

## **Exillon Energy plc**

### **Wstępne niebadane wyniki finansowe za rok zakończony 31 grudnia 2013 r.**

**18 marca 2014 r.**

**Exillon Energy plc ("Exillon") (EXI.LN), niezależna spółka wydobywcza notowana na Gieldzie Papierów Wartościowych w Londynie, posiadająca aktywa zlokalizowane w dwóch regionach wydobywczych Rosji – Timan-Peczora („Exillon TP”) i Zachodniej Syberii („Exillon WS”), podaje dzisiaj do publicznej wiadomości wstępne niebadane wyniki finansowe za rok zakończony 31 grudnia 2013 r.**

#### **Kluczowe informacje:**

- Wzrost zysku netto o 161%, do 31,6 mln USD (12,1 mln USD w 2012 r.)
- Wzrost EBITDA o 59%, do 73,3 mln USD (46,1 mln USD w 2012 r.)
- Wzrost EBITDA w przeliczeniu na baryłkę ropy naftowej o 24%, do 12,3 USD w przeliczeniu na baryłkę (9,9 USD w przeliczeniu na baryłkę w 2012 r.)
- Aktualny wynik EBITDA w przeliczeniu na baryłkę ropy naftowej (druga połowa 2013 r.) na poziomie 14,2 USD w przeliczeniu na baryłkę

Mark Martin, Dyrektor Generalny, powiedział:

“Wymienione wyżej, bardzo dobre wyniki finansowe są rezultatem mocnego wzrostu produkcji ropy oraz rozbudowy infrastruktury. Exillon szybko się rozwija, przynosi zysk, posiada znaczne zasoby gotówkowe. Posiadamy 520 mln baryłek rezerw potwierdzonych i prawdopodobnych, jesteśmy dobrze przygotowani do ich wykorzystania.”

Drodzy Akcjonariusze,

Rok 2013 był dla Exillon bardzo udany. Spółka osiągnęła skalę produkcji, która umożliwia jej regularne generowanie wysokiego EBITDA i zysku netto. Przy zwiększonej skali produkcji, możemy rozłożyć nasze koszty stałe na większą ilość baryłek, zakończyliśmy także prace przy najważniejszych komponentach naszej infrastruktury. Umożliwiło to wzrost EBITDA o 24% w przeliczeniu na baryłkę rok do roku (2012 do 2013).

Poziom produkcji wzrósł z 4.692.602 baryłek w 2012 roku, do 5.985.459 baryłek (co odpowiada wydobyciu na poziomie 18.731 baryłek dziennie w grudniu 2013 r.).

Nakłady inwestycyjne w omawianym roku wyniosły 108,4 mln USD (2012: 86,5 mln USD ) i obejmowały nakłady na wykonanie odwiertów oraz budowę infrastruktury w obrębie pól.

Wygenerowane w 2013 roku środki pieniężne netto z działalności operacyjnej wyniosły 91,0 mln USD (2012 : 36,1 mln USD). Na koniec okresu, spółka dysponowała pozycją 94,6 mln USD środków pieniężnych i ich

ekwiwalentów (31 grudnia 2012 r.: 121,0 mln USD), natomiast saldo zadłużenia z tytułu kredytów i pożyczek było na poziomie 100,2 mln USD.

### **Pozycja Finansowa**

Na poziomie zysku EBITDA odnotowaliśmy wzrost o 59%, z 46,1 mln USD do 73,3 mln USD, przy zysku netto w wysokości 31,6 mln USD (w roku 2012 zysk netto w kwocie 12,1 mln USD). Przychody ze sprzedaży wzrosły z 301,9 mln USD do 321,5 mln USD, natomiast zysk operacyjny netback (obliczany zgodnie z przyjętą przez nas formułą jako przychody ze sprzedaży pomniejszone o podatek od wydobycia kopalin, cło wywozowe i opłaty Transnieft) wzrósł o 26%, z poziomu 103,5 mln USD do 130,7 mln USD.

Zysk EBITDA za cały 2013 r. w przeliczeniu na baryłkę ropy naftowej wyniósł 12,3 USD w porównaniu z 9,9 USD w 2012 r. W drugim półroczu było to 14,2 USD w przeliczeniu na baryłkę wobec 10,2 USD w przeliczeniu na baryłkę w pierwszej połowie 2013 r. Systematyczny wzrost zysku EBITDA był możliwy dzięki rozbudowie infrastruktury i efektom skali związanym ze zwiększeniem wydobycia.

W 2013 r. udziały spółek Exillon WS i Exillon TP w łącznym wydobyciu kształtowały się na poziomie, odpowiednio, 76% i 24%. Oba podmioty były rentowne, przy czym Exillon WS, jako w tej chwili spółka większa, w wyższym stopniu wykorzystwała efekt skali. Zysk EBITDA na poziomie operacyjnym (przed odliczeniem kosztów na poziomie centralnym) w przeliczeniu na baryłkę ropy naftowej wyniósł 15,8 USD w wypadku Exillon WS (w 2012 r. było to 13,2 USD w przeliczeniu na baryłkę) oraz 10,8 USD w wypadku Exillon TP (w 2012 r. było to 9,5 USD w przeliczeniu na baryłkę).

Spółka utrzymała silną strukturę bilansu – stan środków pieniężnych i ich ekwiwalentów według stanu na 31 grudnia 2013 r. kształtował się na poziomie 94,6 mln USD. Zadłużenie spółki obejmuje wyłącznie kredyt udzielony przez Credit Suisse w wysokości 100 mln USD z terminem spłaty w 2017 r. Na 31 grudnia 2013 r., przy zadłużeniu na poziomie 100,2 mln USD, dług netto Spółki wynosił 5,6 mln USD.

Na 14 marca 2014 r. stan środków pieniężnych i ich ekwiwalentów wzrósł do 111,1 mln USD.

### **Działania korporacyjne**

W dniu 18 września 2013 roku, Exillon ogłosił rozpoczęcie Formalnego Procesu Sprzedaży, który, niestety, nie zakończył się złożeniem oferty na 100% akcji spółki. Mimo tego, wykazał on, iż naszymi aktywami zainteresowanych jest wielu dobrze poinformowanych, aktywnych w branży inwestorów. Duży wolumen akcji Exillon zmienił właścicieli i to przy znacznie wyższej wycenie niż obecnie na rynku.

W wyniku tego procesu sprzedaży, w bazie akcjonariuszy Exillon zaszły istotne zmiany. Jak ogłaszano 21 stycznia 2014 roku, nasz nowy, obecnie największy akcjonariusz, Alexei Khotin, wyznaczył dwóch Dyrektorów do Zarządu Spółki. Ponadto, ogłosiliśmy zamiar obsadzenia stanowiska CFO, czym miała zająć się międzynarodowa agencja rekrutacyjna. Ostatecznie do realizacji tego zadania wyznaczono agencję rekrutacyjną Spengler Fox, a jej prace trwają.

Wszystkie nasze aktywa ulokowane są na terytorium Federacji Rosyjskiej i wyłącznie tam prowadzimy naszą działalność. Obecnie rozważamy ulokowanie akcji Spółki na moskiewskiej giełdzie MICEX, aby ułatwić wejście w nią rosyjskim inwestorom. Giełda w Londynie pozostanie dla nas rynkiem podstawowym (primary listing).

## **Rozwój Sytuacji Politycznej i Makroekonomicznej**

Nasze pola wydobywcze zlokalizowane są na Zachodniej Syberii oraz na obszarze Timan-Peczora, nie posiadamy natomiast żadnych aktywów na Ukrainie lub w jej pobliżu. Sytuacja w tym kraju nie ma więc wpływu na naszą działalność operacyjną.

W przeszłości, wahania kursu Rubla Rosyjskiego były ściśle powiązane ze zmianą cen ropy na rynkach światowych. Przeważająca część naszych kosztów denominowana jest w Rublach Rosyjskich, natomiast cały nasz przychód ze sprzedaży ropy powiązany jest z Dolarem Amerykańskim. Obecne warunki środowiska makroekonomicznego – wysokie ceny ropy przy niskim kursie rubla – są nietypowe, jednak wysoce korzystne dla Spółki. Nasz obecny budżet opiera się na kursie wymiany 32 rubli za dolara amerykańskiego.

## **Nabycie Aktywów i Zasoby**

We wrześniu i listopadzie 2012 r. podpisaliśmy kilka wstępnych umów w procesie nabywania VenlockNeft LLC za łączną kwotę 2,7 mln USD. W ten sposób pozyskaliśmy dodatkowe 1 075 km<sup>2</sup> obszarów perspektywicznych, tym samym zwiększając ponad czterokrotnie łączny obszar koncesyjny Exillon TP (do 1 419 km<sup>2</sup>). Transakcja ta została zamknięta w listopadzie 2013 roku, przy uznaniu jej za transakcję zakupu aktywów.

Wyniki naszego kolejnego, niezależnego audytu rezerw ogłosimy na początku trzeciego kwartału 2014 roku, przy czym przeprowadzi go Miller and Lents z Houston w drugim kwartale roku bieżącego. Uwzględnimy on wpływ powyżej opisanej transakcji nabycia oraz programu wierceń w 2013 roku, zarówno na obszarze Exillon TP jak i Exillon WS.

Mark Martin

Dyrektor Generalny

## **Kontakt dla dziennikarzy:**

Łukasz Chudy

lukasz.chudy@cook-comm.com  
+48 663 171 023

## **OPERATIONAL REVIEW**

### **Drilling**

In 2013 we drilled 18 wells. Details of this drilling programme were announced throughout 2013 via RNS, and all announcements can be found on [www.exillonenergy.com](http://www.exillonenergy.com).

### **Production**

Exillon TP produced 1,428,145 bbl and generated revenue of US\$61.7 million. Exillon WS produced 4,557,314 bbl and generated revenue of US\$259.8 million.

### **Financial**

Capital expenditure for the period was US\$108.4 million (2012: US\$86.5 million). Of total capital expenditure, US\$25.2 million was attributable to drilling (2012: US\$30.7 million), US\$82.9 million to infrastructure (2012: US\$45.7 million), and US\$0.3 million to seismic data acquisition and interpretation (2012: US\$10.1 million).

US dollars account for approximately 60% of our cash with the remaining 40% held in Russian Roubles.

## **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 2013.

### **Summary**

We maintained a strong financial position in 2013 due to rising production levels and improved efficiency.

EBITDA increased by 59% from US\$46.1 million in 2012 to US\$73.3 million in 2013.

Net profit for the year, which includes depreciation costs, foreign exchange translation effects, loss on write-off of non-current assets, fair value adjustment of loan issued and share based compensation costs amounted to US\$31.6 million compared to net profit of US\$12.1 million in 2012.

### **Revenue**

Our revenue for the year ended 31 December 2013 increased by 6% year-on-year, reaching US\$321.5 million (2012: US\$301.9 million), of which US\$82.6 million or 26% came from export sales of crude oil and US\$238.9 million or 74% came from domestic sales of crude oil. This increase in revenue is attributable to:

- An increase in production leading to a 28% increase in sales from 4,651,049 bbl in 2012 to 5,963,311 bbl; and
- A change in average commodity prices: we achieved an average oil price of US\$97 / bbl (2012: US\$105 / bbl) for export sales and US\$47 / bbl (2012: US\$44 / bbl) for domestic sales.

Currently our netback for domestic sales is higher than the one for export sales because of the fluctuations in oil prices. Our total netback for domestic and export sales increased by 26% from US\$103.5 million to US\$130.7 million year-on-year.

## **Operating Results**

Operating costs excluding depreciation, depletion and amortisation increased to US\$159.0 million (2012: US\$127.6 million) following an increase in production of 28% to 5,985,459 bbl (2012: 4,692,602 bbl). The difference between the production volumes and sales volumes is due to the change in the oil inventory balance during the year. The increase in production costs is mainly related to the growth of mineral extraction tax from US\$99.8 million in 2012 to US\$129.7 million in 2013, as a result of higher production volumes and increased tax rate. Despite the growth in rates of gas flaring penalties, savings were achieved from US\$4.1 million in 2012 to US\$2.9 in 2013 due to the enhanced level of gas utilisation.

Depreciation and depletion costs primarily relate to the depreciation of proved and probable reserves and other production and non-production assets. In 2013, these costs totalled US\$25.2 million (2012: US\$20.5 million). The increase in DD&A costs is driven by higher production volumes and by bringing into operation infield facilities once their construction was completed.

Selling expenses for 2013 of US\$66.6 million (2012: US\$106.8 million) is comprised of export duties of US\$43.3 million (2012: US\$83.8 million), transportation services of US\$23.3 million (2012: US\$22.0 million) and other selling expenses of US\$0.0 million (2012: US\$1.0 million). Transportation services include services provided by Transneft and transportation services from oil field to oil filling station. In 2013, the export duty rate fluctuated within the range from US\$359.3 per tonne to US\$420.6 per tonne following the changes in crude oil prices. 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 the 15<sup>th</sup> and 14<sup>th</sup> of the two months prior to the month of delivering the crude.

Administrative expenses (excluding share-based compensation expenses, depreciation and amortization and fair value adjustment of loan issued) totalled US\$22.7 million (2012: US\$20.8 million). In 2013, savings were achieved in salary and related taxes, business trip and office rent expenses with increase in consulting services.

In 2013, interest income amounted to US\$2.8 million (2012: US\$2.9 million) resulting from surplus cash being held on short-term deposits and VTB credit-linked deposits.

In 2013, income tax expense of US\$7.2 million (2012: US\$5.4 million) comprised an income tax charge of US\$8.7 million (2012: US\$6.9 million) and a deferred tax credit of US\$1.5 million (2012: US\$1.5 million). The basic corporate income tax rate in the Russian Federation is 20%. The reduced rate of 17% was applied to Exillon WS in 2013 in compliance with local tax legislation (2012: 17%).

It should be noted that – in accordance with IFRS – a foreign exchange loss of US\$3.9 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) using the closing rate at the reporting date. A larger foreign exchange loss of US\$36.7 million has been applied directly to the consolidated statement of financial position as the part of translation reserve.

As a result of the above, we reported a profit after tax of US\$31.6 million compared to a profit of US\$12.1 million for the year ended 31 December 2012.

## **Financial Position**

We ended the period with US\$94.6 million of cash and cash equivalents (31 December 2012: US\$121.0 million) and outstanding borrowings of US\$100.2 million.

The increase in the property, plant and equipment has been driven by extensive drilling of wells, the construction of 40 km pipeline from infield oil processing facility to oil filling station and other infield developments in Exillon WS; successfully completed construction of two 25 km pipelines for transportation

of oil and gas to the refinery and drilling of wells at Exillon TP. This was offset by a translation difference due to the depreciation of the Russian Rouble against the US Dollar at the reporting date.

## **Cash Flow**

Net cash generated from operating activities in 2013 amounted to US\$91.0 million, compared to a US\$36.1 million inflow in 2012. Operating cash flow before working capital changes amounted to the inflow of US\$74.0 million in 2012 compared to the inflow of US\$46.8 million in 2012. The increase is driven by higher production and sales volumes. It was also positively affected by payment terms for taxes payable to the Russian Government, complemented by the reimbursement of taxes receivable; a reduction in other receivables and a growth in interest income received from holding our cash surplus on deposits. The positive effect was also delivered by the increase in trade and other payables as a result of use of post-payment scheme with contractors for drilling works. The negative impact relates to an increase in trade receivables under a post-payment scheme sales contract with the use of 110% bank guarantee, an increase in inventory balances and an escalation in income tax paid due to the further expansion of our operations in 2013.

Capital expenditure during the year was US\$108.4 million (2012: US\$86.5 million), including the drilling of wells and the development of infield infrastructure. During the year, we paid US\$6.4 million of loan interest (2012: US\$5.9 million), which was capitalised in full (2012: 100% capitalisation rate). In September - November 2012 Exillon has signed a number of preliminary agreements to process the acquisition of subsoil licences and certain other non-current assets of VenlockNeft LLC for a total consideration of US\$2.7 million. The acquisition process was completed in November 2013 with the recognition of the transaction as a purchase of assets.

Cash flow from financing activities was nil (2012: US\$47.3 million). No additional funds were acquired in 2013 through loan facilities or share issue due to the sufficiency of the existing funds.

# EXILLON ENERGY PLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	For the year ended 31 December	
		2013	2012
		\$'000	\$'000
Revenue	6	321,493	301,928
Cost of sales	7	(183,503)	(147,631)
<b>GROSS PROFIT</b>		<b>137,990</b>	<b>154,297</b>
Selling expenses	8	(66,602)	(106,761)
Administrative expenses	9	(29,932)	(30,380)
Foreign exchange (loss)/gain		(3,938)	3,375
Other income	10	356	1,209
Other expense	10	(911)	(2,949)
<b>OPERATING PROFIT</b>		<b>36,963</b>	<b>18,791</b>
Finance income	13	2,845	2,895
Finance cost	14	(915)	(4,161)
<b>PROFIT BEFORE INCOME TAX</b>		<b>38,893</b>	<b>17,525</b>
Income tax expense	15	(7,247)	(5,383)
<b>NET PROFIT FOR THE YEAR</b>		<b>31,646</b>	<b>12,142</b>
<b>OTHER COMPREHENSIVE (EXPENSE)/INCOME:</b>			
Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(36,701)	24,792
Income tax effect		-	-
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		<b>(5,055)</b>	<b>36,934</b>
<b>Profit per share for profit attributable to the equity holders of the Company</b>			
- Basic (\$)	16	0.20	0.08
- Diluted (\$)	16	0.20	0.08

**EXILLON ENERGY PLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

		As at 31 December	
	Note	2013	2012
		\$'000	\$'000
ASSETS:			
Non-current assets:			
Property, plant and equipment	17	674,409	627,256
Intangible assets		93	131
Deferred income tax assets	15	177	-
Long-term loans issued	29, 30, 32	310	-
		674,989	627,387
Current assets:			
Inventories	18	4,995	4,596
Trade and other receivables	19	7,715	17,008
Other current assets	20	3,040	3,788
Short-term loans issued	21	-	2,719
Cash and cash equivalents	22	94,605	120,965
		110,355	149,076
TOTAL ASSETS		785,344	776,463
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		230,152	192,068
Translation reserve		(1,888)	34,813
		568,917	567,534
Non-current liabilities:			
Provision for decommissioning	23	11,688	9,346
Deferred income tax liabilities	15	61,607	68,153
Long-term borrowings	25	69,231	100,000
		142,526	177,499
Current liabilities:			
Trade and other payables	24	19,720	17,999
Other taxes payable		23,156	13,116
Income tax payable		13	70
Short-term borrowings	25	31,012	245
		73,901	31,430
TOTAL LIABILITIES AND EQUITY		785,344	776,463



**EXILLON ENERGY PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

	Note	Share capital	Share premium	Other invested capital	Retained earnings	Translation reserve	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2012</b>		<b>1</b>	<b>272,116</b>	<b>68,536</b>	<b>170,780</b>	<b>10,021</b>	<b>521,454</b>
<b>Comprehensive income</b>							
Net profit for the year		-	-	-	12,142	-	12,142
<b>Other comprehensive income</b>							
Translation difference		-	-	-	-	24,792	24,792
<b>Total comprehensive income</b>		-	-	-	<b>12,142</b>	<b>24,792</b>	<b>36,934</b>
Share based payment charge	27	-	-	-	9,146	-	9,146
<b>Transactions with owners</b>		-	-	-	<b>9,146</b>	-	<b>9,146</b>
<b>Balance at 31 December 2012</b>		<b>1</b>	<b>272,116</b>	<b>68,536</b>	<b>192,068</b>	<b>34,813</b>	<b>567,534</b>
<b>Comprehensive income</b>							
Net profit for the year		-	-	-	31,646	-	31,646
<b>Other comprehensive loss</b>							
Translation difference		-	-	-	-	(36,701)	(36,701)
<b>Total comprehensive income/(loss)</b>		-	-	-	<b>31,646</b>	<b>(36,701)</b>	<b>(5,055)</b>
Share based payment charge	27	-	-	-	6,438	-	6,438
<b>Transactions with owners</b>		-	-	-	<b>6,438</b>	-	<b>6,438</b>
<b>Balance at 31 December 2013</b>		<b>1</b>	<b>272,116</b>	<b>68,536</b>	<b>230,152</b>	<b>(1,888)</b>	<b>568,917</b>

**EXILLON ENERGY PLC**  
**CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)**

		For the year ended 31 December	
	Note	2013	2012
		\$ '000	\$ '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		38,893	17,525
Adjustments for:			
Depreciation, depletion and amortisation	17	25,180	20,468
Loss on write-off of property, plant and equipment	10	557	1,062
Finance income	13	(2,845)	(2,895)
Finance cost	14	915	4,161
Unused vacation accrual	7, 9	632	340
Bad debt expense	10	101	318
Fair value adjustment of loan issued	29, 30	190	-
Share based payment charge	27	6,438	9,146
Foreign exchange loss/(gain)		3,938	(3,375)
<b>Operating cash flow before working capital changes</b>		<b>73,999</b>	<b>46,750</b>
<b>Changes in working capital:</b>			
Increase in inventories		(758)	(1,558)
Decrease/(increase) in trade and other receivables		11,204	(3,987)
Increase/(decrease) in trade and other payables		1,552	(4,995)
Increase in taxes payable		11,293	3,741
<b>Cash generated from operations</b>		<b>97,290</b>	<b>39,951</b>
Interest received		2,845	2,161
Income tax paid		(9,158)	(6,031)
<b>Net cash generated from operating activities</b>		<b>90,977</b>	<b>36,081</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(108,380)	(86,494)
Interest paid		(6,365)	(5,903)
Loans issued	21	(38)	(2,719)
Loan issued to related party	29	(500)	-
Redemption of Eurobonds	20	-	14,313
<b>Net cash used in investing activities</b>		<b>(115,283)</b>	<b>(80,803)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings	25	-	49,761
Repayment of loan		-	(2,500)
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>47,261</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(24,306)</b>	<b>2,539</b>
Translation difference		(2,054)	859
Cash and cash equivalents at beginning of the year		120,965	117,567
<b>Cash and cash equivalents at end of the year</b>		<b>94,605</b>	<b>120,965</b>

# **EXILLON ENERGY PLC**

## **NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

### **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. The Group’s structure is provided in Note 31.

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 registered address is 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”) and the Listing Rules of the United Kingdom’s Financial Conduct Authority (“FCA”). 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 30 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.

The Group believes that it has sufficient financial resources to manage its business risks successfully despite the current uncertain economic outlook. The Group’s forecasts and projections, taking account reasonable changes in trading performance (including oil price), show that the Group can operate with its current cash holding.

The Directors have a reasonable expectation that the Group has adequate resources to continue operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual 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:

- IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (effective on or after 1 January 2014)

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that

## **EXILLON ENERGY PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

are not simultaneous. These amendments are not expected to impact the Group's financial position or performance.

- IAS 36 Impairment of Assets – Amendments to IAS 36 (effective on or after 1 January 2014)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are not expected to impact the Group's financial position or performance.

- IFRS 9 Financial instruments (effective on or after 1 January 2015)

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- IFRIC Interpretation 21 Levies (IFRIC 21) (effective on or after 1 January 2014)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. These amendments are not expected to impact the Group's financial position or performance.

During the year ended 31 December 2013 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 new standards and interpretations effective as of 1 January 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (effective on or after 1 January 2013)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Groups financial position or performance.

- IAS 1 Clarification of the requirement for comparative information (Amendment)  
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment has no impact on the Group's financial position or performance.
- IAS 19 Employee Benefits (effective on or after 1 January 2013)  
The revised standard has no impact on the Group's financial position or performance.

## EXILLON ENERGY PLC

### NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

- IAS 28 Investments in Associates and Joint Ventures (effective on or after 1 January 2013)  
The revised standard has no impact on the Group's financial position or performance.
- IFRS 1 Government Loans – Amendment to IFRS 1 (effective on or after 1 January 2013)  
The amendment has no impact on the Group's financial position or performance.
- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendment to IFRS 7 (effective on or after 1 January 2013)  
These amendments have no impact on the Group's financial position or performance.
- IFRS 10 Consolidated financial statements and IAS 27 Separate Financial Statements (effective 1 January 2013)

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The new standard has no impact on the currently held investments of the Group.

- IFRS 11 Joint Arrangements (effective 1 January 2013)  
The new standard has no impact on the Group's financial position or performance.
- IFRS 12 Disclosure of Interests in Other entities (effective 1 January 2013)  
The amendment affects presentation only and has no impact on the Groups financial position or performance.
- IFRS 13 Fair value measurement (effective 1 January 2013)  
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not impacted the fair value measurements carried out by the Group.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

**Basis of consolidation** – The Group's consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct and indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that 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 in the main environment in which they operate. These consolidated financial statements are

# EXILLON ENERGY PLC

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

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 reserves.

The Group used the following exchange rates of one Rouble to one US dollar:

	<b>As of or for the year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
Closing rates of exchange	32.7292	30.3727
Effective annual average rates of exchange	31.8480	30.7408

**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.

### **a) 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.

Staff costs and other operating expenses incurred in 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. Furthermore, certain of the Group's facilities require periodic

## EXILLON ENERGY PLC

### NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

reviews. In this respect, a portion of the items requiring replacement is recognised specifically and is depreciated over the period until the next review is carried out.

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) that are not directly attributable to the exploration and evaluation activities 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 and exploration and evaluation assets represent an integral part of the underlying reserves.
- (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 **b) 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.

# EXILLON ENERGY PLC

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

### b) 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 whose useful life is shorter than the lifetime of the field (roads, pipelines, pumps etc), in which case the straight-line method is applied. Exploration and evaluation assets are only depreciated when the field is in production.

- (i) Producing wells, well pads and other producing items are depleted over Proved and Probable (2P) reserves on a field-by-field basis.
- (ii) Capitalised future decommissioning costs are depleted over Proved and Probable reserves (2P).
- (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.

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 acquisition 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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 can not be reversed in a subsequent period.



# EXILLON ENERGY PLC

## NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

### 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 to sell. As the company is in the development phase, recoverable amount is based on fair value less costs to sell 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.

**Financial instruments** - Eurobonds are non-derivative financial assets with fixed coupon receipts. The financial instrument is measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate. The Group's financial instruments also include accounts receivable and payable, and borrowings.

### *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.

**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.

The primary factors 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.

**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.

## **EXILLON ENERGY PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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 costs using the effective interest method.

**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.

**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 tax currently payable 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.

The tax currently payable 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 income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income 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.

## **EXILLON ENERGY PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

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

Deferred income tax is provided on arising 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.

Tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

***Pensions and post-employment benefits*** - Wages, salaries, mandatory defined contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

***Share based payments*** – the existing share awards are classified as equity-settled share-based payment arrangements, since employee services are received as consideration for Company's own equity instruments (shares) with no liability or alternative to transfer cash or other asset. The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense over the vesting period of the award, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share awards, which is equal to the share price quoted on London Stock Exchange at the date of grant. Performance conditions established for conditional share awards do not relate to market conditions, and were not taken into account when estimating the fair value of the share awards at the grant date.

***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 goods or services relating to the advance or prepayment are expected to be obtained after one year, or 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 expenses relating to the advances or prepayments are incurred. 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. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. Interest income is recognised on a time-proportion basis using the effective interest method.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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.

Details of the Group's significant accounting judgments and 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 after 2027. These provisions have been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believe 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 2013, undiscounted value of estimated future cash outflows is estimated at \$6,851 thousand (2012: \$3,564 thousand);
- Expected timing of future cash outflows – the majority of the expenditure is expected to take place in a range between 2026 and 2038 (2012: between 2027 and 2038);
- Discount rate –8% per annum (2012: 8%);
- Inflation rate – 2-5% per annum (2012: 3-7%).

If the discount rate had increased by 1% to 9% at 31 December 2013, the decommissioning liability would have been \$357 thousand lower (2012: \$236 thousand lower).

*Exillon WS:*

- As at 31 December 2013, undiscounted value of estimated future cash outflows is estimated at \$17,564 thousand (2012: \$14,653 thousand);
- Expected timing of future cash outflows – the majority of the expenditure is expected to take place in 2025 (2012: between 2027 and 2038);
- Discount rate –8% per annum (2012: 8%);
- Inflation rate – 2-5% per annum (2012: 3-7%).

If the discount rate had increased by 1% to 9% at 31 December 2013, the decommissioning liability would have been \$984 thousand lower (2012: \$976 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

## **EXILLON ENERGY PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

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 are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. 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 and provision for decommissioning) 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 income.

Proved and Probable reserve estimates of the Group as of 31 December 2012 were based on the reports prepared by Miller and Lents Ltd, independent engineering consultants.

As at 31 December 2013, the net carrying amount of oil and gas properties and related cost of production licence was \$501,977 thousand (2012: \$496,606 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. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies (Note 28).

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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).

Since 2013 Exillon Energy plc manages its business through two operating segments, Exillon TP and Exillon WS. In November 2012 all assets from Regional Resources, which represented the third operating segment in 2012, were transferred to other companies of the Group registered in Russian Federation. After that on 22 November 2012 the Company sold its ownership shares in Regional Resources to a third party with an insignificant gain. The trading role of Regional Resources was taken over by the companies of Exillon TP and Exillon WS to the extent of crude oil produced by the corresponding segment.

- 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.

Segmental information for the Group for the year ended 31 December 2013 is presented below:

	<b>Exillon TP</b>	<b>Exillon WS</b>	<b>Unallocated</b>	<b>Intersegment eliminations</b>	<b>Total</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Gross segment revenue	61,730	259,763	-	-	321,493
Inter-segment revenues	-	-	-	-	-
Revenue	61,730	259,763	-	-	321,493
Minerals extraction tax	(32,139)	(97,584)	-	-	(129,723)
Export duties	-	(43,274)	-	-	(43,274)
Transportation services - Transneft	-	(17,786)	-	-	(17,786)
Net back	29,591	101,119	-	-	130,710
EBITDA	15,343	71,745	(13,822)	-	73,266
Depreciation and depletion	8,837	15,944	399	-	25,180
Finance income	(162)	(1,047)	(1,636)	-	(2,845)
Finance cost	113	802	-	-	915
Operating profit/(loss)	6,547	55,161	(24,745)	-	36,963
Capital Expenditure	44,890	63,490	-	-	108,380

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

Segmental information for the Group for the year ended 31 December 2012 is presented below:

	<b>Exillon TP</b>	<b>Exillon WS</b>	<b>Regional Resources</b>	<b>Unallocated</b>	<b>Intersegment eliminations</b>	<b>Total</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Gross segment revenue	51,886	250,042	1,922	-	-	303,850
Inter-segment revenues	-	-	-	-	(1,922)	(1,922)
Revenue	51,886	250,042	-	-	-	301,928
Minerals extraction tax	(25,312)	(74,496)	-	-	-	(99,808)
Export duties	-	(83,804)	-	-	-	(83,804)
Transportation services - Transneft	-	(14,778)	-	-	-	(14,778)
Net back	26,574	76,964	-	-	-	103,538
EBITDA	11,268	45,899	(120)	(10,955)	-	46,092
Depreciation and depletion	6,786	13,371	100	211	-	20,468
Finance income	(25)	(187)	(237)	(2,446)	-	(2,895)
Finance cost	95	392	-	3,674	-	4,161
Operating profit/(loss)	4,467	30,756	(227)	(16,205)	-	18,791
Capital Expenditure	40,597	45,822	75	-	-	86,494

The transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

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). In 2013, other significant one-off items included a loss of \$427 thousand arising on the write-off of capitalised workover of oil wells and \$130 thousand arising on the disposal of equipment as well as \$190 thousand of fair value adjustment of loan issued (Note 29, 30 and 32). The measure also excludes the effects of equity-settled share-based payments.

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

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

Reconciliation of profit/(loss) before income tax to EBITDA for the year ended 31 December 2013 is presented below:

	<b>Exillon TP</b>	<b>Exillon WS</b>	<b>Unallocated</b>	<b>Intersegment eliminations</b>	<b>Total</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Profit/(loss) before income tax	6,596	55,407	(23,110)	-	38,893
Finance income	(162)	(1,047)	(1,636)	-	(2,845)
Finance cost	113	802	-	-	915
Foreign exchange loss	-	41	3,897	-	3,938
Share based payment charge	-	-	6,438	-	6,438
Fair value adjustment of loan issued	-	-	190	-	190
(Gain)/loss on write-off of property, plant and equipment	(41)	598	-	-	557
Depreciation and depletion	8,837	15,944	399	-	25,180
<b>EBITDA</b>	<b>15,343</b>	<b>71,745</b>	<b>(13,822)</b>	<b>-</b>	<b>73,266</b>

Reconciliation of profit/(loss) before income tax to EBITDA for the year ended 31 December 2012 is presented below:

	<b>Exillon TP</b>	<b>Exillon WS</b>	<b>Regional Resources</b>	<b>Unallocated</b>	<b>Intersegment eliminations</b>	<b>Total</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Profit/(loss) before income tax	4,397	30,550	10	(17,432)	-	17,525
Finance income	(25)	(187)	(237)	(2,446)	-	(2,895)
Finance cost	95	392	-	3,674	-	4,161
Foreign exchange (gain)/loss	2	768	7	(4,152)	-	(3,375)
Share based payment charge	-	-	-	9,146	-	9,146
Loss on write-off of property, plant and equipment	13	1,005	-	44	-	1,062
Depreciation and depletion	6,786	13,371	100	211	-	20,468
<b>EBITDA</b>	<b>11,268</b>	<b>45,899</b>	<b>(120)</b>	<b>(10,955)</b>	<b>-</b>	<b>46,092</b>



**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

*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:

	<b>For the year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
<b>Domestic sales</b>		
Russian Federation	238,858	135,928
<b>Export sales</b>		
Germany	67,492	166,000
Netherlands	15,143	-
	<u>82,635</u>	<u>166,000</u>
<b>Total</b>	<b><u>321,493</u></b>	<b><u>301,928</u></b>

In 2013, the Group earned revenues each exceeding 10% of Group's revenues from three major customers of \$67,492 thousand (attributable to export sales), \$61,495 thousand and \$43,718 thousand (both attributable to domestic sales), reported by Exillon WS and Exillon TP segments.

In 2012, the Group earned revenues each exceeding 10% of Group's revenues from three major customers of \$166,000 thousand (attributable to export sales), \$51,634 thousand and \$31,319 thousand (both attributable to domestic sales), reported by Exillon WS and Exillon TP segments.

As at 31 December 2013 and 2012, non-current assets located outside the Russian Federation were insignificant.

**7. COST OF SALES**

	<b>For the year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
Minerals extraction tax	129,723	99,808
Depreciation and depletion	24,533	20,000
Salary and related taxes	7,212	6,819
Current repair of property, plant and equipment	4,458	4,300
Operating lease	4,012	1,600
Licence maintenance cost	3,996	4,115
Taxes other than income tax	3,536	2,138
Gas flaring penalties	2,944	4,113
Materials	2,720	3,175
Unused vacation accrual	334	141
Oil treatment and infield transportation	<u>301</u>	<u>880</u>
	183,769	147,089
Change in finished goods	<u>(266)</u>	<u>542</u>
<b>Total</b>	<b><u>183,503</u></b>	<b><u>147,631</u></b>

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**8. SELLING EXPENSES**

	<b>For the year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
Export duties	43,274	83,804
Transportation services – Transneft	17,786	14,778
Transportation services - trucking to Transneft	5,518	7,163
Other expenses	24	1,016
<b>Total</b>	<b>66,602</b>	<b>106,761</b>

**9. ADMINISTRATIVE EXPENSES**

	<b>Note</b>	<b>For the year ended 31 December</b>	
		<b>2013</b>	<b>2012</b>
		<i>\$'000</i>	<i>\$'000</i>
Salary and related taxes		7,146	10,221
Share based payment charge	27	6,438	9,146
Consulting services		5,232	1,839
Salary and related taxes through outsourcing		4,419	2,843
Business travel		1,583	1,904
Depreciation and amortisation		647	468
Operating lease		548	908
Communication services		489	465
Insurance		386	207
Unused vacation reserve		298	199
Employee benefit	29, 30	190	-
Accounting fees		174	170
Secretary services		173	31
Software		117	104
Bank services		116	206
Current office maintenance		111	142
Admission and annual fees to LSE and WSE		69	17
Other expenses		1,796	1,510
<b>Total</b>		<b>29,932</b>	<b>30,380</b>

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**10. OTHER INCOME/(EXPENSE)**

		<b>For the year ended 31 December</b>	
		<b>2013</b>	<b>2012</b>
		<i>\$'000</i>	<i>\$'000</i>
<b>Other income</b>			
Penalties received		232	1,209
Write-off of provision for decommissioning	23	106	-
Income on inventory sales		18	-
<b>Total other income</b>		<b>356</b>	<b>1,209</b>
<b>Other expense</b>			
Loss on write-off of property, plant and equipment		(557)	(1,062)
VAT under tax inspection		(121)	(1,020)
Bad debt write-off		(101)	(318)
Customs charges		-	(133)
Unused vacation		-	(125)
Other expense		(132)	(291)
<b>Total other expense</b>		<b>(911)</b>	<b>(2,949)</b>

The Group received the penalties from its suppliers as a result of their non-compliance with contractual terms.

**11. AUDITORS' REMUNERATION**

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

		<b>For the year ended 31 December</b>	
		<b>2013</b>	<b>2012</b>
		<i>\$'000</i>	<i>\$'000</i>
<b>Audit services</b>			
Fees payable to the Group's auditor for the review of interim financial statements and audit of annual financial statements		499	286
<b>Non-audit services</b>			
Other services		-	98
<b>Total</b>		<b>499</b>	<b>384</b>

Other non-audit services in 2012 relate to tax services received from the previous auditors, PricewaterhouseCoopers LLP before the appointment of Ernst & Young LLC.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**12. EMPLOYEE COSTS**

	Note	For the year ended 31 December	
		2013	2012
		\$'000	\$'000
Wages and salaries		16,326	17,233
Social tax		2,451	2,649
Share based payment cost	27	6,438	9,146
<b>Total</b>		<b>25,215</b>	<b>29,028</b>

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	
	2013	2012
Exillon TP	156	147
Exillon WS	238	194
Regional Resources	-	17
Head office	18	18
<b>Total</b>	<b>412</b>	<b>376</b>

**13. FINANCE INCOME**

	For the year ended 31 December	
	2013	2012
	\$'000	\$'000
Interest income on Eurobonds	-	75
Interest income on cash in bank	2,845	2,820
<b>Total</b>	<b>2,845</b>	<b>2,895</b>

**14. FINANCE COST**

	Note	For the year ended 31 December	
		2013	2012
		\$'000	\$'000
Write-off of borrowing costs	25	-	3,674
Unwinding of the present value discount on provision for decommissioning	23	915	487
<b>Total</b>		<b>915</b>	<b>4,161</b>

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**15. INCOME TAXES**

	<b>For the year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$ '000</i>	<i>\$ '000</i>
Current tax	8,743	6,856
Deferred tax	(1,496)	(1,473)
<b>Income tax expense</b>	<b>7,247</b>	<b>5,383</b>

The income tax rate applicable to the major part of the Group's income is 20% (2012: 20%), being the statutory income tax rate in the Russian Federation. In 2013, Exillon WS applied a 17% income tax rate (2012: 17%) due to the decreased regional budget component of income tax. The tax exemption was granted by local tax authorities and the availability of tax reductions for subsequent periods and the applicable tax rates will be determined annually after the end of reporting period. 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 the 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:

	<b>For the year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$ '000</i>	<i>\$ '000</i>
Profit before income tax	38,893	17,525
Theoretical tax charge at statutory rate 20%	7,779	3,505
- Effect of 0% tax rate for Cyprus, BVI and Isle of Man	2,264	(1,118)
- Unrealised gains on PPE transfer between subsidiaries	(94)	(4,525)
- Exchange differences arising on loans that form part of the Company's net investment in foreign subsidiaries	(2,266)	990
- Effect of 17% tax rate for Exillon WS (2012: 17%)	(1,293)	(769)
- Non-deductible interest expense	-	734
- Utilisation of previously unrecognised tax losses	857	6,566
<b>Income tax expense</b>	<b>7,247</b>	<b>5,383</b>

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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%:

	<b>31 December 2012</b>	<b>Charged to profit or loss</b>	<b>Translation difference</b>	<b>31 December 2013</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Tax effect of deductible temporary differences and tax loss carry forwards</b>				
Provision for decommissioning	(1,872)	(620)	153	(2,339)
Provision for unused vacation	(28)	-	2	(26)
Tax loss carry forward	(145)	(44)	14	(175)
Other	20	(27)	-	(7)
<b>Gross deferred tax asset</b>	<b>(2,025)</b>	<b>(691)</b>	<b>169</b>	<b>(2,547)</b>
<b>Tax effect of taxable temporary differences</b>				
Property, plant and equipment	70,178	(805)	(5,396)	63,977
<b>Gross deferred tax liability</b>	<b>70,178</b>	<b>(805)</b>	<b>(5,396)</b>	<b>63,977</b>
<b>Net deferred tax liability</b>	<b>68,153</b>	<b>(1,496)</b>	<b>(5,227)</b>	<b>61,430</b>
Reflected in the statement of financial position as follows:				
Deferred tax assets	-			177
Deferred tax liabilities	68,153			61,607

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2012 are:

	<b>31 December 2011</b>	<b>Charged to profit or loss</b>	<b>Translation difference</b>	<b>31 December 2012</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Tax effect of deductible temporary differences and tax loss carry forwards</b>				
Provision for decommissioning	(984)	(812)	(76)	(1,872)
Provision for unused vacation	(34)	8	(2)	(28)
Tax loss carry forward	(279)	137	(3)	(145)
Other	(15)	36	(1)	20
<b>Gross deferred tax asset</b>	<b>(1,312)</b>	<b>(631)</b>	<b>(82)</b>	<b>(2,025)</b>
<b>Tax effect of taxable temporary differences</b>				
Property, plant and equipment	66,880	(818)	4,116	70,178
Other	24	(24)	-	-
<b>Gross deferred tax liability</b>	<b>66,904</b>	<b>(842)</b>	<b>4,116</b>	<b>70,178</b>
<b>Net deferred tax liability</b>	<b>65,592</b>	<b>(1,473)</b>	<b>4,034</b>	<b>68,153</b>
Reflected in the statement of financial position as follows:				
Deferred tax assets	-			-
Deferred tax liabilities	65,592			68,153

The Group estimates that \$194 thousand (2012: \$206 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 tax losses are available for use for a period of 10 years. In addition, the Group estimates that \$1,286 thousand (2012: \$1,611 thousand) of the gross deferred tax liabilities relating to property plant and equipment will be reversed within 12 months from the financial position date. The Group estimates that all other deductible and taxable temporary differences will reverse after 12 months from the financial position date.

At 31 December 2013, the aggregate amount of temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, was \$42,358 thousand (2012: \$20,527 thousand).

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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 Group 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:

		<b>For the year ended 31 December</b>	
		<b>2013</b>	<b>2012</b>
		<i>\$'000</i>	<i>\$'000</i>
Net profit attributable to equity shareholders of the Group		31,646	12,142
Number of shares:			
Weighted average number of ordinary shares		157,654,158	157,351,278
Adjustments for:			
- Shares additionally issued for share awards	27	2,661,051	2,963,931
Weighted average number of ordinary shares for diluted earnings per share		160,315,209	160,315,209
<b>Basic (\$)</b>		<b>0.20</b>	<b>0.08</b>
<b>Diluted (\$)</b>		<b>0.20</b>	<b>0.08</b>



**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**17. PROPERTY, PLANT AND EQUIPMENT**

	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
<b>Historical Cost</b>						
<b>31 December 2011</b>	<b>437,316</b>	<b>6,361</b>	<b>10,396</b>	<b>41,149</b>	<b>50,518</b>	<b>545,740</b>
Additions	10,561	117	7	340	83,871	94,896
Transferred from construction in progress	53,516	-	46,994	6,790	(107,300)	-
Disposals	(982)	-	-	(628)	(13)	(1,623)
Translation difference	25,105	387	885	2,173	2,722	31,272
<b>31 December 2012</b>	<b>525,516</b>	<b>6,865</b>	<b>58,282</b>	<b>49,824</b>	<b>29,798</b>	<b>670,285</b>
Additions	7,487	-	10	2	109,970	117,469
Transferred from construction in progress	45,597	-	55,450	2,658	(103,705)	-
Disposals	(649)	-	-	(247)	(9)	(905)
Translation difference	(33,085)	(494)	(1,552)	(3,114)	(7,961)	(46,206)
<b>31 December 2013</b>	<b>544,866</b>	<b>6,371</b>	<b>112,190</b>	<b>49,123</b>	<b>28,093</b>	<b>740,643</b>
<b>Accumulated depreciation and depletion</b>						
<b>31 December 2011</b>	<b>(15,928)</b>	<b>-</b>	<b>(1,409)</b>	<b>(4,980)</b>	<b>-</b>	<b>(22,317)</b>
Charge for the period	(12,884)	-	(1,500)	(6,084)	-	(20,468)
Disposals	-	-	-	182	-	182
Translation difference	(98)	-	(65)	(263)	-	(426)
<b>31 December 2012</b>	<b>(28,910)</b>	<b>-</b>	<b>(2,974)</b>	<b>(11,145)</b>	<b>-</b>	<b>(43,029)</b>
Charge for the period	(15,111)	-	(5,420)	(4,649)	-	(25,180)
Disposals	221	-	-	100	-	321
Translation difference	911	-	208	535	-	1,654
<b>31 December 2013</b>	<b>(42,889)</b>	<b>-</b>	<b>(8,186)</b>	<b>(15,159)</b>	<b>-</b>	<b>(66,234)</b>
<b>Net book value</b>						
<b>31 December 2011</b>	<b>421,388</b>	<b>6,361</b>	<b>8,987</b>	<b>36,169</b>	<b>50,518</b>	<b>523,423</b>
<b>31 December 2012</b>	<b>496,606</b>	<b>6,865</b>	<b>55,308</b>	<b>38,679</b>	<b>29,798</b>	<b>627,256</b>
<b>31 December 2013</b>	<b>501,977</b>	<b>6,371</b>	<b>104,004</b>	<b>33,964</b>	<b>28,093</b>	<b>674,409</b>

Decommissioning costs of \$9,074 thousand and \$7,360 thousand were included within oil and gas properties as of 31 December 2013 and 2012, respectively.

Cumulative capitalized borrowing costs of \$16,972 thousand and \$10,609 thousand were included within oil and gas properties as of 31 December 2013 and 2012, respectively. Total borrowing costs incurred during the year ended 31 December 2013 amounted to \$6,363 thousand and were capitalized in full.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

Exploration and evaluation assets as of 31 December 2013 and 2012 comprise the ETP VI licence acquired in February 2010 and 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 2013.

**18. INVENTORIES**

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
Crude oil	2,011	1,869
Spare parts	1,831	2,087
Fuel	703	302
Chemicals	450	338
<b>Total</b>	<b>4,995</b>	<b>4,596</b>

Inventories included no obsolete or slow-moving items as of 31 December 2013 (2012: nil).

**19. TRADE AND OTHER RECEIVABLES**

	<b>Note</b>	<b>As at 31 December</b>	
		<b>2013</b>	<b>2012</b>
			<i>\$'000</i>
Trade receivables		4,346	1,971
Allowance for doubtful debts	10	(62)	(53)
Net trade receivables		4,284	1,918
Taxes recoverable		3,153	13,749
Income tax receivable		161	445
Other receivables		117	896
<b>Current trade and other receivables</b>		<b>7,715</b>	<b>17,008</b>

Trade receivables are non-interest bearing and are normally settled within 10 days from the origination date.

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.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**20. OTHER ASSETS**

	Note	As at 31 December	
		2013	2012
		\$'000	\$'000
Prepayments (net of provision of \$90 thousand (2012: nil))	10	1,564	2,809
Prepaid expenses		1,456	909
Other		20	70
<b>Current other assets</b>		<b>3,040</b>	<b>3,788</b>

**21. SHORT-TERM LOANS ISSUED**

In September – November 2012 the Group has signed a number of preliminary agreements to process the acquisition of subsoil licences and certain other non-current assets of VenlockNeft LLC (“Venlock”) for a total consideration of \$2,719 thousand.

As a part of Venlock acquisition process in 2012 the Group issued a loan to a third party of \$2,719 thousand maturing in December 2013.

The acquisition process was completed in November 2013 with the recognition of the transaction as a purchase of assets.

**22. CASH AND CASH EQUIVALENTS**

	As at 31 December	
	2013	2012
	\$'000	\$'000
Cash on deposit (contractual interest rate 0.11 - 4.2% p.a.)	51,502	95,000
Cash on deposit (contractual interest rate 6.15 - 6.65 % p.a.)	34,573	9,877
Cash in bank (interest-free)	8,527	16,088
Cash on hand	3	-
<b>Total</b>	<b>94,605</b>	<b>120,965</b>

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**23. PROVISION FOR DECOMMISSIONING**

		<b>As at 31 December</b>	
		<b>2013</b>	<b>2012</b>
		<i>\$'000</i>	<i>\$'000</i>
	<b>Note</b>		
Balance at the beginning of the year		9,346	5,153
Additions		3,080	3,589
Write-off	10	(106)	-
Change in estimates		(718)	(367)
Unwinding of the present value discount	14	915	487
Translation difference		(829)	484
<b>Balance at the end of the year</b>		<b>11,688</b>	<b>9,346</b>

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. Management believes that this estimate of the future liability is appropriate to the size of the fields.

**24. TRADE AND OTHER PAYABLES**

		<b>As at 31 December</b>	
		<b>2013</b>	<b>2012</b>
		<i>\$'000</i>	<i>\$'000</i>
Trade payables		9,124	7,819
Advances received		9,101	8,410
Salary payable		508	949
Other payables		987	821
<b>Current trade and other payables</b>		<b>19,720</b>	<b>17,999</b>

Trade and other payables are non-interest bearing. At 31 December 2013, advances of \$9,101 thousand (2012: 8,410 thousand) relate to the receipts from customers for the sales in January 2014 (2012: January 2013).

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**25. BORROWINGS**

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
Credit Suisse	100,243	100,245
Less: current portion	(31,012)	(245)
<b>Long-term portion</b>	<b>69,231</b>	<b>100,000</b>

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

***Credit Suisse*** – On 10 September 2010, the Group agreed a loan facility of \$50 million with a term of 3.5 years. Interest is charged at LIBOR plus 7%.

The first repayment of principal was made in January 2012 in compliance with the repayment schedule.

In March 2012 the existing loan facility was replaced by a \$100 million loan facility with a term of 5 years. The loan bears an interest rate at LIBOR plus 6% and is repayable in equal quarterly installments beginning from March 2014. The interest is payable quarterly with the first payment made in June 2012.

Unamortised borrowing costs of \$1,514 thousand incurred in relation to the previous loan facility of \$50 million were written off to the statement of comprehensive income in March 2012.

Borrowing costs of \$2,160 thousand directly attributable to the extension of loan facility were immediately recognised in the statement of comprehensive income.

The loan is secured by a pledge of the 100% shares of certain Group's subsidiaries (Note 31): Ucatex Oil LLC, Kayumneft CJSC, Nem Oil CJSC, Komi Resources CJSC, Ucatex Ugra LLC, Actionbrook Limited, Claybrook Limited, Diamondbridge Limited, Lanarch Limited, Halescope Limited, Vitalaction Limited, Corewell Limited, Touchscope Limited, Silo Holdings Limited and Exillon Finance Limited.

The loan is also secured with future revenue under export contracts and cash balances from a bank account opened in CJSC Bank Credit Suisse (Moscow).

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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 \$'000	Share Premium \$'000
<b>As at 31 December 2011</b>	<b>161,510,911</b>	<b>1</b>	<b>272,116</b>
Issuance of shares	-	-	-
<b>As at 31 December 2012</b>	<b>161,510,911</b>	<b>1</b>	<b>272,116</b>
Issuance of shares	-	-	-
<b>As at 31 December 2013</b>	<b>161,510,911</b>	<b>1</b>	<b>272,116</b>

The total number of allotted ordinary shares is 161,510,911 with a par value of \$0.0000125 each. Shares issued include 3,765,624 shares, which are not paid and held by the EBT within the Group for further allocation to employees (Note 27).

**27. SHARE-BASED PAYMENT**

During the year ended 31 December 2011 3,137,401 share awards were granted to the new senior managers out of the Employee Share Plan, of which 115,377 share awards subject to non-market conditions relating to the satisfactory performance of the duties and a three year vesting period and 3,022,024 share awards are not performance-related but subject to the completion of three year's service with any dealings prohibited during that period. All granted share awards are equity-settled arrangements, since the Company has no liability or alternative to transfer cash or other asset as the means of settlement. The fair value of the share awards was determined by reference to the share price quoted on London Stock Exchange at the date of grant. Performance conditions established for conditional share awards do not relate to market conditions, and were not taken into account when estimating the fair value of the share awards at the grant date.

As part of a redundancy programme in January 2012 early vesting was granted in respect of 138,826 restricted shares granted out of the IPO plan and 353,340 shares granted out of the Employee Share Plan; additionally 123,010 shares granted out of the Employee Share Plan were forfeited.

In December 2012 369,030 shares granted out of the IPO plan vested in compliance with the completion of three years' service by the employees.

In June 2013 another portion of 302,880 shares granted out of the IPO plan vested in compliance with the completion of three years' service by the employees.

Movements in the number of share awards outstanding are as follows:

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
At 1 January	2,963,931	3,948,137
Vested	(302,880)	(861,196)
Forfeited	-	(123,010)
<b>At 31 December</b>	<b>2,661,051</b>	<b>2,963,931</b>

As of 31 December 2013 and 2012 there were no exercisable share awards.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

Share awards outstanding at the end of the year have the following expiry dates:

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
June 2013	-	302,880
June 2014	123,010	123,010
July 2014	2,538,041	2,538,041
	<b>2,661,051</b>	<b>2,963,931</b>

The total expense arising from share-based payment transactions recognised for the period ended 31 December 2013 amounted to \$6,438 thousand (2012: \$9,146 thousand).

## **28. COMMITMENTS AND CONTINGENCIES**

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

<b>Nature of contract:</b>	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
Well construction	16,542	48,413
Gas programme	1,006	-
Oil reserves development work	2,328	6,060
Pipeline construction	490	1,729
Road construction and repair	-	242
Other	745	2,821
<b>Total</b>	<b>21,111</b>	<b>59,265</b>

**Leases** – the Group leases three wells and associated land plots from government agencies in the Russian Federation. The initial terms on all leases has expired as at 31 December 2011. The lease terms allow for continued lease renewal after expiry of the initial term. In continuing to use these 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. During the year ended 31 December 2012 two lease contracts out of three were extended till 2017 and 2038, respectively. In 2013 the contract for the third well was finally terminated.

The Group also leases apartments for offices at Exillon WS and Exillon TP. At the present time the annual payments arising on the leases are approximately \$391 thousand.

Minimum lease payments were as follows:

	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
Within one year	636	686
Two to five years	775	1,317
Later than five years	2,870	4,394
<b>Total</b>	<b>4,281</b>	<b>6,397</b>

## **EXILLON ENERGY PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**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. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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.

Russian transfer pricing legislation introduced on 1 January 1999 provided the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions where the transaction price differs from the market price by more than 20%. Controllable transactions included: transactions with interdependent parties (as determined under the Russian Tax Code), all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There was no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court has governed practice in this area.

In compliance with the new transfer pricing rules, which have been enacted in the Russian Federation from 2012, controllable transactions include export sales exceeding 60 million Roubles (approximately \$2 million) per calendar year and domestic transactions between related parties exceeding 3 billion Roubles (approximately \$105 million). The rule of 20% difference between transaction price and market price was abolished. Moreover, the new methods for determining arm's length prices were introduced with elaboration of previous pricing methods to harmonise them with OECD transfer pricing principles. The requirement for formal reporting of controllable transactions and preparation of documentation supporting arm's length prices was incorporated. Currently the impact of these changes cannot be reliably estimated.

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.

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 ratio that reflects changes in the rouble/dollar exchange rate and the depletion rate of the subject field. In January 2013 the base rate was increased to Rouble 470 per tonne of crude oil from Rouble 446 per tonne in 2012.

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.

**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.



**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

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 unutilised gas volumes exceeding this limit. In 2013 the applicable rate has increased to 12 from 4.5 in 2012. 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 preset rate of utilisation with a subsequent reduction of pollution tax payments.

**29. 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 loan receivable:

	<b>For the year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$ '000</i>	<i>\$ '000</i>
<b>Key Management personnel:</b>		
Interest-free loan for 5 years	310	-

Transactions with related parties during the period were as follows:

	<b>Note</b>	<b>For the year ended 31 December</b>	
		<b>2013</b>	<b>2012</b>
		<i>\$ '000</i>	<i>\$ '000</i>
<b>Key Management personnel:</b>			
Interest-free loan issued for 5 years	30, 32	310	-
Employee benefit	9	190	-
<b>Total</b>		<b>500</b>	<b>-</b>

The above transactions relate to the recognition of the interest-free loan issued to a member of key management personnel, which was recognised at fair value with the difference presented as employee benefit costs.

**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. Compensation of key management includes salary, other short-term benefits and share-based payments. Total compensation to key management personnel included in administrative expenses in the consolidated statement of comprehensive income was \$10,711 thousand for the year ended 31 December 2013 (2012: \$14,197 thousand).

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

Key management compensation is summarised below:

	Note	For the year ended 31 December	
		2013	2012
		\$'000	\$'000
Salaries and other short-term employee benefits, including bonuses		4,273	5,051
Share based payment	27	6,438	9,146
<b>Total</b>		<b>10,711</b>	<b>14,197</b>

### 30. 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.

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

The gearing ratios at 31 December 2013 and 2012 were as follows:

	Note	As at 31 December	
		2013	2012
		\$'000	\$'000
Total borrowings	25	100,243	100,245
Less: Cash and cash equivalents	22	(94,605)	(120,965)
Total net cash/(debt)		5,638	(20,720)
Total equity		568,917	567,534
Total capital		574,555	546,814
<b>Gearing ratio</b>		<b>1.0%</b>	<b>(3.8%)</b>

Under the terms of the new loan agreement (Note 25), the Group is subject to three financial covenants and a number of general covenants. The financial covenants are tested on a rolling 6 month basis from June 2012. The Group has complied with these covenants during 2013.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

*Major categories of financial instruments* – The Group has various financial assets such as trade and other accounts receivable, cash and cash equivalents, long-term loans issued. The Group's principal financial liabilities comprise borrowings, trade and other accounts payable.

	Note	As at 31 December	
		2013 \$'000	2012 \$'000
<b>Financial assets</b>			
Cash and cash equivalents	22	94,605	120,965
Trade and other receivables	19	4,401	2,814
Long-term loans issued	29	310	-
<b>Total financial assets</b>		<b>99,316</b>	<b>123,779</b>
<b>Financial liabilities</b>			
Trade and other payables	24	10,111	8,640
Borrowings	25	100,243	100,245
<b>Total financial liabilities</b>		<b>110,354</b>	<b>108,885</b>

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 arises from long-term borrowings and short-term bank deposits. Short-term bank deposits bear no significant interest rate risk due to short maturity. Group's borrowings are exposed to interest rate risk, which impact cash flows. If the interest rate had increased by 100 base points for the year ended 31 December 2013, interest paid would have been \$1,014 thousand higher (2012: \$1,000 thousand).

In 2013 and 2012, the Group's income is substantially independent of changes in market interest rates since borrowing costs were capitalized in full (Note 17).

*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 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 2013, the Group followed on prepayment scheme dealing with the majority of the customers and introduced the use of 110% bank guarantee of preliminary price for post-payment scheme. 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 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.

In 2013 the Group continued to follow previously adopted risk management policies in respect of efficient use of temporarily free cash surpluses, with the major part of cash being held on short-term deposits and VTB credit-linked deposits.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

Cash is placed in financial institutions which are considered to have minimal risk of default in compliance with independent rating agencies. The financial ability of financial institutions and overall market circumstances are continuously monitored by management.

		As at 31 December	
	Note	2013	2012
		\$'000	\$'000
<i>Cash and cash equivalents</i>			
Counterparties with external credit rating:			
Aaa(rus)* (Fitch)		39,055	-
Aaa.ru* (S&P)		20,000	55,877
A (S&P)		-	258
A1 (Moody's)		35,547	64,830
Cash on hand		3	-
<b>Total cash and cash equivalents</b>	<b>22</b>	<b>94,605</b>	<b>120,965</b>

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

The maximum exposure to credit risk is the carrying amount of trade and other receivables of \$4,401 thousand as of 31 December 2013 (2012: \$2,814 thousand).

Trade and other receivables included no amounts past due, but not impaired as of 31 December 2013 (2012: nil).

At 31 December 2013, trade receivables amounted to \$4,273 thousand (Note 19), with 100% due from a single customer.

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

	As at 31 December	
	2013	2012
	\$'000	\$'000
Balance at the beginning of the year	53	318
Bad debt expense	101	318
Bad debt write-off	-	(591)
Translation difference	(2)	8
<b>Balance at the end of the year</b>	<b>152</b>	<b>53</b>

**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.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

The maturity analysis of financial liabilities as at 31 December 2013 and 2012 is as follows:

<b>As at 31 December 2013</b>				
	<b>Within 3 months</b>	<b>Between 3 months and 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade and other payables	10,111	-	-	-
Salary payable	508	-	-	-
Borrowings	7,692	23,077	30,769	38,462
Interest payable	1,561	4,037	3,650	1,829
	<b>19,872</b>	<b>27,114</b>	<b>34,419</b>	<b>40,291</b>

  

<b>As at 31 December 2012</b>				
	<b>Within 3 months</b>	<b>Between 3 months and 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade and other payables	8,640	-	-	-
Salary payable	949	-	-	-
Borrowings	-	-	30,769	69,231
Interest payable	1,577	4,784	5,654	5,525
	<b>11,166</b>	<b>4,784</b>	<b>36,423</b>	<b>74,756</b>

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 31 December 2013, taking into account the reduction of interest rate to LIBOR plus 6% under the new loan facility terms (Note 25).

**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 foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

<b>As at 31 December 2013</b>					
	<b>US Dollars</b>	<b>RUR</b>	<b>EUR</b>	<b>GBP</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Long-term loans issued	-	359,028	1,095	-	<b>360,123</b>
Trade and other receivables	-	2	10	-	<b>12</b>
Prepayments	37	-	-	-	<b>37</b>
Cash and cash equivalents	1,003	8	-	1	<b>1,012</b>
<b>Total monetary assets</b>	<b>1,040</b>	<b>359,038</b>	<b>1,105</b>	<b>1</b>	<b>361,184</b>
Long-term borrowings	-	135,466	1,095	-	<b>136,561</b>
Trade and other payables	188	-	13	247	<b>448</b>
<b>Total monetary liabilities</b>	<b>188</b>	<b>135,466</b>	<b>1,108</b>	<b>247</b>	<b>137,009</b>
<b>Net financial position</b>	<b>852</b>	<b>223,572</b>	<b>(3)</b>	<b>(246)</b>	<b>224,175</b>

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**As at 31 December 2012**

	<b>US Dollars</b>	<b>RUR</b>	<b>EUR</b>	<b>GBP</b>	<b>Total</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Long-term loans issued	-	374,836	120	-	<b>374,956</b>
Trade and other receivables	1,951	-	3	-	<b>1,954</b>
Cash and cash equivalents	1	2	1	-	<b>4</b>
<b>Total monetary assets</b>	<b>1,952</b>	<b>374,838</b>	<b>124</b>	<b>-</b>	<b>376,914</b>
Long-term borrowings	5,600	141,423	-	-	<b>147,023</b>
Trade and other payables	3,013	-	1,238	-	<b>4,251</b>
<b>Total monetary liabilities</b>	<b>8,613</b>	<b>141,423</b>	<b>1,238</b>	<b>-</b>	<b>151,274</b>
<b>Net financial position</b>	<b>(6,661)</b>	<b>233,415</b>	<b>(1,114)</b>	<b>-</b>	<b>225,640</b>

At 31 December 2012 and 2013, Long-term loans issued and Long-term borrowings consist of foreign currency denominated inter-company balances.

The table below details the Group's sensitivity to strengthening or weakening of the Russian Rouble, EUR and GBP against the US Dollar by 20%, 9.41% and 7.5% as at 31 December 2013, respectively (2012: 11.04%, 10.62% and 8.85%, respectively). The analysis was applied to monetary items at the financial position dates denominated in respective currencies.

	<b>Russian Roubles – impact as at 31 December</b>		<b>EUR – impact as at 31 December</b>		<b>GBP – impact as at 31 December</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Profit or loss	1,093	679	-	(105)	(15)	-

The table below details the Group's sensitivity to strengthening or weakening of the US Dollar against the Russian Rouble by 20% as at 31 December 2013 and 10.72% as at 31 December 2012. The analysis was applied to monetary items at the financial position dates denominated in respective currencies.

	<b>US Dollar – impact as at 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i>\$'000</i>	<i>\$'000</i>
Profit or loss	4	(19)

**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 not based on observable market data (unobservable inputs) (Level 3).

The fair value of the long-term loan issued amounts to \$310 thousand. The gross amount of long-term loan issued is \$500 thousand. The difference between the fair value and the gross amount is the result of discounting over the expected timing of the cash collection.

**EXILLON ENERGY PLC**  
**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**31. CONTROLLED ENTITIES**

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

Name	Country of incorporation	Principal activity	Ownership/ proportion of ordinary shares as at	
			2013	2012
Ucatex Oil LLC	Russian Federation	Subsoil user	100%	100%
Kayumneft CJSC	Russian Federation	Subsoil user	100%	100%
Nord Oil CJSC	Russian Federation	Administration	-	100%
Nem Oil CJSC	Russian Federation	Subsoil user	100%	100%
Komi Resources CJSC	Russian Federation	Administration	100%	100%
Ucatex Ugra LLC	Russian Federation	Subsoil user	100%	100%
Aslador Oil CJSC	Russian Federation	Subsoil user	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%
Lanarch 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 LLC	Isle of Man	Treasury	100%	100%

In June 2013 all assets from Nord Oil CJSC were transferred to Nem Oil CJSC.