and equipment will be reversed within 12 months from the financial position date (2016: nil). The Group estimates that all other deductible and taxable temporary differences will reverse after 12 months from the financial position date.

At 31 December 2017, the aggregate amount of temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, was $243,002 thousand (2016: $200,287 thousand).

16. EARNINGS PER SHARE

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

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

	For the year ended 31 December	
	2017	2016
Net profit attributable to equity shareholders of the Company	**47,647**	40,511
Number of shares:		
Weighted average number of ordinary shares	**160,315,209**	160,315,209
Adjustments for:		
Shares additionally issued for share awards	-	-
Weighted average number of ordinary shares for diluted earnings per share	**160,315,209**	160,315,209
Basic ($)	**0.30**	**0.25**
Diluted ($)	**0.30**	**0.25**

17. PROPERTY, PLANT AND EQUIPMENT

	Note	Oil and gas properties	Exploration and Evaluation Assets	Buildings and construction	Machinery, equipment, transport and other	Construction in progress	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Historical Cost							
31 December 2015		304,002	558	70,482	37,585	14,173	**426,800**
Additions		810	-	-	53	4,780	**5,643**
Transferred from construction in progress		8,436	-	52	1,165	(9,653)	-
Disposals		(10)	-	(12)	(228)	(653)	**(903)**
Change in estimates	23	93	-	-	-	-	**93**
Translation difference		48,187	113	8,429	4,253	7,342	**68,324**
31 December 2016		**361,518**	**671**	**78,951**	**42,828**	**15,989**	**499,957**
Additions		4,470	-	-	-	288,110	**292,580**
Transferred from construction in progress		11,977	-	-	304	(12,281)	-
Disposals		(291)	-	-	(183)	(28)	**(502)**
Change in estimates	23	(347)	-	-	-	-	**(347)**
Translation difference		15,471	36	2,667	1,359	2,534	**22,067**
31 December 2017		**392,798**	**707**	**81,618**	**44,308**	**294,324**	**813,755**
Accumulated depreciation and depletion							
31 December 2015		**(50,327)**	**-**	**(13,435)**	**(15,281)**	**-**	**(79,043)**
Charge for the period		(8,382)	-	(5,368)	(2,887)	-	**(16,637)**
Disposals		10	-	1	179	-	**190**
Translation difference		(6,656)	-	(2,891)	(2,187)	-	**(11,734)**
31 December 2016		**(65,355)**	**-**	**(21,693)**	**(20,176)**	**-**	**(107,224)**
Charge for the period		(7,861)	-	(6,057)	(3,032)	-	**(16,950)**
Disposals		288	-	-	109	-	**397**
Translation difference		(2,422)	-	(1,133)	(782)	-	**(4,337)**
31 December 2017		**(75,350)**	**-**	**(28,883)**	**(23,881)**	**-**	**(128,114)**
Net book value							
31 December 2015		**253,675**	**558**	**57,047**	**22,304**	**14,173**	**347,757**
31 December 2016		**296,163**	**671**	**57,258**	**22,652**	**15,989**	**392,733**
31 December 2017		**317,448**	**707**	**52,735**	**20,427**	**294,324**	**685,641**

Decommissioning costs of $7,183 thousand and $6,942 thousand were included within the cost of oil and gas properties as of 31 December 2017 and 2016, respectively. Change in estimates relates to the change in the assumptions used in estimation of decommissioning costs (Note 5).

Cumulative capitalised borrowing costs of $24,049 thousand and $19,808 thousand were included in the cost of oil and gas properties as of 31 December 2017 and 2016, respectively. Total borrowing costs incurred during the year ended 31 December 2017 amounted to $4,792 thousand of which $4,241 thousand was capitalised (31 December 2016: $1,727 thousand of which $541 thousand was capitalised). There is no tax relief related to the capitalised borrowing costs.

Exploration and evaluation assets as of 31 December 2017 and 2016 comprise the ETP VII licence acquired in December 2011. Construction in progress relates to the construction of infield infrastructure and drilling of oil wells commenced in 2016 and 2017.

Additions to construction in progress include $270,240 thousand of advances issued for the capital construction. All types of expenses (such as well drilling, construction and development of infield infrastructure) to be incurred are capitalised in accordance with the Group's accounting policy.

Advance payments for property, plant and equipment include $129,081 thousand of advances paid and refunded during the year ended 31 December 2017. In January-February 2017 the Company made advance payments for a total amount of $97,774 thousand in relation to a potential purchase of office buildings. The remaining amount of $31,307 thousand relates to advance payments for the drilling of oil wells and further development of infield infrastructure. The transactions did not proceed and consequently are not reflected in additions to property, plant and equipment. The amount of $135,346 thousand was refunded in full in March and October 2017. The difference of $6,265 thousand between amounts of advance payments and refunds relates to translation gain that is part of other comprehensive income.

Advance payments for property, plant and equipment of $5,296 thousand paid in the period were agreed to be refunded prior to 31 December 2017. These amounts are shown as other receivables (Note 19) rather than additions to property, plant and equipment, but are included in investing cash flows. The refund was received after 31 December 2017 and will be shown as a reduction to investing cash flows in 2018.

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

Minimum lease payments were as follows:

	As at 31 December	
	2017	2016
	$'000	$'000
Within one year	**1,560**	1,560
Two to five years	**6,240**	6,240
Later than five years	**3,510**	5,070
Total	11,310	12,870

18. INVENTORIES

	As at 31 December	
	2017	2016
	$'000	$'000
Crude oil	**1,743**	1,166
Spare parts	**675**	731
Fuel	**170**	221
Chemicals	**303**	370
Total	2,891	2,488

Inventories included no obsolete or slow-moving items as of 31 December 2017 (2016: nil).

19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	$'000	$'000
Trade receivables	**2,636**	1,673
Allowance for doubtful debts	**(32)**	(31)
Net trade receivables	**2,604**	1,642
Other receivables (net of provision of $5 thousand (2016: $5 thousand))	**9,103**	2,003
Taxes recoverable	**182**	947
Interest receivable on bank deposits	**-**	195
Current trade and other receivables	11,889	4,787

Trade receivables are non-interest bearing. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the management of the Group believes that there is no further credit provision required in excess of the allowance for doubtful debts.

As at 31 December 2017, other receivables included $5,296 thousand of advance payment for property, plant and equipment, which was made during the year ended 31 December 2017 and refunded in 2018, due to the amendments in construction contract (Note 17).

20. OTHER CURRENT ASSETS

	As at 31 December	
	2017	2016
	$'000	$'000
Amounts deposited in advance of a potential acquisition of subsidiaries	11,580	-
Prepayments (net of provision of $475 thousand (2016: $450 thousand))	2,935	615
Prepaid expenses	26	123
Current other assets	14,541	738

21. OTHER CURRENT FINANCIAL ASSETS

	As at 31 December	
	2017	2016
	$'000	$'000
AFS financial assets at fair value through other comprehensive income:		
Unquoted debt securities	5,083	-
Total	5,083	-

AFS financial assets relate to investment portfolio of unquoted debt securities with returns up to 5%. The financial instruments are denominated in EURO. The difference between the consideration paid and the carrying value is due to foreign exchange gain.

22. CASH AND CASH EQUIVALENTS

		As at 31 December	
		2017	2016
	Note	$'000	$'000
Cash in bank (interest-free; net of provision of $870 thousand (2016: nil))	28	3,121	2,459
Cash in bank (0.01 % p.a.)		2,442	-
Cash in bank (0.3 % p.a.)		13	34
Cash on deposit (contractual interest rate 10.25 – 12.25 % p.a.)		-	112,601
Cash on deposit (contractual interest rate 1.5 - 2 % p.a.)		-	3,850
Bank bills of exchange (contractual interest rate 3.5 % p.a.)		-	26,322
Cash in bank (8 % p.a.)		-	1,263
Total		5,576	146,529

As at 31 December 2017, cash and cash equivalents included cash in the amount of $880 thousand restricted by tax authorities (31 December 2016: nil).

23. PROVISION FOR DECOMMISSIONING

		As at 31 December	
		2017	2016
	Note	$'000	$'000
Balance at the beginning of the year		**10,351**	7,799
Additions		**229**	74
Change in estimates	17	**(347)**	93
Unwinding of the present value discount	14	**904**	796
Translation difference		**549**	1,684
Write-off	10	**-**	(95)
Balance at the end of the year		**11,686**	**10,351**

In accordance with the licence agreements the Group is liable for site restoration, clean up and abandonment of the wells upon completion of their production cycle. The provision for future site restoration relates to obligations to restore the oilfields after use. All of these costs are expected to be incurred at the end of the life of wells between 2025 and 2038 (Note 5). They depend on the estimated lives of the wells, the scale of any possible contamination and the timing and extent of corrective actions.

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

24. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	$'000	$'000
Trade payables	**5,602**	10,403
Advances received	**360**	9,815
Salary payable	**397**	679
Other payables	**2,493**	7,943
Current trade and other payables	**8,852**	**28,840**

Trade and other payables are non-interest bearing. As at 31 December 2017, advances of $360 thousand (2016: $9,815 thousand) relate to the receipts from customers for the sales in January 2018 (2016: January 2017).

25. BORROWINGS

	As at 31 December	
	2017	2016
	$'000	$'000
Gazprombank JSC	**124,739**	-
Less: current portion	**(124,739)**	-
Credit Suisse	**-**	7,716
Less: current portion	**-**	(7,716)
Long-term portion	**-**	**-**

There is no material difference between the carrying amount and fair value of borrowings.

Gazprombank JSC - On 7 April 2017, Kayumneft JSC entered into facility agreements for an aggregate principal amount of up to $206,000 thousand, nominated in US dollars and repayable in full on 28 September 2018. During the year ended 31 December 2017, Kayumneft JSC received $125,000 thousand. The facility agreements provide an interest rate at LIBOR plus 5.3%. The interest is payable monthly with the first payment made in April 2017.

As at 31 December 2017, the outstanding principal amount of $124,739 thousand was recognized net of unamortized amounts of borrowing costs of $261 thousand. The amortisation of borrowing costs for the year ended 31 December 2017 was $254 thousand. The undrawn facilities amounted to $81,000 thousand and available until March 2018.

Under the terms of the facility agreements, the Group is subject to two financial covenants and a number of general covenants. The Group has complied with these covenants for the year ended 31 December 2017 and up to the date of approval of these financial statements.

Exillon Energy plc and its subsidiaries guarantee and secure the obligations of Kayumneft JSC under the facility agreements. The facility agreements are secured by a pledge of the 100% shares of certain Group's subsidiaries (Note 30): Komi Resources CJSC, Nem Oil CJSC, Aslador Oil CJSC, Kayumneft JSC, Ucatex Ugra LLC, Ucatex Oil LLC and Setera LLC.

The facility agreements are also secured by pledge of movable and immovable property of certain Group's subsidiaries (Note 30): Komi Resources CJSC, Nem Oil CJSC, Kayumneft JSC, Ucatex Ugra LLC and Ucatex Oil LLC. As at 31 December 2017, the carrying value of relevant property was $120,813 thousand.

Credit Suisse - On 14 March 2017 the principal of $7,692 thousand has been repaid in compliance with the repayment schedule, being the final instalment under this loan facility.

26. SHARE CAPITAL

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

	Number (allotted and called up)	Share capital	Share Premium
		$'000	$'000
As at 31 December 2015	**161,510,911**	**1**	**272,116**
Issuance of shares	-	-	-
As at 31 December 2016	**161,510,911**	**1**	**272,116**
Issuance of shares	-	-	-
As at 31 December 2017	**161,510,911**	**1**	**272,116**

The total number of allotted ordinary shares is 161,510,911 with a par value of $0.0000125 each. As of 31 December 2017, shares issued include 1,195,702 shares (2016: 1,195,702 shares), which are not paid and held by the EBT within the Group for further allocation to employees.

27. COMMITMENTS AND CONTINGENCIES

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

	As at 31 December	
	2017	2016
Nature of contract:	$'000	$'000
Construction of wells and infield infrastructure	**16,920**	5,931
Oil reserves development work	-	494
Other	-	191
Total	**16,920**	**6,616**

As at 31 December 2017, capital commitments for construction of wells and infield infrastructure relate to outstanding amounts under contracts concluded in 2017 under the Group's investment program for the years 2017-2021, which was approved by the Board of Directors and Extraordinary General Meeting of shareholders.

Leases – the Group leases three oil wells and associated land plots from government agencies in the Russian Federation. The initial terms on two leases have expired. In 2017, the third lease contract was extended till 2022. At the present time the annual payments arising on the leases are approximately $202 thousand. The expired lease terms allow for continued lease renewal after expiry of the initial term. In continuing to use these two wells, the Group relies on Article 621(2) of the Civil Code of the Russian Federation, which states that such leases are renewed for an indefinite term if the tenant continues to use the property after the term of the lease has expired in the absence of objections from the lessor, although either party is entitled to terminate the lease upon three months' notice. The Group believes that the Russian authorities are unlikely to exercise this termination right as the Group has the exclusive right to extract the oil resources underlying the wells and continues to make lease payments. Management expects to continue paying for the leases with expired initial terms until the expiry of relevant subsoil licence in 2025, with relevant minimum lease payments included in the table below.

The Group also leases apartments for offices at Exillon WS and Exillon TP. The office lease contracts are renewed and renegotiated annually. At the present time the annual payments arising on the leases are approximately $288 thousand.

Minimum lease payments were as follows:

	As at 31 December	
	2017	2016
	$'000	$'000
Within one year	**490**	458
Two to five years	**689**	490
Later than five years	**125**	450
Total	1,304	1,398

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

In 2017, the Russian economy was still negatively impacted by relatively low crude oil prices, a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. The Rouble interest rates remain high as the Central Bank of Russia keeps the key interest rate unchanged at 7.75% as of 31 December 2017. The combination of the above resulted in deteriorated access to finance, increased cost of capital, accelerated inflation and uncertainty regarding further economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxes – Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group's subsidiaries may be challenged by the relevant federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments in different areas, including general tax deductibility and tax depreciation rules, transfer pricing regulations, application of thin capitalisation rules, etc. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

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

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

Mineral extraction tax for crude oil is calculated by multiplying the extracted quantity of dewatered, desalted and stabilised oil by the base rate per tonne of crude oil produced and by the adjustment ratios that reflect changes in average Urals price and changes in the Rouble/US dollar exchange rate during the month of oil production; and the specific characteristics of oil production from the subject field. In January 2017 the base rate was increased to Rouble 919 per tonne of crude oil from Rouble 857 per tonne in 2016.

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

Possible liabilities which were identified by management at the reporting date as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the consolidated financial statements amount to approximately $1,296 thousand (31 December 2016: nil). The possible liabilities relate mostly to the deduction of certain expenses for income tax purposes by Exillon TP.

Litigation matters – The Board noted that the Company's subsidiaries, Kayumneft JSC and Nem Oil CSJC, are subject to pending litigation proceedings in the Moscow Arbitration Court brought by the Temporary Administrators of Bank Ugra in November and December 2017. The Temporary Administrators of Bank Ugra claim that in 2017 Kayumneft JSC and Nem Oil CJSC entered into a number of alleged debt and guarantee assignment transactions with Bank Ugra and certain other third parties. The Temporary Administrators of Bank Ugra demand to set aside such alleged transactions as the part of the bankruptcy case of Bank Ugra, which is a related party of the Company as disclosed in note 28.. The claims amount to $129,776 thousand for Kayumneft JSC and $10,295 thousand for Nem Oil CJSC. The Company's subsidiaries dispute the existence of the alleged transactions that are the subject of these claims, and have retained external legal counsel and will vigorously defend their position in court.

Having carefully considered the nature of the risks arising from pending litigation against the Company's subsidiaries, and having received advice from external legal counsel, the Board noted that, while it is difficult to predict the ultimate outcome of pending litigation, it estimates that the risk of a material financial outflow arising from pending litigation against the Company's subsidiaries is less than probable.

Environmental matters – The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

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

28. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's outstanding balances with related parties attributable to cash and cash equivalents balances and interest receivable on bank deposits:

	As at 31 December	
	2017	**2016**
	$'000	**$'000**
Other related party:		
Bank Ugra		
Cash and cash equivalents	**870**	146,346
Allowance for doubtful debts*	**(870)**	-
Interest receivable on bank deposits	-	195
Total	**-**	**146,541**

* Translated at the exchange rate prevailing at the reporting date. Amounts in the income statement are translated at the average rate resulting in a charge of $852 thousand.

On 28 July 2017, the Central Bank of Russia has withdrawn Bank Ugra's license. As of 31 December 2017, outstanding amount of cash held in Bank Ugra was $870 thousand which was no longer considered to meet the definition of cash and cash equivalents, and has been transferred to restricted cash. Due to uncertainty associated with the refund of this amount, the amount has been fully written down within bad debt expense (Note 10).

On 30 December 2015, the Group purchased bank bills of exchange from Bank Ugra for the total amount of $26,322 thousand bearing interest of 2.5% per annum. On 26 October 2016, the interest rate was increased to 3.5% per annum. As at 31 December 2016, bank bills of exchange were included within cash and cash equivalents in the consolidated statement of financial position. During the year ended 31 December 2017 these bank bills of exchange were redeemed.

Transactions with related parties during the period were as follows:

		For the year ended 31 December	
		2017	2016
	Note	$'000	$'000
Other related party:			
Bank Ugra			
Interest income		**4,290**	2,387
Bad debt expense	10	**(852)**	-
Banking services		**(61)**	(84)
Total		**3,377**	**2,303**

Bank Ugra became a related party to the Company on 25 December 2015, when Mr. Khotin (having a significant influence over Exillon as an ultimate controlling party of Seneal International Agency Ltd, which held a 29.99% interest in the Company's share capital), obtained control over the bank.

Compensation of key management personnel – Key management personnel consist of independent non-executive directors, executive directors, directors and presidents of operational subsidiaries. Compensation of key management personnel is set by senior executives of the Group and includes basic salary and one-off cash bonuses. Total compensation to key management personnel included in administrative expenses in the consolidated statement of comprehensive income was $1,616 thousand for the year ended 31 December 2017 (2016: $1,172 thousand, including compensation for loss of office of $100 thousand to the outgoing director).

29. RISK MANAGEMENT

Capital management – The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may raise capital from shareholders or restructure its borrowings. Dividend policy is disclosed in the Directors' Report on page 17.

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

The gearing ratios at 31 December 2017 and 2016 were as follows:

		As at 31 December	
	Note	2017	2016
		$'000	$'000
Total borrowings	25	**124,739**	7,716
Less: cash and cash equivalents	22	**(5,576)**	(146,529)
Total net debt/(net cash)		**119,163**	(138,813)
Total equity		**531,867**	462,365
Total capital		**651,030**	323,552
Gearing ratio		**18%**	**(43%)**

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

	Note	As at 31 December 2017 $'000	2016 $'000
Financial assets			
Cash and cash equivalents	22	**5,576**	146,529
Trade and other receivables	19	**11,707**	3,645
Other current financial assets	21	**5,083**	-
Interest receivable on bank deposits	19	**-**	195
Total financial assets		**22,366**	**150,369**
Financial liabilities			
Trade and other payables	24	**8,095**	18,346
Advances received	24	**360**	9,815
Salary payable	24	**397**	679
Borrowings	25	**124,739**	7,716
Total financial liabilities		**133,591**	**36,556**

Changes in liabilities arising from financing activities – the Group's liabilities arising from financing activities relate to short-term borrowings:

	Note	$'000
31 December 2016	**25**	**7,716**
Cash flows:		
Repayment of loan		**(7,692)**
Interest paid (capitalised portion)		**(4,265)**
Proceeds from borrowings		**125,000**
Interest paid		**(551)**
Transaction costs on borrowings		**(515)**
Non-cash changes:		
Interest expense	14	**551**
Capitalised interest	17	**4,241**
Amortisation of borrowing costs	14	**254**
Foreign exchange gain		**(1,650)**
Exchange differences on translation of foreign operations		**1,650**
31 December 2017	**25**	**124,739**

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

Interest rate risk – Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to short-term borrowings, due to floating component of LIBOR incorporated into the interest rates (Note 25).

Group's borrowings are exposed to interest rate risk, which could impact profit or loss. If the interest rate had increased by 100 base points at the end of the reporting year, total borrowing costs would have been $1,000 thousand higher (2016: $77 thousand). As at 31 December 2017, the analysis was applied to the outstanding principal of borrowings on a post 20% income tax basis (31 December 2016: zero rate of income tax).

Credit risk – Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk principally arises from cash and cash equivalents and from credit exposures of its customers relating to outstanding trade and other receivables.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. In 2017, the Group used a prepayment scheme for majority of domestic customers. The export sales are based on post-payment scheme secured with a letter of credit. There is an option for the early payment by mutual agreement of the parties, in which case the Group pays interest on the amount of the early advance received from a customer (Note 14). The Group only transacts with entities that demonstrate strong financial ability or are rated the equivalent of investment grade. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own

records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management for each customer individually.

The major part of cash is held in financial institutions incorporated in the Russian Federation. The financial ability of financial institutions and overall market circumstances are continuously monitored by management based on the information provided by independent rating agencies or other publicly available financial information.

	Note	As at 31 December	
		2017	2016
		$'000	$'000
Cash and cash equivalents			
Counterparties with external credit rating:			
Ba2 (Moody's)*		**5,513**	-
A1 (Moody's)		**40**	115
A2 (Moody's)		**23**	37
BBB+ (Russian agencies)*		**-**	146,346
Ba1 (Moody's)*		**-**	31
Total cash and cash equivalents	**22**	**5,576**	**146,529**

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

As of 31 December 2017, cash and cash equivalents amounted to $5,445 thousand were held in one financial institution (31 December 2016: cash and cash equivalents of $146,346 thousand and the interest receivable of $195 thousand (Note 19) attributable to the bank deposits).

The maximum exposure to credit risk is the carrying amount of financial assets of $22,366 thousand as of 31 December 2017 (2016: $150,369 thousand).

Trade and other receivables included no amounts past due, but not impaired as of 31 December 2017 (2016: nil).

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

	Note	As at 31 December	
		2017	2016
		$'000	$'000
Balance at the beginning of the year		**486**	396
Bad debt expense	**10**	**852**	9
Translation difference		**44**	81
Balance at the end of the year		**1,382**	**486**

Liquidity risk – Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The maturity analysis of financial liabilities as at 31 December 2017 and 2016 is as follows:

	As at 31 December 2017			
	Within 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years
	$'000	$'000	$'000	$'000
Trade and other payables	8,095	-	-	-
Salary payable	397	-	-	-
Borrowings	-	125,000	-	-
Interest payable	-	6,374		
	8,492	**131,374**	**-**	**-**

	As at 31 December 2016			
	Within 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years
	$'000	$'000	$'000	$'000
Trade and other payables	18,346	-	-	-
Salary payable	679	-	-	-
Borrowings	7,693	-	-	-
Interest payable	134	-	-	-
	26,852	-	-	-

For purposes of this disclosure, the cash flows are presented in undiscounted nominal terms and the interest payable on floating rate borrowing to maturity has been calculated using the rate in existence at the reporting dates.

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

Foreign currency risk – Currency risk is the risk that the consolidated financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure.

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

	As at 31 December 2017				
	USD (functional currency RUR)	RUR (functional currency USD)	EUR	GBP	Total
	$'000	$'000	$'000	$'000	$'000
Long-term loans issued	23,020	169,661	23	-	**192,704**
Trade and other receivables	-	1	-	-	**1**
Prepayments	135	-	168	-	**303**
Other current financial assets	-	-	5,083	-	**5,083**
Cash and cash equivalents	2,442	24	-	-	**2,466**
Total monetary assets	25,597	169,686	5,274	-	200,557
Long-term borrowings	26,477	83,758	23	-	**110,258**
Short-term borrowings	124,739	-	-	-	**124,739**
Trade and other payables	421	-	45	40	**506**
Total monetary liabilities	151,637	83,758	68	40	235,503
Net financial position	(126,040)	85,928	5,206	(40)	(34,946)

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

At 31 December 2017 and 2016, the major part of Long-term loans issued and Long-term borrowings consist of foreign currency denominated inter-company balances, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which form part of the Company's net investment in its foreign subsidiaries. As at 31 December 2016, Long-term borrowing of $7,693 thousand (31 December 2017: nil) was expected to be settled to fund repayments of the Group's external debt (Note 5, Net investments in foreign operations).

The table below details the Group's sensitivity to strengthening of the Russian Rouble, EUR and GBP against the US dollar by 11.00%, 12.50% and 11.00% as at 31 December 2017, respectively (2016: 20.00%, 10.00% and 6.00%, respectively). The analysis was applied to monetary items of the US dollar functional currency subsidiaries of the Group at the financial statement dates on a post tax base (zero % tax rate applies).

	RUR – impact as at 31 December		EUR – impact as at 31 December		GBP – impact as at 31 December	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Other comprehensive income	**10,617**	17,806	**-**	-	**-**	-
Profit or loss	**3**	8	**651**	(14)	**(4)**	(2)
Total	**10,620**	**17,814**	**651**	**(14)**	**(4)**	**(2)**

The table below details the Group's sensitivity to weakening of the Russian Rouble, EUR and GBP against the US dollar by 11.00%, 7.50% and 7.00% as at 31 December 2017, respectively (2016: 20.00%, 10.00% and 18.00%, respectively). The analysis was applied to monetary items of the US dollar functional currency subsidiaries of the Group at the financial statement dates on a post tax base (zero % tax rate applies).

	RUR – impact as at 31 December		EUR – impact as at 31 December		GBP – impact as at 31 December	
	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000
Other comprehensive income	**(8,513)**	(11,871)	**-**	-	**-**	-
Profit or loss	**(2)**	(6)	**(390)**	14	**3**	7
Total	**(8,515)**	**(11,877)**	**(390)**	**14**	**3**	**7**

The table below details the Group's sensitivity to strengthening of the US dollar against the Russian Rouble by 11.00% as at 31 December 2017 (2016: 20.00%). The analysis was applied to monetary items of the Russian Rouble functional currency subsidiaries of the Group at the financial statement dates on a post 20% income tax basis. There is an equal but positive impact of weakening of the US dollar against the Russian Rouble by 11.00% as at 31 December 2017 (2016: 20.00%).

	USD – impact as at 31 December	
	2017	2016
	$'000	$'000
Other comprehensive income	**(304)**	(4,911)
Profit or loss	**(10,787)**	3,455
Total	**(11,091)**	**(1,456)**

Fair value of financial instruments – Management believes that the carrying values of financial assets and liabilities recorded at amortised cost in these financial statements approximate their fair values. All fair value measurements are calculated using inputs which are based on observable market data (observable inputs) (Level 2).

30. CONTROLLED ENTITIES

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

			Ownership/ proportion of ordinary shares as at 31 December	
Name	Country of incorporation	Principal activity	2017	2016
Kayumneft JSC	Russian Federation	Subsoil user	100%	100%
Nem Oil CJSC	Russian Federation	Subsoil user	100%	100%
Komi Resources CJSC	Russian Federation	Subsoil user	100%	100%
Aslador Oil CJSC	Russian Federation	Subsoil user	100%	100%
Ucatex Oil LLC	Russian Federation	Operator company	100%	100%
Ucatex Ugra LLC	Russian Federation	Operator company	100%	100%
Setera LLC	Russian Federation	Administration	100%	100%
Silo Holdings LLC	BVI	Oil trading	100%	100%
Actionbrook Limited	Cyprus	Administration	100%	100%
Claybrook Limited	Cyprus	Administration	100%	100%
Diamondbridge Limited	Cyprus	Administration	100%	100%
Lanach Limited	Cyprus	Administration	100%	100%
Halescope Limited	Cyprus	Administration	100%	100%
Vitalaction Limited	Cyprus	Administration	100%	100%
Corewell Limited	Cyprus	Administration	100%	100%
Touchscope Limited	Cyprus	Administration	100%	100%
Lexgrove Limited	Cyprus	Administration	100%	100%
Plusgrove Limited	Cyprus	Administration	100%	100%
Exillon Finance Limited	Isle of Man	Treasury	100%	100%
Exillon Energy Group Limited	Isle of Man	Administration	100%	-

Corporate Directory

Company Secretary
Bridgehouse Company Secretaries Ltd
1-2 Faulkners Alley
Cowcross Street
London EC1M 6DD
United Kingdom

Registered Office
First Names House
Victoria Road
Douglas
Isle of Man, IM2 4DF

Registered in the Isle of Man
Registration number 002516V

Moscow Office
Zolotorozhskiy Val Street, 32/1
Moscow
111033 Russian Federation

Media Contacts
EM Communications
41 Lothbury
London EC2R 7HG
United Kingdom

Registrars
Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey, JE1 1ES

Legal
Baker & McKenzie LLP
100 New Bridge Street
London, EC4V 6JA
United Kingdom

Cains Advocates Limited
Fort Anne
Douglas
Isle of Man, IM1 5PD

Padva, Haslam-Jones & Partners LLP
Hamilton House
1 Temple Avenue
London, EC4Y 0HA
United Kingdom

Brokers
Investec Bank plc
2 Gresham Street
London, EC2V 7QP
United Kingdom

Mirabaud Securities LLP
33 Grosvenor Place
London, SW1X 7HY
United Kingdom

Auditors
Ernst & Young LLP
1 More London Place
London, SE1 2AF
United Kingdom

Contact Exillon Energy:
Tel.: +7(495)987 6712

www.exillonenergy.com