

EQUUS PETROLEUM PLC

Company Number 7766912

**ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2016**

EQUUS PETROLEUM PLC
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BUSINESS REVIEW

Equus Petroleum Plc (the "Company" or "Equus") is an independent oil and gas exploration and production company. Our focus is on finding and monetising oil in the Republic of Kazakhstan. Our key activities include exploration, selective development projects and growing high-margin production. Equus Petroleum B.V., a wholly owned subsidiary of Equus incorporated in the Netherlands, is the 100% owner of Kurnkol Trans Service LLP ("KTS"), a company incorporated and domiciled in Kazakhstan.

KTS is the holder of petroleum oil exploration licence number 1527 covering an area of approximately 1,653km² in the South Turgay basin of Kazakhstan ("Licence Area"). This exploration licence has already been extended until October 2017, and management is confident that it will be successful in its application to extend it further and obtain other licences in relation to exploration and production activities in the Licence Area as they are required. KTS already holds a 23 year production licence, granted in December 2014, for the Sarybulak oil field from which 65% of production is permitted to be exported. KTS also holds a pilot production licence for the Sorkol oil field. Both of these fields are in the Licence Area. The Board of Directors continues to be confident that the Licence Area contains further exploration prospects with considerable potential for development and Equus will further invest in its exploration and evaluation activities, with a view to identifying, evaluating and proving them.

KEY PERFORMANCE INDICATORS ("KPIs")

The Group's KPI results for the year ended 31 December 2016 were as follows:

	2016	2015
Crude oil sales volumes (mbbl)	1,573	1,932
Crude oil sales revenues (US\$000) ⁽¹⁾	32,031	38,145
Average realised price per bbl (US\$ per bbl)	20.4	19.7
Operating costs (US\$000) ⁽²⁾	7,317	12,763
Operating cost per bbl (US\$ per bbl)	4.7	6.6
Operating profit/(loss) before exceptional items (US\$000)	4,121	(7,665)
Operating profit/(loss) before exceptional items per bbl (US\$ per bbl)	2.6	(4.0)
Exceptional items (US\$000)	(2,287)	(2,185)
Net cash generated from operating activities (US\$000)	9,226	344
Total proved and probable (2P) reserves (mbbl)	31,330	39,661
Proved reserves (mbbl)	16,850	17,785
Probable reserves (mbbl)	14,480	21,876

(1) For the purposes of the KPI report, revenue for the year includes US\$0.3 million of test production revenue in excess of production costs from Kainar oil field (2015: US\$0.9 million from Kainar oil field) which is credited against capitalised cost of exploration assets, consistent with the Group accounting policy (see note 18 to the consolidated financial statements for further details).

(2) Operating costs equals cost of sales less depreciation and depletion (see note 7 to the consolidated financial statements).

FINANCIAL REVIEW

The Group reported a loss for the year of US\$0.8 million (2015: loss of US\$26.8 million). The Group's operating profit for the year was US\$1.9 million (2015: operating loss of US\$9.9 million) after writing off exploration and evaluation costs of US\$0.1 million (2015: US\$0.3 million) and impairment losses of US\$2.3 million (2015: US\$2.2 million).

FINANCIAL REVIEW (CONTINUED)

Revenue of US\$31.9 million from the sale of crude oil (2015: US\$37.3 million) is stated after a US\$0.3 million reduction for test production revenue credited to exploration and evaluation costs (2015: US\$0.9 million), consistent with the Group accounting policy (see note 18 to the consolidated financial statements for further details). The total Group revenue, including that from test production, was US\$32.2 million (2015: US\$38.1 million) from 1,572,869 barrels ("bbls") (2015: 1,931,960 bbls) of crude oil sold at an average realised price of US\$20.4 per bbl (2015: US\$19.7 per bbl). The reduction in sales volumes is related to a fall in production, which averaged 4,493 barrels of oil per day ("bopd") in 2016 as compared to 5,380 bopd in 2015. The decrease in production was mainly caused by the cessation of exploration activities and optimisation of choke flows in accordance with the recommendations of the Group's Design institute. The improvement in average sales price is related to the overall improvement of oil prices in international markets as well as in domestic markets.

Cost of sales was US\$15.2 million (2015: US\$24.0 million), of which the significant components were transportation costs of US\$1.3 million (2015: US\$3.9 million), depreciation and depletion of US\$7.9 million (2015: US\$11.3 million) and field operating costs of US\$4.2 million (2015: US\$7.5 million). Operating costs, excluding depreciation and depletion, increased from US\$6.6 per bbl in 2015 to US\$7.3 per bbl in 2016. The higher operating costs was mainly due to increased export volumes and consequently increased related export taxes. Operating netback in 2016 was US\$15.7 per bbl compared to US\$13.1 per bbl in 2015.

Administrative expenses were US\$4.6 million (2015: US\$10.6 million). The main reasons for the reduction were cost optimisations implemented by management in both London and Kazakhstan, the weaker KZT and the lower provision for impairment of trade and other receivables expensed during the year.

Selling expenses were US\$8.6 million (2015: US\$10.4 million). Selling expenses have decreased due to higher average foreign exchange rate of the US Dollar to the Kazakhstani Tenge in 2016 compared to 2015, despite the fact that customs excise duty on exports and transportation and terminals handling costs has increased due to higher export volumes in 2016.

Finance costs of US\$2.7 million (2015: US\$18.4 million) include a foreign exchange gain of US\$0.4 million (2015: losses of US\$15.2 million), which mainly relate to the US\$ denominated borrowings of KTS that decreased in value in KZT terms due to the strengthening of KZT during the year.

Management has recognised an impairment loss of US\$2.3 million in 2016 (2015: US\$2.2 million) in relation to poorer performing wells in the Sarybulak oil field (see notes 17 to the consolidated financial statements for further details). The impairment loss is included in exceptional items. Total assets decreased from US\$65.9 million at the end of 2015 to US\$60.8 million at the end of 2016 due to depreciation and impairments.

FINANCING ACTIVITIES

On 12 March 2015, the Group drew down the final US\$9.7million tranche, with a term of 76 months and an interest rate of 13% per annum, of the facility provided by Bank CenterCredit ("BCC") to finance its capital expenditure. In March 2016 BCC agreed to a reduction in interest rate from 13% to 10% on this loan. In addition, during 2015 the Group received an additional KZT denominated loan with an equivalent value of US\$1.3 million from BCC, with an interest rate of 17.2% per annum, as a part repayment of its debt to Central Asian Transport LLP. In July 2016 the Group restructured the \$1.3 million loan and as a result, the interest rate has been reduced from 17.2% to 7% per annum.

OIL AND GAS RESERVES

Starting from 2017 Oilfield Production Consultancies Ltd ("OPC"), the Group's independent engineering consultant and qualified competent person, prepared estimates of the Group's proved, probable and possible reserves as at 31 December 2016. The following commercial reserves will be used prospectively from 2017. The reserves and resources estimates have been prepared in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System ("PRMS").

The table below summarises the crude oil reserve estimates at the Sarybulak and Sorkol oil fields within the Licence Area as at 31 December 2015 and 31 December 2016 that are used for financial reporting purposes.

Mbbl	1P	2P	3P
As at 31 December 2015	17,785	39,661	56,561
Production	1,640	1,640	1,640
Reserve movements	705	(6,691)	(4,161)
As at 31 December 2016	16,850	31,330	50,760

Impairment of poorer performing wells at the Sarybulak and Sorkol oil fields had no material impact on the estimates of reserves and resources as at 31 December 2016 and 2015.

PRINCIPAL RISKS AND UNCERTAINTIES

The directors have identified the following principal risks and uncertainties in relation to the Group's financial and operational performance:

Liquidity risk

The Group is exposed to liquidity risk, including the risk that trade creditors and/or bank loans cannot be increased further or that immediate settlement of outstanding balances will be required, and/or that other external sources of finance may not be available.

Impact

The Group may not have sufficient funds available for working capital, capital expenditure, acquisitions, dividends or other corporate purposes.

Action

Repayment schedules are agreed with major trade creditors. Management complies with the terms of lending arrangements provided by BCC as well as occasionally renegotiating those terms where appropriate. Where possible, capital expenditure commitments are deferred until funds are available. The Board of Directors monitors the net debt level of the Group taking into consideration the expected future outlook of the Group (see note 27 for further details).

Political risk

The Group's oil and gas exploration, development and production operations are in Kazakhstan. Accordingly, the Group is dependent on the social, political, economic, legal and fiscal conditions prevailing in Kazakhstan. The Government of Kazakhstan has actively pursued a programme of economic reform, helping to make it one of the most politically stable and economically developed countries in Central Asia.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Impact

Changes to Kazakhstan's foreign trade (export and import), foreign investments, currency exchange, property, tax, environmental and subsoil use regimes or social responsibility expectations or other changes that affect the supportive business environment in Kazakhstan could negatively affect the Group's business, financial position and performance and decisions on future investments.

Action

The Group continues to monitor the political, social and economic environment within Kazakhstan.

Health and safety

The exploration, development and production of hydrocarbons is a hazardous business with inherent risks.

Impact

Health and safety incidents could result in harm to the Group's employees as well as exposing the Group to fines and penalties and damaging its reputation.

Action

Policies and procedures are in place provide a clear framework for conducting business.

Environmental risk

The oil and gas industry is subject to environmental hazards, such as oil spills, gas leaks, ruptures and discharges of petroleum products and other hazardous waste substances. These environmental hazards could expose the Group to material liabilities for property damages, personal injuries, or other environmental harm, including costs of investigating and remediating contaminated properties. The Group is subject to and complies with stringent environmental laws in Kazakhstan with regard to its oil and gas operations, including a regulatory requirement to monitor and limit Field gas flaring under flaring permits.

Impact

Failure to comply with such laws and regulations could subject the Group to material administrative, civil, or criminal penalties or other liabilities.

Action

The Group continuously monitors the condition of its operational environment and was compliant with all material environmental and health and safety laws and permitting regulations during the year.

Related parties

The Group is reliant upon related parties for the supply of certain services, including all transportation and drilling services to KTS.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Impact

The Group is reliant upon the continued financial stability of the related parties. Any reduction in the financial stability of the related parties could expose the Group to a disruption in the supply of key operational services. The quality of services provided by the related parties is key to the success of the Group's operations and the costs charged by the related parties have a material effect upon the Group's financial results. Additionally, changes in the ownership structures of related parties may make it difficult to continue obtaining extended payment terms, thus exposing the Group to unexpected cash outflows.

Action

Management monitors the financial stability of related parties from whom it procures services. Terms of major contracts for services concluded with related parties are regularly renegotiated by management and are subject to review and approval by the Board of Directors.

Regulatory Approvals

Whilst the Group is confident of obtaining or renewing the licences and permits required to carry out its exploration, development and production activities, the application processes are subject to factors which are outside of the Group's control and which may result in delays or the failure to obtain the necessary approvals or renewals.

Impact

A delay in or failure to obtain or renew any of the licences or permits could have a material adverse effect on the Group's business and financial condition and its ability to complete its capital investments programme and meet its financial obligations as they fall due.

Action

The Group complies with the obligations of its existing licences and devotes considerable time and resources to ensure that it applies properly for all new licences and permits and their renewal.

Exploration and production risk

The Group's financial condition is dependent upon the success of its current and future exploration, development and production activities, which are all technically challenging activities that may be affected by unexpected geological and other factors.

Impact

Unsuccessful exploration, unreliable hydrocarbon reserve estimates and production results which differ from the Group's expectations could have an adverse effect on the Group's business and financial condition.

Action

The Group works with reputable qualified and technically experienced third parties to support its own geology and field management teams in preparing its planned work programmes and addressing technical issues as they arise.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Oil prices

Sales prices that can be achieved are affected by various factors, including the state of world commodity markets and the possibility of intervention and regulation of domestic prices by the Kazakhstani government.

Impact

Movements in sales prices impact the Group's revenues and may affect its estimates of economically viable hydrocarbon resources in the future.

Action

Domestic sales prices denominated in KZT are negotiated regularly by management, and reviewed by the Board of Directors. In 2015 the Group started exporting crude oil to benefit from the higher netbacks available internationally from US\$ denominated prices linked to Brent, which are not subject to the same foreign exchange risk as sales prices fixed in advance in KZT.

Taxation and other legislation

The petroleum tax and other legislation in Kazakhstan has only been in force for a relatively short period of time and is subject to frequent changes and varying interpretations, which may result in the Group's interpretation and application of tax legislation being challenged by the relevant tax authorities.

Impact

The Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations.

Action

The Group takes appropriate professional tax advice and works closely with the relevant tax authorities to ensure compliance. The Group has recently been subject to inspections by tax authorities in Kazakhstan with no significant adverse outcomes.

This report was approved by the Board of directors on 23 June 2017 and signed on its behalf by:

M S Imankulov
Executive Director and Chief
Executive Officer

23 June 2017

The directors present their report and the audited consolidated and company financial statements for the year ended 31 December 2016. Comparative information included in the directors report has been derived from the audited consolidated and company financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Company are hydrocarbon exploration, appraisal, development and production within the Republic of Kazakhstan ("Kazakhstan") and are discussed in the Strategic Report.

RESULTS AND DIVIDENDS

The Group's reported loss for the year of US\$0.8 million (2015: loss of US\$26.8 million). The directors have not recommended the payment of a dividend (2015: \$nil).

FUTURE DEVELOPMENTS

In 2017 management will be focusing on developing the exploration area, increasing production levels as well as increasing the proportion of crude oil produced sold directly into export markets and efficiently managing the existing production assets.

EVENTS AFTER THE BALANCE SHEET DATE

Significant events that have occurred since the balance sheet date are disclosed in note 32 to the consolidated financial statements.

FINANCIAL RISK MANAGEMENT

The Group is exposed through its operations to a number of financial risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policy for managing these risks is set by the key management of the Group and all such risks are managed at a Group level within the organisation (see note 27 to the consolidated financial statements for further details).

GOING CONCERN

Based on the current plans described in note 3.1 to the consolidated financial statements, and the current cash flow projections for the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore the annual financial statements continue to be prepared on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business for the foreseeable future. In making this judgment the Directors considered the Group's financial position, current intentions, cash flows from operations and access to financial resources. The financial statements therefore do not include the adjustments that would be necessary if the Group was unable to continue as a going concern.

However, as outlined in note 3.1 there is a material uncertainty which may impact the ability of the Group to continue as a going concern.

DIRECTORS

The directors of the Company who were in office during the year and up to the date of signing the consolidated financial statements are:

M S Imankulov	Executive Chairman and Chief Executive Officer
B M Abdramanov	Executive Director
S P Takirov (appointed 30 June 2016)	Executive Director
Dr S V Kurzin (resigned 18 February 2016)	Non-Executive Chairman
D J Shah, OBE (resigned 22 February 2016)	Non-Executive Director

Dr S V Kurzin and D J Shah resigned from the Board of Directors on 18 February 2016 and 22 February 2016 respectively.

G Abaidildinov served as Company Secretary until 30 November 2015, and B Fraser served as Company Secretary until 28 February 2017.

DIRECTORS' QUALIFYING THIRD PARTY AND PENSION INDEMNITY PROVISIONS

Indemnities have been in force throughout the year, and at the date these financial statements were approved, under which the Company has agreed to indemnify the Directors and Officers, to the extent permitted by the Companies Act 2006, against claims from third parties in respect of certain liabilities arising out of, or in connection with, the execution of their powers, duties and responsibilities as Directors and Officers of the Company or any of its subsidiaries. The Directors and Officers are also indemnified against the cost of defending a criminal prosecution or a claim by the Company, its subsidiaries or a regulator provided that where the defence is unsuccessful the Director must repay those defence costs. The Company has maintained Directors' and Officers' Liability insurance cover throughout the year.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

M S Imankulov
Executive Director and Chief Executive Officer
23 June 2017

EQUUS PETROLEUM PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group and Company, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

On behalf of the Board

M S Imankulov
Executive Director and Chief Executive
Officer

23 June 2017

Report on the financial statements

Our opinion

In our opinion:

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

Emphasis of matter - Group - Going concern

In forming our opinion on the group and company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the group's and company's ability to continue as a going concern. The group has net current liabilities and its continuation as a going concern depends, in the short term, on the degree to which the Group's largest trade creditors continue to provide extended payment terms and, in the longer term, both on the degree to which management can maintain and increase the current production rate and export volumes and on the conditions in international and Kazakhstan domestic oil markets. These conditions, along with the other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The group and company financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

What we have audited

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

- the Consolidated Group and Company Balance Sheets as at 31 December 2016;
- the Consolidated Group Statement of Comprehensive Income for the year then ended;
- the Consolidated Group and Company Statements of Cash Flows for the year then ended;
- the Consolidated Group and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006. In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

EQUUS PETROLEUM PLC
INDEPENDENT AUDITORS' REPORT (CONTINUED)

What an audit of financial statements involves (continued)

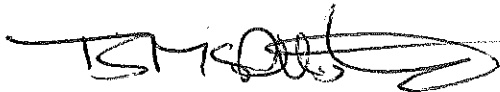
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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

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

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

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

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



Timothy McAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 June 2017

EQUUS PETROLEUM PLC
CONSOLIDATED GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

		GROUP	
		Year ended 31 December	
	Note	2016 US\$000	2015 US\$000
Revenue	6	31,870	37,310
Cost of sales	7	(15,186)	(24,026)
Gross profit		16,684	13,284
Administrative expenses		(4,633)	(10,596)
Selling expenses		(8,634)	(10,442)
Other income, net	8	781	368
Exploration costs written off	18	(77)	(279)
Impairment losses	17	(2,287)	(2,185)
Operating profit/(loss)		1,834	(9,850)
<i>Analysed as:</i>			
Operating profit/(loss) before exceptional items		4,121	(7,665)
Exceptional items	9	(2,288)	(2,185)
Operating profit/(loss)	10	1,833	(9,850)
Finance income	13	378	-
Finance costs	13	(3,029)	(18,410)
Loss before income tax		(818)	(28,260)
Income tax (expense)/benefit	14	(2)	1,423
Loss for the financial year		(820)	(26,837)
Other comprehensive expenses which may subsequently be reclassified to profit and loss:			
Exchange differences on translation of foreign operations		(1,129)	(1,661)
Total comprehensive expense for the financial year		(1,949)	(28,498)
Loss attributable to:			
- Owners of the parent		(510)	(26,318)
- Non-controlling interests		(310)	(519)
		(820)	(26,837)
Total comprehensive expense attributable to:			
- Owners of the parent		(1,639)	(27,979)
- Non-controlling interests		(310)	(519)
		(1,949)	(28,498)

The notes on pages 19 to 59 form an integral part of the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no separate statement of comprehensive income is presented in respect of the Company. The Company made a loss of US\$1.8 million in the year (2015: US\$3.2 million loss).

EQUUS PETROLEUM PLC
CONSOLIDATED GROUP AND COMPANY BALANCE SHEETS
AS AT 31 DECEMBER 2016

	Note	GROUP 31 December		COMPANY 31 December	
		2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Non-current assets					
Goodwill	16	2,139	2,101	-	-
Property, plant and equipment	17	50,976	56,030	-	39
Intangible assets	18	2,967	3,302	-	10
Investments in subsidiaries	19	-	-	29,535	29,536
Other non-current assets	20	1,581	2,535	-	-
		57,663	63,968	29,535	29,585
Current assets					
Inventories	22	1,696	884	-	-
Trade and other receivables	23	1,143	916	7,776	9,430
Current income tax assets		134	91	-	-
Cash and cash equivalents		161	41	81	6
		3,134	1,932	7,857	9,436
Total assets		60,797	65,900	37,392	39,021
Non-current liabilities					
Borrowings	24	(14,910)	(19,337)	-	-
Deferred income tax liabilities	21	(757)	(910)	-	-
Provisions for liabilities and charges	26	(5,059)	(4,537)	-	-
		(20,726)	(24,784)	-	-
Current liabilities					
Borrowings	24	(6,337)	(4,397)	-	-
Trade and other payables	25	(29,313)	(30,414)	(1,866)	(1,711)
Current income tax liabilities		(120)	(123)	-	-
Provisions for liabilities and charges	26	(330)	(262)	-	-
		(36,100)	(35,196)	(1,866)	(1,711)
Total liabilities		(56,826)	(59,980)	(1,866)	(1,711)
Net assets		3,971	5,920	35,526	37,310
Equity					
Share capital	28	2,757	2,757	2,757	2,757
Share premium		57,012	57,012	57,012	57,012
Other reserves		(10,424)	(9,295)	-	-
Accumulated loss		(44,169)	(43,659)	(24,243)	(22,459)
Equity attributable to owners of the Parent		5,176	6,815	35,526	37,310
Non-controlling interests		(1,205)	(895)	-	-
Total equity		3,971	5,920	35,526	37,310

The notes on pages 19 to 59 form an integral part of these consolidated financial statements.

The consolidated financial statements of Equus Petroleum Plc, registered number 7766912, were approved by the Board of Directors on 23 June 2017 and were signed on its behalf by:

Mr Murat S Imankulov
Director and CEO

EQUUS PETROLEUM PLC

CONSOLIDATED GROUP AND COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

Attributable to owners of the Parent

GROUP	Share capital US\$000	Share premium US\$000	Currency translation reserve US\$000	Retained earnings/ (Accumulated loss) US\$000	Total US\$000	Non- control- ling interests US\$000	Total equity US\$000
Balance at 1 January 2015	2,751	56,543	(7,634)	(17,376)	34,284	(341)	33,943
Loss for the year	-	-	-	(26,318)	(26,318)	(519)	(26,837)
Other comprehensive expense for the year	-	-	(1,661)	-	(1,661)	-	(1,661)
Total comprehensive expense for the year	-	-	(1,661)	(26,318)	(27,979)	(519)	(28,498)
Proceeds from shares issued	6	469	-	-	475	-	475
Non-controlling interest acquisition on business combination	-	-	-	35	35	(35)	-
Total transactions with owners of the Parent, recognised directly in equity	6	469	-	35	510	(35)	475
Balance at 31 December 2015	2,757	57,012	(9,295)	(43,659)	6,815	(895)	5,920
Loss for the year	-	-	-	(510)	(510)	(310)	(820)
Other comprehensive expense for the year	-	-	(1,129)	-	(1,129)	-	(1,129)
Total comprehensive expense for the year	-	-	(1,129)	(510)	(1,638)	(310)	(1,948)
Balance at 31 December 2016	2,757	57,012	(10,424)	(44,169)	5,176	(1,205)	3,971

EQUUS PETROLEUM PLC
CONSOLIDATED GROUP AND COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

COMPANY	Note	Share capital US\$000	Share premium US\$000	Accumulate d loss US\$000	Total US\$000
Balance at 1 January 2015		2,751	56,543	(19,223)	40,071
Loss for the year		–	–	(3,236)	(3,236)
Total comprehensive loss for the year		–	–	(3,236)	(3,236)
Proceeds from shares issued	6	469	–	–	475
Total transactions with owners of the Parent, recognised directly in equity		6	469	–	475
Balance at 31 December 2015		2,757	57,012	(22,459)	37,310
Loss for the year		–	–	(1,784)	(1,784)
Balance at 31 December 2016		2,757	57,012	(24,243)	35,526

The notes on pages 19 to 59 form an integral part of these consolidated financial statements.

EQUUS PETROLEUM PLC
CONSOLIDATED GROUP AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	GROUP Year ended 31 December		COMPANY Year ended 31 December	
		2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Cash flows from operating activities					
Loss before income tax		(818)	(28,260)	(1,784)	(3,236)
Adjustments for:					
Depreciation, depletion and amortisation	10	8,179	11,648	49	50
Gross margin credited to evaluation costs	18	291	971	-	-
Unsuccessful exploration and evaluation expenditures	18	77	279	-	-
Impairment charge	17	2,287	2,185	-	-
Finance costs/(finance income)	13	2,651	18,410	(404)	(488)
Increase/(decrease) in allowance for doubtful debts	10	(273)	973	-	-
Movements in working capital:					
Increase/(decrease) in trade and other receivables		(565)	(242)	177	(54)
Increase/(decrease) in inventories		(774)	4	-	-
(Increase)/decrease in trade and other payables		913	(2,345)	297	665
Cash generated from/(used in) operations		11,968	3,623	(1,665)	(3,063)
Interest received/(paid)		(2,552)	(3,236)	85	-
Income tax paid		(190)	(43)	-	-
Net cash generated from/(used in) operating activities		9,226	344	(1,580)	(3,063)
Cash flows from investing activities					
Expenditure on exploration and evaluation assets		(488)	(2,570)	-	-
Purchases of property, plant and equipment		(5,843)	(5,692)	-	-
Purchases of intangible assets		-	(26)	-	(26)
Net cash used in investing activities		(6,331)	(8,288)	-	(26)
Cash flows from financing activities					
Proceeds from borrowings		1,138	9,974	1,655	2,995
Repayment of borrowings		(3,918)	(2,338)	-	-
Net cash generated by financing activities		(2,780)	7,636	1,655	2,995
Net increase/(decrease) in cash and cash equivalents		115	(308)	75	(94)
Cash and cash equivalents at beginning of the year		41	446	6	100
Exchange profit/(losses) on cash and cash equivalents		5	(97)	-	-
Cash and cash equivalents at end of the year		161	41	81	6

During 2016 the Group made non-cash offsetting of trade and other payables to suppliers and advances received from customers according to tripartite cession agreements for the total amount of US\$0.6 million (Note 25).

The notes on pages 19 to 59 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Equus Petroleum PLC ("Equus" or the "Company") is a public limited company incorporated and registered in England and Wales on 8 September 2011. The Company's registered address is Tallis House, 2 Tallis Street, London, EC4Y 0AB.

The principal activities of the Group are hydrocarbon deposit exploration, appraisal, development and production within Kazakhstan.

The Group was formed on 1 June 2012 upon the acquisition by Equus Petroleum B.V., a wholly owned subsidiary of Equus incorporated in the Netherlands on 16 November 2011, of a 99.728% participatory interest in Kumkol Trans Service LLP ("KTS"), a company incorporated and domiciled in Kazakhstan, in an all-share transaction. Following the acquisition of the remaining 0.272% on 16 October 2015, Equus Petroleum B.V. became the 100% owner of KTS.

On 7 June 2013 KTS increased its participatory interest in Bozengen Gaz LLP ("BG") from 6% to 70% for nominal share value consideration (see note 19 for further details).

KTS is the holder of petroleum oil exploration licence number 1527 covering an area of approximately 1,653km² in the South Turgay basin of Kazakhstan ("Licence Area"), which it acquired through a government tender in 2004 and which expires on 15 October 2017 following a two year licence extension obtained during 2015. Management intends to apply for a minimum three year exploration licence renewal for the remainder of the Licence Area. The group is confident that the application will be successful.

On 25 December 2014, KTS was granted a production licence for Sarybulak Oil Field ("Sarybulak Production Licence"). The Sarybulak Production Licence was granted for a period of 23 years and covers an area of approximately 7 km² within the Licence Area.

In July 2015 KTS started exporting crude oil to international markets.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The disclosed policies have been applied consistently by the Group and Company for both the current and previous financial year with the exception of new standards adopted.

The following amended standards became effective from 1 January 2016, but did not have any material impact on the Group.

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted.

- IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).
- IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently, unless otherwise stated.

3.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), the Companies Act 2006 that applies to companies reporting under IFRS, and IFRS Interpretations Committee (IFRS IC) interpretations.

The consolidated financial statements have been prepared under the historical cost convention.

Going concern

At 31 December 2016, the Group had net current liabilities of US\$33.0 million and net debt of US\$21.1 million. The Group potentially faces a current and future cash shortfall reflecting a number of factors. During 2015 international oil prices declined significantly and while prices have stabilised in 2016, the price outlook remains uncertain. In addition, the Group has a certain level of minimum capital expenditure requirements in order to maintain production levels at its Kazakh fields. These factors may continue to negatively impact the Group's operating cash flow going forward, notwithstanding that progress has been made in mitigating the risk of a cash shortfall.

Management has implemented a number of cost saving programmes to reduce planned operational expenditure, general and administrative spend and capital expenditure in 2015 and 2016. The Group also continues to benefit from the bulk of its cost base being denominated in KZT, which has weakened during the year, while it enjoys US\$ denominated revenue from exports. The Group began exporting in 2015 following the granting of the Sarybulak production licence in December 2014. KTS is permitted to direct up to 65% of crude oil produced at the Sarybulak oil field to export markets although the actual proportion of export remains lower. Along with higher international oil prices this contributed to the Group generating positive operating cash flow in 2016. In addition, the Group has continued to negotiate extended payment terms on an informal basis with its largest trade creditors, the majority of which were related parties during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The success of the Group in improving its profitability and cash flow in the longer term will depend both on the degree to which management can maintain and increase the current production rate and export volumes, and on the conditions in international and Kazakhstan domestic oil markets. In the shorter term it will also depend on the degree to which the Group's largest trade creditors continue to provide extended payment terms

Given these factors are not wholly within the control of management, the Directors have concluded that a material uncertainty exists which casts significant doubt on the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would be necessary if the Group and Company were unable to continue as a going concern.

3.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. All intragroup balances, transactions, income and expenses and profits or losses, including unrealised profits arising from intragroup transactions, have been eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Companies and their subsidiaries after eliminating intragroup transactions as noted above. Uniform accounting policies are applied across the Group.

3.3. Foreign currency translation**i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The Group's transactions are denominated in a number of different currencies, primarily US Dollars ("US\$"), UK Pounds Sterling ("GBP") and Kazakhstan Tenge ("KZT"). The US\$ is the Company's functional currency as well as the Group's presentational currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in profit or loss within 'finance costs and income'. All other foreign exchange gains and losses are presented in profit or loss within 'other income/expenses'.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Group companies**

The results and financial position of all the Group entities that have a functional currency different from the presentational currency are translated into the presentational currency as follows: assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- (a) income and expenses for each income statement are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (b) all resulting exchange differences are recognised in other comprehensive income.

Set out below are the exchange rates to US Dollar applied by the Group for translating foreign currency balances and transactions:

	31 December 2016		31 December 2015	
	Spot	Average	Spot	Average
Kazakhstan Tenge	333.28	342.06	339.47	222.25
UK Pound Sterling	1.23	1.30	1.48	1.52
EURO	1.05	1.11	1.08	1.11

Goodwill and fair value adjustments arising on acquisition are treated as assets or liabilities of the foreign entity and translated at the closing rate.

3.4. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred over the net of the fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised, immediately in profit or loss as a bargain purchase gain. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or Group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3.5. Oil and gas assets

The Group applies the successful efforts method of accounting for exploration and evaluation ("E&E") costs, having regard to the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources". The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(a) Exploration and evaluation costs**

Exploration and evaluation costs, including payments to acquire the legal right to explore, costs of technical services and geological studies, seismic acquisition, exploratory drilling and testing, are capitalised within intangible assets, pending determination of proved reserves. Exploration and evaluation costs capitalised that are more than 12 months old are written off unless (a) proved reserves are booked, or (b) (i) they have found commercially producible quantities of reserves, and (ii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is underway or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of reserves and the economic and operating viability of the project. If potentially commercial quantities of hydrocarbons are not found, the exploration well is written off as a dry hole.

Costs incurred prior to obtaining legal rights to explore are expensed immediately to profit or loss.

Support equipment and facilities used in E&E activities (such as the Group's vehicles, and other property, plant and equipment used by the Group's exploration function) are classified as property, plant and equipment. To the extent that such support equipment and facilities are consumed in E&E activities, the amount reflecting that consumption are recorded as part of respective E&E cost. When exploration and evaluation activities on a field are substantially complete and proved reserves are determined, capitalised E&E costs, are transferred to property, plant and equipment as oil and gas property. E&E expenditure transferred to property, plant and equipment is subsequently depreciated on a unit of production basis.

(b) Oil and gas property

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets, as outlined in accounting policy 3.5(a) above. These assets are classified as oil and gas property within property, plant and equipment. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

(c) Depreciation of oil and gas property

As the production phase commences, the carrying value of the relevant E&E assets, after any impairment loss, will be reclassified as oil and gas properties within property, plant and equipment. The net book values of producing assets will be depleted using the unit-of-production method by reference to the ratio of production in the year and total proved reserves. The unit-of-production rate for the depletion of producing oil and gas assets takes into account expenditure incurred to date, together with the future capital expenditure expected to be incurred in relation to these producing oil and gas assets.

(d) Decommissioning and restoration

Provisions for decommissioning are recognised in full at the time that the environmental disturbance occurs. The amount recognised is the present value of the estimated future expenditure expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas property. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure is dealt with prospectively as an adjustment to the provision and the oil and gas property. The unwinding of the discount is included as a finance cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.6. Property, plant and equipment**

On initial recognition, land, property, plant and equipment are valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use and transferred to the appropriate category of property, plant and equipment.

Property, plant and equipment also includes oil and gas property, as specified in accounting policy 3.5 above. Land is not depreciated. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, except for oil gas property, which is depreciated on a unit-of-production basis. The estimated useful lives are as follows:

Buildings	5 – 25 years
Equipment and facilities	4 – 20 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against profit or loss when incurred. The cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.7. Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill – are not subject to amortisation and are tested annually for impairment. 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Exploration and evaluation assets are tested for impairment when reclassified to tangible assets, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proven oil and gas properties and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). These are largely independent of cash flows of the other Group assets. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8. Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of crude oil and refined petroleum products inventories includes applicable purchase costs of raw materials, direct operating costs, processing costs and related overhead expenses (based on normal operating capacity). It excludes borrowing costs. The cost of crude oil and refined petroleum products is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Materials and supplies inventories are recorded at weighted average cost and are carried at amounts which do not exceed their respective amounts recoverable in the normal course of business.

3.9. Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified as "loans and receivables".

Loans and receivables

Trade receivables, loans, cash and cash equivalents, and other financial receivables that have fixed or determinable payments that are not quoted on an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the recognised on an effective yield basis.

3.10. Prepayments

Prepayments are carried at cost less provision for any impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. 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 prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.11. Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

3.12. Restricted cash

Restricted cash balances comprise funds held in a separate bank account which will be used to finance the liquidation of the consequences of the Group's oil and gas operations. Cash balances that are subject to restrictions that expire after more than one year are classified under non-current assets.

3.13. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

3.14. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

3.15. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.17. Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and are charged to the income statement on a straight-line basis over the term of the lease. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Determining whether an arrangement contains a lease

The Group ensures that the following two requirements are met, in order for an arrangement transacted by the Group to be classified as a lease in terms of IAS 17 "Leases":

- The fulfilment of the arrangement is dependent on the use of a specific asset or assets (whether explicitly or implicitly stated in the contract); and
- The arrangement conveys the right to use the asset(s); i.e. the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. This will be the case if any one of the following conditions are met:
 - The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset;
 - The purchaser has the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset; and
 - There is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output or other utility of the asset and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit at the time of delivery.

The Group's assessment of whether an arrangement contains a lease is made at the inception of the arrangement, with reassessment occurring in the event of limited changes in circumstances as specified by IFRIC 4 "Determining whether an Arrangement contains a Lease".

3.18. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the balance sheet liability method, for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The tax base of decommissioning assets and liabilities is recognised by allocating future tax deductions to liability and the initial recognition exemption does not apply. A deferred tax liability is recognised in respect of the taxable temporary difference on the decommissioning asset and, subject to recognition criteria, a deferred tax asset is recognised in respect of the deductible temporary difference on the decommissioning liability.

3.19. Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for crude oil and hydrocarbon products, net of discounts, value added tax ('VAT') and other sales-related taxes, when the significant risks and rewards of ownership have been transferred.

Sales of crude oil and hydrocarbon products are recognised when the oil is delivered to customers and title has passed. For crude oil sales and refined petroleum products, this is at the physical point of delivery.

3.20. Exceptional items

Exceptional items comprise items of income and expense, including tax items, that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group's underlying financial performance. Examples of events giving rise to the disclosure of material items of income and expense as exceptional items include, but are not limited to, impairment events, significant business transformation activities, disposals of operations or significant individual assets, litigation claims by or against the Group and the restructuring of components of the Group's operations.

3.21. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**(a) Key sources of accounting judgements**

Many of the amounts included in the consolidated financial statements involve the use of judgment and/or estimation. These judgements and estimates are based on management's best estimate of the relevant facts and circumstances, having regard to previous experience, however actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimation is contained in the accounting policies and/or the notes to the consolidated financial statements and the key areas are summarised below.

Going concern

These financial statements have been prepared based on the assumption that the Group will continue as a going concern. As set out in note 3.1, in making this judgement the directors considered the Group's financial position, current intentions, cash flows from operations and access to financial resources.

Impairment of goodwill

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash-generating units, including management's estimates of crude oil reserves, long-term crude oil prices, operating costs and future capital expenditure. The carrying amount of goodwill and the key assumptions used in the calculation of value in use, and its sensitivity, of cash-generating units to which goodwill is attributed are disclosed in note 15.

Impairment of E&E and PP&E

E&E assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

Having assessed well testing results in the context of the lower oil price environment existing at year end, management has written off exploration and evaluation costs of US\$0.07 million in 2016 (2015: US\$0.23 million) relating to unsuccessful exploration activities at Sorkol oil field (see note 18 to the consolidated financial statements for further details).

As a further consequence of the lower oil price environment existing at year end, management has also performed an impairment assessment of oil and gas properties and as a result an impairment loss of US\$2.3 million (2015: US\$2.2 million) has been recognised in 2016, relating to poorer performing wells at the Sorkol oil field (see note 17 to the consolidated financial statements for further details).

Note 17 and 18 disclose the carrying amounts of the Group's property, plant and equipment and exploration and evaluation assets, respectively.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**Finance lease liability**

KTS signed an agreement for the construction of a second gas and light oil recovery plant with Ningxia Baota Petrochemical Group Design Institute ("Baota") for a total consideration of US\$13.4 million in September 2012. An initial payment of US\$4.0 million was made by KTS to Baota in October 2012.

In December 2012 KTS entered into an agreement with Eurasian Leasing LLP ("Eurasian") to finance the remaining outstanding Baota contract amount of US\$9.4 million, pursuant to which, a further payment of US\$4.0 million was advanced by Eurasian to Baota on 26 December 2012.

Management reviewed the terms of the agreement with Eurasian to determine whether the agreement qualified as a finance lease, as defined by IFRIC 4 "Determining whether an agreement contains a lease". KTS is liable to reimburse Eurasian for all expenses incurred in relation to the lease and financing advanced to Baota under the supplementary agreement, furthermore KTS is able to control the construction of the facility. Therefore management concluded that the contractual arrangements with Eurasian satisfy the criteria for recognition of a liability as there is a legal and constructive obligation to settle the lease payments effective from the date of the first advance payment by Eurasian to Baota. As a result, the Group has accounted for the liability as a finance lease with a commencement date of 26 December 2012 and continued adopting this treatment throughout the year ended 31 December 2016.

At 31 December 2016 the Group has recognised the present value of the lease liability of US\$1.7 million (31 December 2015: US\$1.8 million) as set out in the agreement with Eurasian in current and non-current borrowings (see note 24).

During 2014, as a result of the Group decision to mothball plans to commission the extension of gas processing facilities, the Group carried out a review of the recoverable amount of the second gas and light oil recovery plant. The review led to the recognition of an impairment loss of US\$12.7 million related to the plant, which includes cost of equipment and construction costs capitalised in relation to building the plant (note 17). The carrying value of the plant was impaired in full while the Group continues servicing the finance lease, which is recognised as a liability to the lessor and included in the balance sheet as a finance lease obligations. The impairment losses have been included in profit and loss in the exceptional items line item.

Allocation of goodwill to CGUs

Goodwill arising on the acquisition of KTS has been allocated to CGUs. There is no prescribed method for allocating goodwill and as a result management had to use their judgement in choosing a method to allocate goodwill to CGUs. The level at which the Board of Directors and management review goodwill is at the individual oil field level. Goodwill was allocated to the Sarybulak oil field being the sole producing field at the Acquisition date.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**(b) Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that affect the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial period, are discussed below.

Provision for future decommissioning and site restoration

The Group has decommissioning obligations in respect of its producing interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning work, and the discount rate to be applied to such.

Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These 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 upon when the fields start and then cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Estimation of oil reserves

Commercial reserves, classified as proved, probable and possible, are determined by OPC, the Group's independent competent person, using estimates of oil in place, recovery factors and future oil prices. Future development costs are estimated using assumptions as to numbers of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital and operating costs. The reserves and resources estimates have been prepared in accordance with the 2007 SPE/WPC/AAPG/SPEE Petroleum Resource Management System ("PRMS").

Proved reserves are the estimated quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically produced in the future. Proved reserves are estimated from known reservoirs, and under existing economic conditions, operating methods, and government regulation before the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

Proved and probable reserves are estimated by reference to available geological and engineering data and only include volumes for which access to the market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently uncertain, require the application of judgment and are subject to regular revision, either upward or downward, based on new information from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**Depreciation**

Oil and gas assets held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proved reserves and incorporating the estimated future capital expenditure to be incurred in relation to producing these assets. Future capital expenditure is estimated using assumptions as to the numbers of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs, together with assumptions on oil and gas realisations.

Tax

The Group is subject to the taxation requirements in the jurisdictions in which the Group operates. Significant judgement is required in determining the position for income taxes across these jurisdictions owing to the complexity of tax laws, frequent changes in tax laws and regulations, and the manner of their implementation. Judgement must also be exercised whilst interpreting the interaction between different taxes and interaction between tax rules of different jurisdictions.

Tax provisions are recognised by the Group in accordance with tax laws enacted or substantively enacted by the taxing jurisdictions and in accordance with requirements of the applicable accounting standards.

5. SEGMENTAL REPORTING

The Company's Board of Directors has been identified as the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

(a) Description of products from which reportable segment derives its revenue

The Group's operations comprise one class of business segment, being oil and gas exploration, development and production and the sale of hydrocarbons and related petroleum products. Accordingly the reportable operating segments are determined by the geographical location of the assets.

(b) Geographical information

There are currently two geographic reporting segments: Kazakhstan, which is involved in production, development and exploration activity, and Europe, related to the general management, financing and operation of the Group in the United Kingdom and the Netherlands.

Year ended 31 December 2016	Europe US\$000	Kazakhstan US\$000	Total US\$000
Revenue	–	31,870	31,870
Cost of sales	–	(15,186)	(15,186)
Gross profit	–	16,684	16,684
Administrative expenses	(2,206)	(2,427)	(4,633)
Selling expenses	–	(8,634)	(8,634)
Other income, net	–	781	781
Exploration costs written off	–	(77)	(77)
Impairment losses	–	(2,287)	(2,287)
Operating profit/(loss)	(2,206)	4,040	1,834
<i>Analysed as:</i>			
Operating profit/(loss) before exceptional items	(2,206)	6,327	4,121
Exceptional items	–	(2,288)	(2,288)
Operating profit/(loss)	(2,206)	4,039	1,833
Finance costs	404	(3,055)	(2,651)
Profit/(Loss) before income tax	(1,802)	984	(818)
Income tax expense	–	(2)	(2)
Loss for the year	(1,802)	982	(820)
Assets and liabilities			
Property, plant and equipment	–	50,976	50,976
Intangible assets	–	2,967	2,967
Cash and cash equivalents	88	73	161
Other segment assets	17	6,676	6,693
Total assets	105	60,692	60,797
Total liabilities	1,981	54,845	56,826
Other segment items			
Capital expenditure	–	6,833	6,833
Depreciation, depletion and amortisation	50	8,129	8,179

5. SEGMENTAL REPORTING (CONTINUED)

Year ended 31 December 2015	Europe US\$000	Kazakhstan US\$000	Total US\$000
Revenue	-	37,310	37,310
Cost of sales	-	(24,026)	(24,026)
Gross profit	-	13,284	13,284
Administrative expenses	(3,744)	(6,852)	(10,596)
Selling expenses	-	(10,442)	(10,442)
Exploration costs written off	-	(279)	(279)
Other income, net	-	368	368
Impairment losses	-	(2,185)	(2,185)
Operating loss	(3,744)	(6,106)	(9,850)
<i>Analysed as:</i>			
Operating loss before exceptional items	(3,744)	(3,921)	(7,665)
Exceptional items	-	(2,185)	(2,185)
Operating loss	(3,744)	(6,106)	(9,850)
Finance costs	-	(18,410)	(18,410)
Loss before income tax	(3,744)	(24,516)	(28,260)
Income tax credit	-	1,423	1,423
Loss for the year	(3,744)	(23,093)	(26,837)
Assets and liabilities			
Property, plant and equipment	39	55,991	56,030
Intangible assets	10	3,292	3,302
Cash and cash equivalents	25	16	41
Other segment assets	237	6,290	6,527
Total assets	311	65,589	65,900
Total liabilities	1,819	58,161	59,980
Other segment items			
Capital expenditure	26	8,262	8,288
Depreciation, depletion and amortisation	50	11,598	11,648

Transactions between segments are carried out at arm's length.

(c) Major customers

During the year, revenues from transactions with a single customer amounting to 10 per cent or more of the Group's revenues were attributable to the following customers:

- Natural Resources Trading B.V. with revenue of US\$12.8 million (2015: nil)
- KazMunaiTradeExpo LLP with revenues of US\$11.8 million (2015: US\$15.6 million);
- Petrochina International (Singapore) Pte. of US\$3.7 million (2015: US\$5.9 million); and
- Kush Kuat LLP with revenues of US\$3.3 million (2015: US\$6.7 million);

These revenues are attributable to crude oil sales on the domestic market in Kazakhstan and the export market to China and Uzbekistan.

6. REVENUE

GROUP	2016 US\$000	2015 US\$000
Revenue from crude oil sales	32,031	38,145
Revenue from liquefied gas sales	130	136
	32,161	38,281
Less: revenue credited to evaluation costs (note 18)	(291)	(971)
	31,870	37,310

7. COST OF SALES

GROUP	2016 US\$000	2015 US\$000
Field operating costs	4,229	7,484
Mineral extraction and other taxes	1,834	1,343
Transportation costs	1,253	3,936
Depreciation and depletion	7,870	11,263
	15,186	24,026

8. OTHER INCOME/(EXPENSES), NET

GROUP	2016 US\$000	2015 US\$000
Other income		
Lease of property	1,036	-
Resale of inventory	220	200
Other services provided	55	492
	1,311	692
Other expense		
Cost of lease of property	(116)	-
Cost of inventory for resale	(225)	(200)
Cost of services provided	(189)	(124)
	(531)	(324)
Other income, net	781	368

Proceeds from the resale of oil products and inventory is considered incidental to the Group's operations and as such is not included in revenue.

9. EXCEPTIONAL ITEMS

Exceptional items are events or transactions that fall within the activities of the Group and which by virtue of their size or incidence have been disclosed separately in order to improve a reader's understanding of the consolidated financial statements. Exceptional items recognised within operating profit / (loss) were as follows:

GROUP	2016 US\$000	2015 US\$000
Impairment losses		
Impairment of poor performing wells included in oil & gas assets (note 17)	2,287	2,185
Total impairment losses	2,287	2,185

10. OPERATING LOSS

Operating loss for the year has been arrived at after charging:

GROUP	2016 US\$000	2015 US\$000
Employee benefit expense (note 12)	4,467	8,790
Depreciation, depletion and amortisation (note 17)	8,179	11,648
Transportation costs	1,253	3,936
Impairment of oil & gas assets (note 17)	2,287	2,185
Exploration costs written off (note 18)	77	279
(Restoration of) / Provision for impairment of trade and other receivables (note 23)	(223)	973
Cost of inventory used in production	489	844
Operating lease	267	469
Auditors remuneration (note 11)	149	261

11. AUDITORS' REMUNERATION

The analysis of the auditor's remuneration is as follows:

GROUP	2016 US\$000	2015 US\$000
Fees payable to the company's auditor and their associates for the audit of the company's annual financial statements	65	125
Fees payable to the company's auditor and their associates for other services to the Group		
- the audit of the Company's subsidiaries	84	131
Total audit fees	149	256
- tax compliance services and regulatory tax reporting	19	5
Total non-audit fees	19	5

No services were provided pursuant to contingent fee arrangements.

12. EMPLOYEE BENEFIT EXPENSE

GROUP	2016 US\$000	2015 US\$000
Staff costs		
Wages and salaries	2,532	5,760
Social security costs	408	526
Pension costs	166	409
	3,106	6,695
Directors' emoluments		
Aggregate emoluments	1,361	2,095
Total staff costs	4,467	8,790

The highest paid director was paid emoluments of US\$308,000 during the year (2015: US\$380,000).

The monthly average number of employees during the year (including executive and non-executive directors) was 362 (2015: 500).

13. FINANCE INCOME AND COSTS

GROUP	2016 US\$000	2015 US\$000
Finance income		
Foreign exchange gain	378	-
	378	-
Finance expense		
Interest expense on bank borrowings	(2,392)	(2,666)
Unwinding of discount on provisions for liabilities and other charges (note 26)	(305)	(341)
Interest expense on finance lease	(332)	(402)
Foreign exchange loss	-	(15,224)
	(3,029)	(18,633)
Less: Interest expense capitalised on qualifying assets	-	223
Total finance costs	(3,029)	(18,410)
Net finance income / (costs)	(2,651)	(18,410)

14. INCOME TAX (EXPENSE) / CREDIT

GROUP	2016 US\$000	2015 US\$000
Current tax (expense) / credit	192	(92)
Deferred tax (expense) / credit	(194)	1,515
Income tax (expense) / credit	(2)	1,423

The Group's principal business activities are in Kazakhstan, where corporate income tax ("CIT") applies at a rate of 20% of taxable income. Taxes attributable to the production and sale of hydrocarbons are accounted for as cost of sales (see note 7). The Company has generated losses in the year and no deferred tax assets have been recognised with respect to such losses.

14. INCOME TAX (EXPENSE) / CREDIT (CONTINUED)

Tax on the Group's loss before tax differs from the theoretical amount that would arise using the UK statutory rate of 20% applicable to the loss of the Group, as follows:

GROUP	2016 US\$000	2015 US\$000
Loss before tax on continuing operations	(818)	(28,260)
Tax calculated at 20% ⁽¹⁾ (2015: 20.25%)	164	5,723
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	(71)
Net tax effect of expenses not deductible and income not taxable in determining taxable profit	(88)	(254)
Tax effect of tax losses for which no deferred income tax was recognised	-	(3,177)
Prior year adjustment	90	(1,201)
Other adjustments	(168)	403
Income tax (expense) / credit	(2)	1,423

⁽¹⁾ For 2016, the UK statutory rate was 20.0%. For 2015, the UK statutory rate for January to March 2015 was 21.0% and for April to December 2015 was 20.0%, giving a weighted average full year rate of 20.25%.

15. BUSINESS COMBINATION

On 16 October 2015, the Group, through its wholly owned subsidiary Equus Petroleum BV, acquired the residual 0.272% of the participatory interest in KTS and became 100% owner of the latter. The Company issued 767 thousand ordinary shares in consideration for the acquisition. The fair value of the consideration shares issued was CAD\$0.75 (US\$0.62) per ordinary share, resulting in an aggregate fair value of shares issued of US\$0.4 million.

The fair value of the consideration was based on the share price of a share issue to third party investors at the time of latest acquisition transaction. The share price of CAD\$0.75 is considered a reasonable estimate of the market value of Equus Petroleum shares at the acquisition date.

16. GOODWILL

The movement in goodwill during the year was as follows:

GROUP	US\$000
At 31 December 2014	3,775
Acquired in business combination	75
Translation difference	(1,749)
At 31 December 2015	2,101
Translation difference	38
At 31 December 2016	2,139

16. GOODWILL (CONTINUED)**Goodwill impairment testing**

In accordance with IAS 36 "Impairment of assets" the Group performed an impairment review of goodwill. The review compared the recoverable amount of goodwill for the Sarybulak CGU to the carrying value of the CGU including goodwill.

Key assumptions

The key assumptions used in the value in use ("VIU") calculation are:

- Estimated crude oil reserves;
- Long-term crude oil prices;
- Export/domestic sales ratio;
- Operating costs;
- Future capital expenditure; and
- Discount rates.

Estimated crude oil reserves represent management's expectations at the time of completing the impairment testing, based on reserves and resource statements and exploration and evaluation work undertaken by appropriately qualified independent persons.

Long-term crude oil prices are determined by reference to external market forecasts.

Export/domestic sales ratio is stipulated by the subsoil use licence and is set at 65% of export sales. Management has reached 31% export ratio in 2016, and expect 57% in 2017 and 65% afterwards.

Operating cost assumptions are based on management's best estimates at the date of impairment testing of the future costs to be incurred. Costs are determined after considering current operating costs, future cost expectations and the nature and location of the operation.

Future capital expenditure is based on management's best estimate of required future capital requirements, relating to the extraction of existing reserves and resources. It has been determined by taking into account all committed and anticipated capital expenditure adjusted for future cost estimates.

A post-tax discount rate of 17% was used to calculate the present value of projected cash flows.

Summary of results

No impairment charge resulted from the goodwill impairment review.

Sensitivity to changes in assumptions

The key assumptions to which the calculation of value in use is most sensitive are the long term oil prices, export/domestic sales ratio, future capital expenditures, operating costs and discount rates. Management believe that, currently, there are no reasonably possible changes in any of the key assumptions that would lead to the recoverable amount being below the carrying amount.

17. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land and buildings US\$000	Oil and Gas properties US\$000	Equipment and facilities US\$000	Construction in progress US\$000	Total US\$000
At 1 January 2015					
Cost	8,076	48,638	30,804	36,870	124,388
Accumulated depreciation	(873)	(22,547)	(4,649)	-	(28,069)
Net book amount	7,203	26,091	26,155	36,870	96,319
Year ended 31 December 2015					
Opening net book amount	7,203	26,091	26,155	36,870	96,319
Additions	1,599	2,587	4,058	11,486	19,730
Disposals	-	-	(149)	(67)	(216)
Transfers	65	12,830	13,968	(26,863)	-
Depreciation charge	(637)	(7,582)	(3,429)	-	(11,648)
Impairment losses	-	-	-	(2,185)	(2,185)
Translation difference	(3,228)	(14,463)	(17,309)	(10,970)	(45,970)
Closing net book amount	5,002	19,463	23,294	8,271	56,030
At 31 December 2015					
Cost	6,512	49,592	31,372	8,271	95,747
Accumulated depreciation	(1,510)	(30,129)	(8,078)	-	(39,717)
Net book amount	5,002	19,463	23,294	8,271	56,030
Year ended 31 December 2016					
Opening net book amount	5,002	19,463	23,294	8,271	56,030
Additions	-	751	271	5,651	6,673
Transfers	62	1,637	5,146	(6,845)	-
Disposals	(480)	(260)	(333)	(50)	(1,123)
Depreciation charge	(557)	(4,462)	(3,160)	-	(8,179)
Impairment losses	-	-	-	(2,287)	(2,287)
Translation difference	60	(794)	535	61	(138)
Closing net book amount	4,087	16,335	25,753	4,801	50,976
At 31 December 2016					
Cost	6,154	50,927	36,990	4,801	98,872
Accumulated depreciation	(2,067)	(34,591)	(11,238)	-	(47,896)
Net book amount	4,087	16,336	25,752	4,801	50,976

The impairment losses of US\$2.3 million during the year relates to the Sarybulak field, where dry wells have been identified. These assets were impaired in full and they belong entirely to the Kazakhstan reporting segment of the Group. The impairment losses have been included in profit and loss as part of exceptional items.

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

"Construction in progress" consists mainly of oil and gas properties and production facilities on the Sarybulak and Sorkol oil fields. Upon completion, the carrying values of the assets will be transferred to the relevant "Oil and Gas properties", "Land and buildings" and "Equipment and facilities" categories and depreciated in compliance with the Company's adopted accounting policies.

Property, plant and equipment is pledged as security to the secured loan facility entered into between Bank CenterCredit ("BCC") and Development Bank of Kazakhstan (together the "BCC Lenders") and KTS ("BCC Loan Facility"). Further details related to the BCC Loan Facility are set out in note 24.

COMPANY	Equipment and facilities US\$000
Year ended 31 December 2015	
Opening net book amount	72
Depreciation charge	(33)
Closing net book amount	39
At 31 December 2015	
Cost	63
Accumulated depreciation	(24)
Net book amount	39
Year ended 31 December 2016	
Opening net book amount	39
Disposals	(39)
Depreciation charge	-
Closing net book amount	-
At 31 December 2016	
Cost	-
Accumulated depreciation	-
Net book amount	-

18. INTANGIBLE ASSETS

GROUP	Exploration & evaluation assets US\$000	Other US\$000	Total US\$000
At 31 December 2014	7,673	1	7,674
Transfer to oil and gas properties	(59)	–	(59)
Additions	442	20	462
Write off of unsuccessful exploration costs	(279)	–	(279)
Gross margin credited to evaluation costs	(971)	–	(971)
Change in estimate of decommissioning assets	(86)	–	(86)
Translation difference	(3,436)	(3)	(3,439)
At 31 December 2015	3,284	18	3,302
Transfer to oil and gas properties	(317)	190	(127)
Additions	92	5	97
Write off of unsuccessful exploration costs	(77)	–	(77)
Gross margin credited to evaluation costs	(291)	–	(291)
Change in estimate of decommissioning assets	17	–	17
Amortisation	–	(4)	(4)
Translation difference	54	(4)	50
At 31 December 2016	2,762	205	2,967

The write off of unsuccessful exploration costs of US\$0.1 million during the year related to various additional expenses related to previous unsuccessful drilling and exploration activities at Sorkol prospects within the Exploration Licence.

The Group produced and sold “test crude oil” extracted from exploration and development wells on the Kainar oil field (test production) in order to evaluate the commercial viability of the oil field. The gross profit generated from these test production oil sales of US\$0.3 million is offset against the carrying value of exploration and evaluation assets (“E&E assets”) instead of being recognised in the Statement of Comprehensive Income. When gross profit from test production crude oil sales during any reporting period exceeds the carrying value of the E&E assets as at the end of that period, the excess is recognised in the Statement of Comprehensive Income.

COMPANY

Intangible assets on the Company’s balance sheet at 31 December 2016 which consisted of computer software and in accordance with IAS38 *Intangible Assets* were fully amortised during the year. (31 December 2015: cost price of US\$32,000 and accumulated amortisation of US\$22,000).

19. INVESTMENTS IN SUBSIDIARIES

At 31 December 2016 and 2015 investments in shares of the Company's subsidiary undertakings at cost comprised US\$29,535,000.

At 31 December 2016 and 2015 the principal subsidiary undertakings of the Company were:

Name	Nature of business	% held		Country of incorporation
		2016	2015	
Equus Petroleum BV	Holding	100	100	Netherlands
Kumkol Trans Service LLP	Oil & gas exploration and production	100 ¹	100 ¹	Kazakhstan
Bozengen gas LLP	Gas processing	70 ²	70 ²	Kazakhstan

1 - Indirectly held through Equus Petroleum BV

2 - Indirectly held through Kumkol Trans Service LLP

The directors believe that the carrying value of the investments is supported by the value of the underlying net assets.

Equus Petroleum BV shares are pledged as security to BCC Loan Facility (note 24).

20. OTHER NON-CURRENT ASSETS

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Advances to construction contractors	1,402	2,428	-	-
Restricted cash	48	44	-	-
Non-current inventory	131	63	-	-
	1,581	2,535	-	-

Advances to construction contractors

Advances were paid in cash to construction contractors for materials and construction works undertaken at the Sarybulak oil field, primarily for construction of electricity grids, intra-field roads and various other assets required to maintain on-going exploration and development of the oil and gas properties.

Restricted cash

Under the terms of its exploration licence, the Group is obliged to maintain a liquidation fund to finance the liquidation of the consequences of its oil and gas operations (note 31). The fund is maintained in a deposit account with Bank Centre Credit and is therefore reported as restricted cash. The carrying value of the fund at 31 December 2016 comprised US\$48,000 (31 December 2015: US\$44,000).

Non-current inventory

Inventory comprises materials which will be used in the exploration and development of the Group's oil and gas properties.

21. DEFERRED INCOME TAX LIABILITIES

The analysis of deferred tax liabilities is as follows:

GROUP	2016 US\$000	2015 US\$000
Deferred income tax liabilities		
- Deferred income tax liabilities to be incurred after more than 12 months	413	480
- Deferred income tax liabilities to be incurred within 12 months	344	430
	757	910

The gross movement on the deferred income tax account is as follows:

	US\$000
At 31 December 2014	4,671
Income statement credit (note 14)	(1,515)
Translation difference	(2,246)
At 31 December 2015	910
Income statement charge (note 14)	(194)
Translation difference	41
At 31 December 2016	757

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	1 JANUARY 2016 US\$000	Recorded in profit or loss US\$000	Translation difference US\$000	31 December 2016 US\$000
Intangible assets	(558)	(580)	(26)	(1,164)
Decommissioning provision	(960)	(98)	(20)	(1,078)
Property, plant and equipment	4,408	407	92	4,907
Other	(1,980)	77	(5)	(1,908)
Deferred tax liability	910	(194)	41	757

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets are recognised only to the extent that it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets if they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised, which can result in a charge or credit in the period in which the change occurs.

The Group did not recognise deferred income tax assets of US\$0.9 million (2015: US\$2.1 million) in respect of losses carried forward amounting to US\$4.6 million (2015: US\$10.5 million).

22. INVENTORIES

GROUP	2016 US\$000	2015 US\$000
Materials and consumables	542	575
Crude oil inventory	1,153	282
Refined products	1	27
	1,696	884

The cost of inventories recognised as an expense and included in "cost of sales" amounted to US\$0.5 million (31 December 2015: US\$0.8 million).

The Directors estimate that the carrying value of inventories approximated their net realisable value.

23. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Trade receivables	412	42	-	-
Prepayments	3,385	3,745	138	214
Other taxes receivable	158	172	-	-
Loans from the Company to its subsidiaries (Note 31)	-	-	7,634	9,205
Other debtors	23	15	-	4
Receivables from employees	6	7	4	7
	3,984	3,981	7,776	9,430
Less: provision for impairment of trade and other receivables	(2,841)	(3,064)	-	-
	1,143	917	7,776	9,430

Included in the Group's prepayments are advances made in cash to service providers required to maintain the current operations of the Group, being primarily payments in advance for future transportation services and oil well maintenance.

Loans to employees are interest free and have no fixed repayment terms.

Included in the provision for impairment of trade and other receivables as of 31 December 2016 are individually impaired prepayments with a balance of US\$2.2 million due from a construction contractor, Aziash LLP (2015: US\$2.5) and US\$0.6 million due from a construction contractor, Dimash Kurylys LLP (2015: US\$0.6) (note 31). The prepayments relate to construction works on the oil fields, mainly well maintenance, construction of oil processing facilities and construction of gas facilities, which the Group has not taken delivery of. Due to Aziash LLP and Dimash Kurylys LLP experiencing operating cash flow difficulties, these amounts have been impaired as there is not sufficient certainty that these amounts will be recovered in full.

Carrying amounts of trade and other financial receivables approximate their fair values.

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing of the trade receivables is as follows:

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2015 US\$000	2014 US\$000
Up to 3 months	412	42	-	-
3 to 6 months	-	-	-	-
	412	42	-	-

The Group and Company had no trade receivables which were past due.

The carrying amounts of the Group's financial trade and other receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
US\$	-	-	7,634	9,205
KZT	412	42	-	-
	412	42	6,933	9,205

24. BORROWINGS

GROUP	2016 US\$000	2015 US\$000
Non-current		
Bank borrowings	14,802	19,285
Finance lease liabilities	108	52
	14,910	19,337
Current		
Bank borrowings	4,767	2,675
Finance lease liabilities	1,570	1,722
	6,337	4,397
Total borrowings	21,247	23,734

BCC LOAN FACILITIES

The Group drew down US\$10.0 million in March 2015 subsequent to securing the Sarybulak Production Licence in December 2014.

During 2015 the Group received an additional KZT denominated loan with an equivalent value of US\$1.3 million from BCC, with an interest rate of 17.2% per annum, as a part repayment of its debt to Central Asian Transport LLP. In July 2016 the Group restructured the \$1.3 loan, as a result the interest rate has been reduced from 17.2% to 7% per annum.

FINANCE LEASE LIABILITIES

The Group entered into a finance lease agreement with Eurasian Leasing LLP ("Eurasian leasing") in December 2012 to finance the construction of a second gas treatment facility.

24. BORROWINGS (CONTINUED)

The finance lease bears interest at 14% per annum and is repayable in 70 monthly instalments which commenced in January 2013 with the final payment in 2019. Interest-only instalments of US\$262,000 and capital instalments US\$194,000 were paid during the year 2016. The Group has recognised US\$1.6 million in current and US\$0.1 million in non-current borrowings as at 31 December 2016.

On 29 April 2016, the management of the Group and Eurasian leasing agreed on prolongation of lease terms for 3 years until January 2019.

The facility is secured against the associated gas treatment facility assets.

GROUP	2016 US\$000	2015 US\$000
Gross finance lease liabilities - minimum lease payments:		
No later than 1 year	1,800	1,817
Later than 1 year and no later than 5 years	45	52
Later than 2 years	63	-
	1,908	1,869
Future finance charges	(230)	(95)
Present value of lease liabilities	1,678	1,774

The present value of finance lease liabilities is as follows:

GROUP	2016 US\$000	2015 US\$000
No later than 1 year	1,570	1,722
Later than 1 year and no later than 5 years	108	52
	1,678	1,774

The carrying amount of the Group's borrowings is denominated in KZT and approximates their fair value.

25. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Payables to suppliers and contractors	8,536	10,804	414	958
Advances received from customers	9,037	7,956	-	-
Accruals	8,632	9,718	-	361
Other taxes payable	1,242	1,044	-	152
Payables to employees	1,862	887	1,452	240
Other payables	4	5	-	-
	29,313	30,414	1,866	1,711

During 2016 the Group made non-cash offsetting of trade and other payables to related party suppliers YugnedraService LLP for the amount of \$0.5m and Bozingen Zholdary LLP for the amount of \$0.1m and advances received from related party customers Kush Kuat LLP for the amount of \$1.3m and KMNPZ LLP for the amount of \$0.01m according to tripartite cession agreements.

26. PROVISIONS FOR LIABILITIES AND CHARGES

	Decommissioning provision US\$000	Other US\$000	Total US\$000
GROUP			
Carrying amount at 1 January 2015	2,760	4,556	7,316
Changes in estimates and new provisions	2,511	1,438	3,949
Payments	-	(2,646)	(2,646)
Unused amounts reversed	(316)	-	(316)
Unwinding of discounts	261	80	341
Translation difference	(2,126)	(1,719)	(3,845)
	3,090	1,709	4,799
Non-current	3,090	1,447	4,537
Current	-	262	262
Carrying amount at 31 December 2015	3,090	1,709	4,799
Changes in estimates and new provisions	424	21	445
Payments	-	(229)	(229)
Unused amounts reversed	(33)	-	(33)
Unwinding of discounts	201	104	305
Translation difference	73	29	102
	3,755	1,634	5,389
Non-current	3,755	1,304	5,059
Current	-	330	330
Carrying amount at 31 December 2016	3,755	1,634	5,389

Decommissioning provision

The decommissioning provision represents the present value of decommissioning costs relating to the Sarybulak and Sorkol oil and gas properties.

The amount provided at 31 December 2016 was revised to include estimated decommissioning costs of new wells drilled in the year and for changes in local requirements. The timing of payments related to decommissioning provisions is uncertain and is dependent on various items which are not always within management's control.

The provision has been estimated using existing technology, at current prices, and discounted using a discount rate of 7.12%.

Other

Other provisions represent the present value of reimbursement of historical costs of US\$1.6 million which the Group will have to settle with the Kazakhstan government as per the terms of the Exploration Licence.

The Commercial Discovery Bonus for Sarybulak Production Contract was settled in April 2015 for a total amount of US\$2.2 million.

The provision for reimbursement of historic costs of US\$1.6 million was based on the agreement signed on 1 July 2004 with the Ministry of Energy and Mineral Resources of Republic of Kazakhstan. These costs represent all historic costs incurred by the Kazakhstan government for exploration of the Exploration licence. The repayment commenced from August 2014 when Sarybulak reserves were approved by the State Reserve Committee of the Republic of

Kazakhstan and is repayable in 40 quarterly instalments with final payment in 2024. The interest rate used to determine the balance sheet obligation at 31 December 2016 was 7.12%.

27. FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities

The directors have reviewed the consolidated financial statements and have concluded that there are no significant differences between the book values and the fair values of the assets and liabilities of the Group and Company as at 31 December 2016.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain sufficient financial flexibility in order to undertake its investment plans, and to optimise the weighted average cost of capital and tax efficiency.

To maintain or adjust the optimum capital structure, the Group may put in place new debt facilities, issue new capital for cash, repay or restructure existing debt, amend its dividend policy, or undertake other such restructuring activities as appropriate.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors capital on the basis of the gearing ratio, that is, the ratio of net debt to net debt plus equity. Net debt is calculated as gross debt, as shown in the balance sheet, less cash and cash equivalents and excludes finance lease liabilities.

GROUP	2016 US\$000	2015 US\$000
Borrowings, excluding finance lease liabilities	19,568	21,959
Less: Cash and cash equivalents	(161)	(41)
Net debt	19,407	21,918
Equity	5,176	6,815
Net debt ratio	375%	321%

Financial risk management

The Group's financial instruments comprise cash and cash equivalents, trade receivables, non-current receivables, trade and other financial payables and borrowings. The Group's accounting policies with regard to financial instruments are detailed in note 3. The Group does not speculate in financial instruments. The numerical disclosures in this note deal with financial assets and liabilities as defined in IFRS 7 "Financial Instruments: Disclosure".

The Group is exposed through its operations to a number of financial risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policy for managing these risks is set by the key management of the Group and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

Derivatives, financial instruments and risk management

The Group does not use derivative instruments or financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. The Group does not enter into hedging positions in respect of its exposure to foreign currency risk.

27. FINANCIAL INSTRUMENTS (CONTINUED)**Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing liabilities and commodity risks, all of which are exposed to general and specific market movements. Management does not set limits on the value of risk that may be accepted. However, management is on alert for significant market movements and takes these movements into account in their future dealings. Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Foreign currency risk management

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is mainly exposed to currency risks on certain bank deposits, debtors and creditors denominated in GBP and KZT.

The Group's exposure to foreign currency risk was as follows, based on US dollar equivalent carrying amounts at the reporting date:

	GROUP		COMPANY	
	GBP'000	KZT'000	GBP'000	KZT'000
Trade and other receivables	4	1,108	4	-
Cash and cash equivalents	6	51	6	-
Trade and other payables	(1,844)	(25,018)	(1,844)	-
Borrowings	-	(8,265)	-	-
Non-current assets	-	48	-	-
Net exposure	(1,834)	(32,076)	(1,834)	-

The following table presents sensitivities of profit and loss (after tax) and equity to changes in exchange rates applied at the end of the year relative to the functional currency of the Group, with all other variables held constant:

GROUP	2016 US\$000	2015 US\$000
KZT strengthening by 10% (2015: 20%)	(3,608)	(4,244)
KZT weakening by 10% (2015: 20%)	2,952	3,472

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to cash flow interest rate risk is nil since the Group does not have variable interest liabilities. The Group is exposed to fair value interest rate risk through its fixed rate borrowings.

The Group does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Group's business.

27. FINANCIAL INSTRUMENTS (CONTINUED)*Market operational risks*

The Group operates in Kazakhstan. The nature of the Group's operations requires the commitment of significant funding through its investment in oil & gas operations and exploration and evaluation expenditure in the Kyzylorda region, Kazakhstan. It is the nature of oil & gas operations that each project is long-term. It may be many years before the exploration and oil & gas development properties held by the Group are proven to be viable and for progress to reach commercial production. To control these risks the Group arranges for the provision of technical support, directly or through appointed agents, to these oil & gas development operations and also commissions technical research and feasibility studies both prior to entering into these commitments and subsequently over the life of these projects.

Market price risk

As an "unhedged oil producer" through its production, the Group is exposed to only market price risk.

The Group manages this risk with reference to annual budgets and periodic forecasts including sensitivity analyses of projected production rates and crude oil prices. This risk will continue to be closely monitored by the Group in future periods.

The Group will be exposed to the future effect of fluctuations in the market price of crude oil which is quoted in US dollars on the international markets for export sales and in Tenge for domestic sales with linkage to US dollars as well. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of prices of crude oil. The Group does not intend in the future to hedge its exposure to the risk of fluctuations in the price of crude oil.

Other price risk

The Group does not have any financial instruments which have a significant risk that their fair value or future cash flows will fluctuate materially because of changes in market prices other than those set out in this note.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk may arise as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets currently. The Group sells to a number of domestic customers in Kazakhstan and the credit risk arising from these sales is low as the Group is paid in advance at a fixed price for the future delivery of crude oil. The Group has adopted a policy of only dealing with creditworthy counterparties to mitigate the risk of financial loss from default. It is the Group's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

The credit risk on cash and cash equivalent balances is limited as the counterparties are banks with high credit ratings assigned by international ratings agencies.

27. FINANCIAL INSTRUMENTS (CONTINUED)

The Group and Company's maximum exposure to credit risk by class of assets is as follows:

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Financial assets within trade and other receivables	412	42	-	-
Cash and cash equivalents	161	41	81	6
Total maximum exposure to credit risk	573	83	81	6

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is monitored by the Group to ensure that it has sufficient resources to meet its financial obligations as they fall due.

The liquidity risk of the Group is managed by the Board. New borrowings are taken on where additional funds are required. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing. Where appropriate the board will seek additional funds from the issue of share capital, private or public placements.

The Group monitors its liquidity requirements through monthly management accounts and periodic cash flow forecasts.

The table below shows the Group and Company's financial liabilities at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

GROUP				
	On demand and less than 6 months US\$000	From 6 to 12 months US\$000	From 12 months to 10 years US\$000	Total future payments, including future principal and interest payments US\$000
Borrowings	3,711	3,711	19,036	26,458
Other provisions	165	165	5,059	5,389
Creditors	29,313	-	-	29,313
	33,189	3,876	24,095	61,160
COMPANY				
	On demand and less than 6 months US\$000	From 6 to 12 months US\$000	From 12 months to 5 years US\$000	Total future payments, including future principal and interest payments US\$000
Creditors	414	-	-	414

28. SHARE CAPITAL AND SHARE PREMIUM

	2016 US\$000	2015 US\$000
Authorised:		
282.3 million shares of US\$0.01 each	2,757	2,757
Issued and fully paid:		
282.3 million shares of US\$0.01 each	2,757	2,757

The Company has one class of issued share capital, comprising ordinary shares of CAD\$0.01 (US\$0.01) each.

29. OPERATING LEASE COMMITMENTS

The future minimum lease payments under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Not later than one year	122	367	30	291
Later than one year and not later than two years	-	333	-	333
Later than two years	-	1,138	-	1,138
	122	1,838	30	1,762

30. COMMITMENTS AND CONTINGENCIES**Operating environment**

In general, the economy of the Republic of Kazakhstan, where the Group operates its principal assets, continues to display characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices and other commodities, which constitute a major part of the country's export. These characteristics include, but are not limited to, the existence of a national currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

Low prices on oil and other commodities, ongoing political tension in the region and the volatility of exchange rates have caused, and may continue to cause, a negative impact on the economy of the Republic of Kazakhstan, including a decrease in liquidity and the creation of difficulties in attracting international financing.

On 20 August 2015 the National Bank and the Government of the Republic of Kazakhstan made a resolution about no longer continuing to support the exchange rate of Tenge and about the implementation of a new monetary policy, which is based on a inflation targeting regime, the cancellation of exchange rate trading band and the start of a free floating exchange rate. As a result, during the period of August-December 2015 the exchange rate of Tenge has varied from 187 to 350 Tenge per 1 US Dollar. As at the date of this report the official exchange rate of the National Bank of the Republic Kazakhstan was Tenge 313.9 per USD 1, compared to Tenge 333.29 per USD 1 as at 31 December 2016 (31 December 2015: Tenge 339.47 per USD 1). Therefore, uncertainty exists in relation to the exchange rate of Tenge and the future action of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In 2016 due to the lower oil price assumptions for mid-term future and given Kazakhstan's economy depends heavily on the oil sector, the agencies started downgrading Kazakhstan's sovereign credit ratings, with outlook on the long-term ratings being negative. The negative outlook reflects agencies' view of risks to Kazakhstan's external and monetary profiles under the current weak and volatile global commodity environment.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. This operating environment has a significant impact on the Company's operations and financial position. Management is taking necessary measures to ensure sustainability of the Company's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

Additionally, the oil and gas sector in the Republic of Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, controlling and political developments, which are beyond the Company's control.

Tax legislation

Kazakhstani tax legislation and practice are in a state of continuous development, and therefore are subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

Legal proceedings

The Group is subject to various environmental laws regarding the handling, storage, and disposal of oil and is subject to regulation by various governmental authorities. The Group is not aware of any current legal proceedings or other claims outstanding, which could have a material adverse effect on the result of operations or financial position of the Group, unless otherwise disclosed in these financial statements.

Contractual obligations

The Group is developing the Sarybulak and the Sorkol oil fields in the Kyzylorda region of Kazakhstan under the Exploration Licence.

The subsoil use right is not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant subsoil use agreement or licence. The right might be terminated by the Government of Republic of Kazakhstan if the Group does not satisfy its contractual obligations. Management believes it has substantially complied with all such contractual obligations. Pursuant to the terms of the Exploration Licence and Sarybulak Production Licence the Group has committed itself to the following contractual obligations:

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)*(a) Social and training obligations*

In accordance with the subsurface use contract, the Group is obliged to finance certain social infrastructure and training projects annually. The fulfilment of these obligations can be done by cash payments or contributions of similar value. The obligations are defined as 1% of the costs approved by the annual minimum work programme. These projects are aimed at satisfying local community needs and are generally spent for local projects for the population living in the area of exploration activities.

The Group believes that, even though its subsurface use contract specifies a minimal amount that has to be spent for social obligations, the funding of these projects is not substantially different than the funding of other costs of the exploration and production and should therefore be recorded when incurred. The Group believes that social obligations are directly related to the exploration and production activities and these obligations are not substantially different than the obligations for the minimum exploration or the annual work program. This view is supported by the terms of the exploration contract agreements which do not obligate the Group to fund any social obligations beyond the cancellation or termination of the contract. Therefore, no liabilities for social and training obligations in respect to future periods were recognised in these financial statements.

(b) Insurance

In accordance with the Exploration Licence, the Group is obliged to develop a business, property and liability risk insurance programme and submit it for approval to the regulatory authorities in Kazakhstan. Management believes that the Group, in all material respects, complies with the current legislation on obligatory insurances.

(c) Liquidation fund

The Group is obliged to establish a liquidation fund to finance the liquidation of the consequences of its oil and gas operations in the amount of 1% of total amount of investments during the period covered by the Exploration Licence. Contributions to the liquidation fund are made to a special deposit account in a commercial bank in the Republic of Kazakhstan.

As at 31 December 2016, the Group held US\$48,000 (2015: US\$44,000) in a separate account, which is recorded as restricted cash within other non-current assets (see note 20), for use as per the terms of the Exploration Licence.

The Group is also obliged to obtain Government approval of the programme on liquidation of consequences of its operations under the Exploration Licence, including a budget of liquidation costs, not later than 360 days before the expiration of the Exploration Licence. The Group has recorded a decommissioning provision for certain wells in these financial statements (see also note 26). Upon agreement with the Government, the liquidation fund will be used to finance site restoration commitments.

(d) Environmental monitoring

The Group monitors the condition of its operational environment on a continuous basis and documents its findings in a report that is agreed with the regional department of the Ministry for Environmental Protection of the Republic of Kazakhstan on a quarterly basis. The Group is subject to various environmental laws and regulations of Kazakhstan.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Group believes that it is in substantial compliance with the commitments set forth in the Exploration Licence. However, such compliance may be questioned by the relevant authorities, whose interpretations may differ significantly from those of the Group.

Capital commitments

As part of planned development of its oil and gas properties as at 31 December 2016, the Group entered into contractual commitments amounting to US\$0.5 million (2015: US\$8.5 million), mostly for seismic works and interpretations and the construction of field facilities within the Exploration Licence area.

31. RELATED PARTY TRANSACTIONS

The Group and Company has no ultimate controlling party. Equus Petroleum Plc is the Group's ultimate parent undertaking.

Related parties include the entities controlled by the Directors of Equus Petroleum plc and subsidiaries or associates of the Group. Related parties that the Group and Company entered into transactions with during the year include:

RELATED PARTY	NATURE OF OPERATIONS
KMNPZ LLP	Oil reloading services/purchase of petroleum products
Syrdaryamunai JSC	Oil field well drilling services
YugNedraService LLP	Oil field well drilling services
Central Asian Transport LLP	Transportation services
Shopan Ata LLP	Catering
Kush Kuat LLP	Sale of crude oil and petroleum products
Bozingen-Zholdary LLP	Field facilities construction and maintenance
Inkarim LLP	Catering
IP Imatayeva	Administrative office costs

Concentration risk: The Group is heavily dependent on its related parties. In particular, Syrdaryamunai JSC, YugNedraService LLP, and Central Asian Transport LLP are the sole providers of the specified services to the Group.

During the year, the Group and Company entered into the following transactions with related parties:

(a) SALE OF GOODS AND SERVICES

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Sale of crude oil	3,317	8,363	-	-
Operating lease	979	-	-	-
Sale of petroleum products and inventory	281	394	-	-
	4,577	8,757	-	-

31. RELATED PARTY TRANSACTIONS (CONTINUED)**(b) PURCHASES OF GOODS AND SERVICES**

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Transportation services	2,300	7,592	-	-
Drilling services	2,549	11,525	-	-
Drilled wells maintenance services	2,024	1,891	-	-
Road construction and maintenance	1,650	2,386	-	-
Purchase of petroleum products and inventory	87	123	-	-
Other	355	1,251	-	360
	8,965	24,768	-	360

(c) YEAR-END BALANCES ARISING FROM SALES/PURCHASES OF GOODS/SERVICES

	GROUP		COMPANY	
	2016 US\$000	2015 US\$000	2016 US\$000	2015 US\$000
Amounts owed by related parties				
Loans to and receivables from related parties	-	-	7,634	9,205
Advances to construction contractors, net of provision for impairment	757	1,869	-	-
Other	-	123	-	-
	757	1,992	7,634	9,086
Amounts owed to related parties				
Payables for drilling services	10,450	11,944	-	-
Advances received for future crude oil deliveries	2,388	1,738	-	-
Payables for transportation services	1,212	2,146	-	-
Other payables	367	667	215	246
	14,417	16,495	215	246

The amounts outstanding are unsecured and will be settled in cash with the exception of advances received from customers for future crude oil deliveries which will be settled by delivering crude oil. No guarantees have been given or received.

Provision for impairment of trade and other receivables include individually impaired prepayments with a balance of US\$2.8 million due from construction contractors, Aziash LLP and Dimash Kurylys (note 23), which are experiencing operating cash flow difficulties.

Company

Loans to related parties include a loan provided to KTS by the Company which is repayable on demand and bears interest at LIBOR plus 7%. KTS has drawn down US\$5.3 million at the balance sheet date (31 December 2015: US\$6.9 million) and interest of US\$0.3 million has accrued in the year (year ended 31 December 2015: US\$0.4 million).

31. RELATED PARTY TRANSACTIONS (CONTINUED)**(d) KEY MANAGEMENT COMPENSATION**

Key management as defined by IAS 24 "Related Party Disclosures" have been identified as the Board of Directors. Short term employee benefits of US\$1.4 million were paid to members of the Board during the year (2015: US\$2.1 million). As at 31 December 2016, outstanding salary payments to Directors amounted to US\$655,000 (2015: US\$320,400).

32. EVENTS AFTER THE BALANCE SHEET DATE

On 4 April 2017, KTS signed a sale-purchase agreement with Bozengen Gas, a subsidiary of the Company, concerning the acquisition of Gas Plant Phase 1 for total consideration of US\$2.5 million. The proceeds from sale will be offset by payable amount to KTS. The acquisition will be completed upon consent being received from Bank Center Credit, which owns a charge over the assets.