SHAPING THE FUTURE OF OIL EXPLORATION AND PRODUCTION IN AFRICA

Annual Report and Accounts 2016

LEKOIL is an Africa focused oil and gas exploration and production company with interests in Nigeria and Namibia.

The Company was founded in 2010 by a group of leading professionals with extensive experience in the international upstream oil and gas industry as well as in global fund management and investment banking.

CONTENTS

1 Highlights
3 Chairman's and CEO's statement
10 Financial review
12 Board of Directors
14 Directors' report
19 Remuneration report
21 Statement of Directors' responsibilities
22 Independent Auditor's report
26 Consolidated statement of financial position
27 Consolidated statement of profit or loss and other comprehensive income
28 Consolidated statement of changes in equity
29 Consolidated statement of cash flows
30 Notes to the financial statements
62 Company information

Our 2016 Annual Report is available in both printed form and on the Investors section of the LEKOIL plc website at:
www.lekoil.com

Timeline: Thinking differently

- Of the values to which we hold, perhaps the most vital of them has been our ability to think the thoughts others don't, and do the things others can't. That ability to live 'outside the box' has meant that, even in a difficult trading environment, LEKOIL has never been better placed to continue shaping the future of oil exploration in Africa.
- Our strategy has always been to build an exploration and production group, diversified across lower risk production assets and appraisal projects and higher risk exploration assets, in both known exploration basins and newly discovered basins as well as value-adding strategic partnerships in infrastructure.
- Yet part of our success has been in our response to the changing world around us, and in applying our strategy to the prevailing circumstances. That is why, as oil prices have fallen, we have taken action to ensure we remain secure.

2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017

December, 2010
LEKOIL is incorporated

June, 2012 Namibia
Blocks 2514A & B acquired

February, 2013
OPL310 Farm-Out Agreement signed

March, 2013
Pre-IPO fundraising is conducted

May, 2013
IPO raising US$50 million and admission to trading on AIM

June, 2013
Significant oil discovery from the high impact Ogo-1 well located on the OPL310 licence, offshore Nigeria.

July, 2013
Equity placing raises approximately US$20 million. The net proceeds used to fund the drilling and testing of the Ogo-ST the OPL310 licence, offshore Nigeria

October, 2013
Significant oil discovery from the Ogo-ST well located on the OPL310 licence offshore Nigeria

November, 2013
Equity placing raises approximately US$100 million. Net proceeds are used to fund the completion of drilling and testing of the Ogo-1 well, Ogo-ST well and future development of OPL310.

Significant resource upgrade at the Ogo prospect on the OPL310 licence, offshore Nigeria. Post discovery, net recoverable resources attributable to LEKOIL from the OGO field etimated to be 232 mmboe (P50)

March, 2014
3D seismic programme covering 1500 sq km commences on the OPL310 licence, offshore Nigeria

May, 2014
40% interest in Otakikpo Marginal Field on the OML11 licence, onshore Nigeria, acquired from Green Energy International

September, 2014
Otakikpo Marginal Field on the OML11licence, onshore Nigeria following a comprehensive review of subsurface data by AGR TRACS. Post Competent Persons Report, net 2C recoverable resources attributable to LEKOIL from Otakikpo estimated to be 20.43mmbbls

1st Quarter, 2015
Rig mobilisation in the Otakikpo Marginal Field, followed by construction and subsequent commissioning of production facilities

September, 2015
First Oil from production tests at Otakikpo ahead of schedule and significantly exceeding expectations

October, 2015
$46 million equity raise and acquisition of 62% economic interest in OPL 325

December, 2015
Acquisition of Afren's Interest in OPL 310 giving LEKOIL a 40% participating interest, subject to Ministerial Consent

April, 2016
LEKGAS set up as the gas midstream building strategic, commercial and technical partnerships

April, 2016
Otakikpo flow tests successfully completed at Otakikpo-002 and Otakikpo-003

October, 2016
$12.4 million equity raise to bring Otakikpo into commerical production

4th Quarter, 2016
Production to storage tanks begin

1st Quarter, 2017
Continuous commercial production begins at Otakikpo

March 2017
Advance payment facility with Shell in place

Highlights

- Continuous commercial production at Otakikpo with first lifting of oil marks the start of cash flow generation
- $15m Shell offtake facility secured on Otakikpo production provides liquidity to complete Phase 1 development and ramp up production to 10,000 bopd by year end
- The Otakikpo project has now recorded over one million hours with no lost time injuries
- Completion of interpretation of 3D seismic data acquired over the whole of OPL 310 which contains the Ogo discovery (774 mmboe P50 Gross Risked Prospective Resources)
- Planning for appraisal drilling of Ogo underway, with a prospective spud date in 1Q 2018, subject to agreement with potential financing partners
- MoU signed with GE Oil & Gas for the development of a work programme for the Ogo field
- Receipt of Ministerial Consent for transfer of initial 17.14% participating interest on OPL310 Farm-in
- Establishment of LEKGAS to monetise associated gas assets

Our strategy

LEKOIL's pan African strategy is focused on the Dahomey Basin, the Niger Delta and new basins that offer the scope for low cost entry but where the higher risks are balanced by potentially higher returns.

We have sought to create a balanced portfolio of exploration and production assets which seeks to:

- exploit overlooked opportunities in new and existing basins
- benefit from advantageous fiscal terms to indigenous companies
- develop and grow regional and intra-continental relationships
- make full use of our strong technical team and industry relationships
- take advantage of our strong relationships in investment markets internationally

OUR SHORTER TERM OBJECTIVES

- Commence and grow production from Otakikpo Marginal field.
- Bring additional wells online and build new processing facility at Otakikpo
- Further appraisal of OPL 310.
- Grow asset portfolio with value accretive acquisitions in line with corporate strategy.
- Namibia: Historical data review prior to basin study and new data acquisition.
- Build out Dahomey basin portfolio.

OUR LONGER TERM OBJECTIVES

- Continue phased implementation of Otakikpo development.
- Final Investment Decision for OPL 310.
- Add other producing assets – (marginal fields/acquire economic IOCs divestments).
- Pursue other opportunities in known basins.
- Execute other studies and add high-impact, promising exploration plays.

Chairman's and CEO's statement

We continue to execute our strategy of building a diversified African exploration and production group whilst maintaining the local community values and behaviours that we firmly believe set us apart from other oil and gas companies.

Otakikpo

We are delighted that our Otakikpo project has now achieved the Company's first commercial production, and we have received the proceeds of sale of the first lifting of oil. Transforming Otakikpo from an abandoned swamp site to a producing field including construction and commissioning of all the infrastructure necessary to evacuate the oil represented a significant challenge for LEKOIL as Financial and Technical Partner in the joint-venture with Green Energy International Limited, the Operator of Otakikpo Asset. A number of factors resulted in the start of commercial production at Otakikpo being delayed, which we successfully worked through.

The first of these was a problem encountered on the Otakikpo-002 well, where cementing issues resulted in the temporary suspension of the E1 zone. We consequently prioritised production from the second and third planned production zones, in the C5 and C6 reservoirs, and determined to pursue development options for the E1 zone in the future. Another factor was the necessary replacement of the original pipeline contractor after they proved unable to perform to our mutually agreed specification.

On 20 February 2017, we announced the start of commercial production, at 5,000 bopd – the rate agreed with the regulator. During optimisation, we encountered – as expected – a number of teething problems. including damage to the line connecting the offloading barge with the pipeline manifold offshore. As a result of this combined with limited storage capacity at the time, we throttled production back for a period to 3,000 bopd. These teething problems have now been successfully addressed and we are ramping up production once more. We are currently permitted to produce up to 8,000 bopd, our current production rate is 5,500 bopd, and are applying to the regulator via the Operator to increase production to 10,000 bopd steady state that we are targeting to deliver by the end of 2017.

This successful transition of LEKOIL to a producing business generating operating cash flow will, in the medium term, allow us to fund Phase 2 of Otakikpo's development which will lead to incremental production. Cash generated from Otakikpo will also enable us to appraise the potentially material upside in the licence area, including some new prospects to the north of Otakikpo which were identified from the interpretation of 2D and 3D seismic data during 2016.

Last, but by no means least, we are proud to report that the Otakikpo project has now recorded over one million hours with no lost time injuries. This is an exceptional achievement and we will continue to prioritise the safety of our staff and contractors.

OPL 310

We are currently exploring with Optimum the options for the appraisal of the world class Ogo discovery, following interpretation of the 3D seismic data acquired in 2015 over the entire block. LEKOIL, via its subsidiary Mayfair Assets and Trust Limited, farmed in to OPL 310 in May 2013, taking a 17.14% participating interest from Afren PLC in return for a contribution of $50 million towards an exploration well. This transaction was approved by the Operator Optimum, completed in May 2013 and was subject to Ministerial Consent. Post Afren's farm out, the participating interests in OPL 310 were: Optimum – 60%, Afren – 22.86%, LEKOIL – 17.14%. LEKOIL applied to the Ministry of Petroleum Resources for Ministerial Consent in 2013. In June 2017, we were delighted to announce that the Honourable Minister of State, Petroleum Resources of Nigeria, granted consent to complete the transfer of the original 17.14% participating interest that LEKOIL acquired in OPL 310 in February 2013.

In December 2015, LEKOIL's subsidiary LEKOIL 310 Limited acquired a further 22.86% interest in OPL 310 via the acquisition of the entire issued share capital of AIOGL, a subsidiary of Afren PLC, which was in Administration. Post this acquisition, and subject to Ministerial Consent, the participating interests in OPL 310 are: Optimum – 60% and LEKOIL – 40%. An application for the transfer of the interest was duly made by Afren Nigeria Holdings Limited ("Afren Nigeria") in January 2016. As the transaction was not undertaken on the basis of an Assigned Interest, approval by Optimum was not required under the JOA between Optimum and Afren. In March 2016, LEKOIL was notified by the Ministry of Petroleum Resources through the Department for Petroleum Resources (DPR) that the necessary due diligence exercise would be conducted that month. Due to scheduling conflicts this due diligence exercise was not conducted. LEKOIL asked for a new date but has not yet received one. Our remaining 22.86% participating interest in OPL 310, as announced on 1 December 2015, remains conditional upon receiving Ministerial Consent.

Since October 2015, LEKOIL has been negotiating the terms of a commercial agreement with Optimum to cover cost recovery for LEKOIL and reimbursement of Optimum's past costs.

In April 2017, we announced the signing of a Memorandum of Understanding ("MOU") with GE Oil & Gas, a subsidiary of General Electric Company (NYSE: GE) for the development of the Ogo field in OPL310. As part of the activities towards the development of the field, LEKOIL will leverage GE Oil & Gas equipment and technical expertise.

"Our two priorities in the current oil price environment are to focus our resources on growing our low cost production from Otakikpo and to appraise and monetise the resources in the shallow water Ogo discovery." **Samuel Adegboyega, Chairman**

Operations

"We established LEKGAS, a wholly-owned subsidiary of LEKOIL, to be the gas midstream vehicle of LEKOIL, building strategic, commercial and technical partnerships to unlock gas and gas-to-power opportunities initially in Nigeria, currently our primary country of operation."

Subject to the fulfilment of a number of conditions including a positive well result, GE Oil & Gas and LEKOIL, through its funding partners, intend to fund the full field development capital cost of the project which we currently estimate to be US$400m for full field oil development and US$600m for a subsequent upstream gas field development. GE Oil & Gas is expected to receive a percentage of LEKOIL's future cash flows from the Ogo Field, as well as the ability to supply its products and provide technical expertise throughout the life of the project. LEKOIL's 40% participating interest in OPL310 will remain intact and unaffected by the terms of the MoU.

At the time of writing, LEKOIL is in discussions with other potential partners for the financing of the OPL310 appraisal programme, which includes two appraisal wells, which we expect to commence in early 2018.

LEKGAS

We established LEKGAS, a wholly-owned subsidiary of LEKOIL, to be the gas midstream vehicle of LEKOIL, building strategic, commercial and technical partnerships to unlock gas and gas-to-power opportunities initially in Nigeria, currently our primary country of operation. To head up LEKGAS, we appointed Shola Adekeye as Managing Director. Shola has over 20 years' experience in the oil and gas industry, serving in various commercial and technical leadership roles in Nigeria, Venezuela, the USA and the UAE. Prior to joining us, Shola was Director of Corporate Strategy at Mubadala Petroleum where he oversaw the Strategy, Economics, Long-term Planning and Market Research functions. At LEKOIL, Shola is also responsible for the stewardship and implementation of our Corporate Strategy.

LEKGAS has a dual focus of monetising LEKOIL's equity gas globally as well as participating in the gas infrastructure space in Nigeria. As such, LEKGAS is structured to be any or all of developer, operator and investor in midstream gas assets to connect both equity and non-equity gas from the upstream (field location) to the downstream (wholesale customers). LEKGAS' participation in the midstream gas value chain will include gas gathering, treatment, transportation, processing and storage.

Financing

Corporately, there have been a number of achievements on the financing front. In June, we refinanced an existing US Dollar Notes facility ($) with FBN Capital and negotiated a new Naira facility (N) also with FBN Capital as we switched some capital expenditure at Otakikpo into local currency as the Naira depreciated. In September, we more than doubled the Naira tranche of the facility to Naira 4.5 billion (approximately US$14.8 million).

Given the then significant deterioration in the Nigerian currency markets in late 2016, and resultant negative impact on the local debt market, we determined that a relatively small equity raise would be the most appropriate way to finance the final expenditure needed to bring Otakikpo into commercial production. Consequently, we launched an accelerated book build which completed in mid-October and successfully raised approximately US$12.4 million at a price of 21p, a discount to the then share price of just 3.4 per cent.

At the end of March 2017, we announced that we had agreed a $15 million debt facility with Shell Western Supply and Trading Limited ("Shell Western"), a member of the Royal Dutch Shell group of companies (LSE: RDSA, RDSB). Shell Western are the offtakers of the Otakikpo crude production. The facility has a maturity of three years and is repayable quarterly following a six-month moratorium with a market margin over LIBOR. This funding is non-dilutive for our shareholders and marks the beginning of an important relationship with a globally recognised O&G major which will complement LEKOIL in its long-term growth aspirations.

Board

In February 2017, we were pleased to appoint Bruce Burrows to the Board as our new CFO. Bruce brings a wealth of experience in the oil and gas sector, much of it in Nigeria. For the past six years, he has been the CFO of Seven Energy, a private integrated gas company in south east Nigeria, with upstream oil and gas interests in the region.

Priorities

Our two priorities in the current oil price environment are to focus our resources on growing our low cost production from Otakikpo and to appraise and monetise the resources in the shallow water Ogo discovery. 2017 is an important year for LEKOIL as we grow Otakikpo production towards the Phase 1 steady state target of 10,000 bopd. A secondary focus will be on the evaluation and exploration of surrounding prospects in both OPL 310 and the Otakikpo licence area.

Operational review

Otakikpo marginal field
Producing asset

Situated in a swamp in OML 11, Otakikpo commenced production in February 2017.

Background

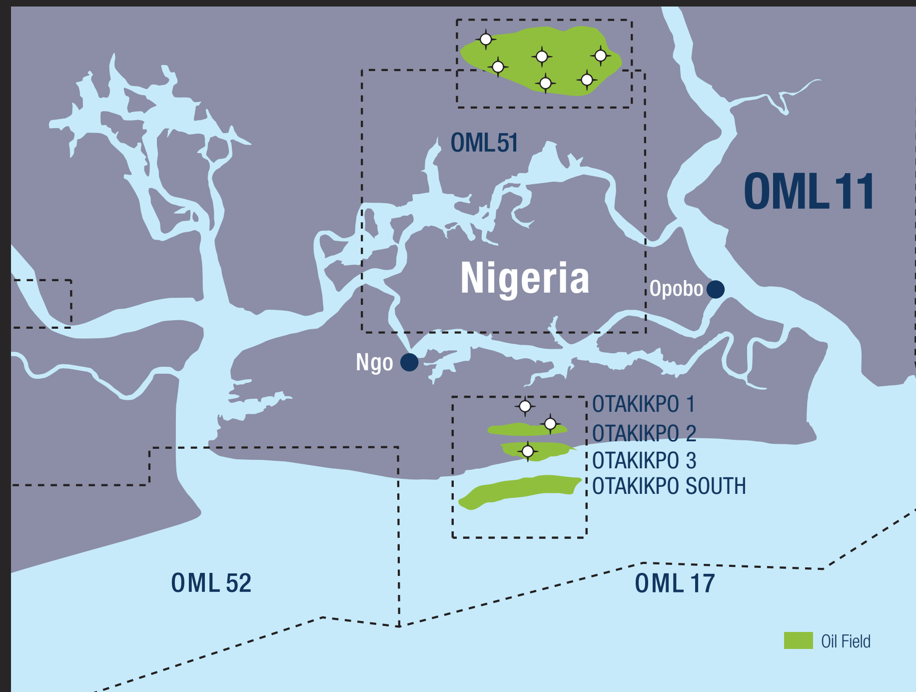
The original farm-in fee paid to Green Energy was $7 million (an implied $0.5/bbl acquisition price) with a production bonus of $4 million to be paid after production commencement and the receipt of Ministerial Consent. LEKOIL will preferentially recover costs from an entitlement to 88 per cent. of production revenue. The License terms also include a commitment to develop a small scale gas utilisation project.

Three wells originally drilled in the field by the previous operator (Shell) in the 1980's encountered hydrocarbons in multiple intervals. 2D and 3D seismic analysis by LEKOIL revealed reserve estimates considerably in excess of those available at the time of acquisition in May 2014.

Following the revision to anticipated production levels during 2015, the Otakikpo -002 and -003 wells were reclassified as "Reserves –Approved for Development". The Field Development Plan ("FDP") comprises two phases which will target incremental production, the commissioning of a new Central Processing Facility and seven a ditional wells.

As a result of the work put into the tendering process, LEKOIL has driven down the cost of production, resulting in a break-even point of less than $30 per bbl (life of field basis). By continuing to explore new ways of reducing production costs we increase the long term viability of the field – even in any protracted low oil price environment.

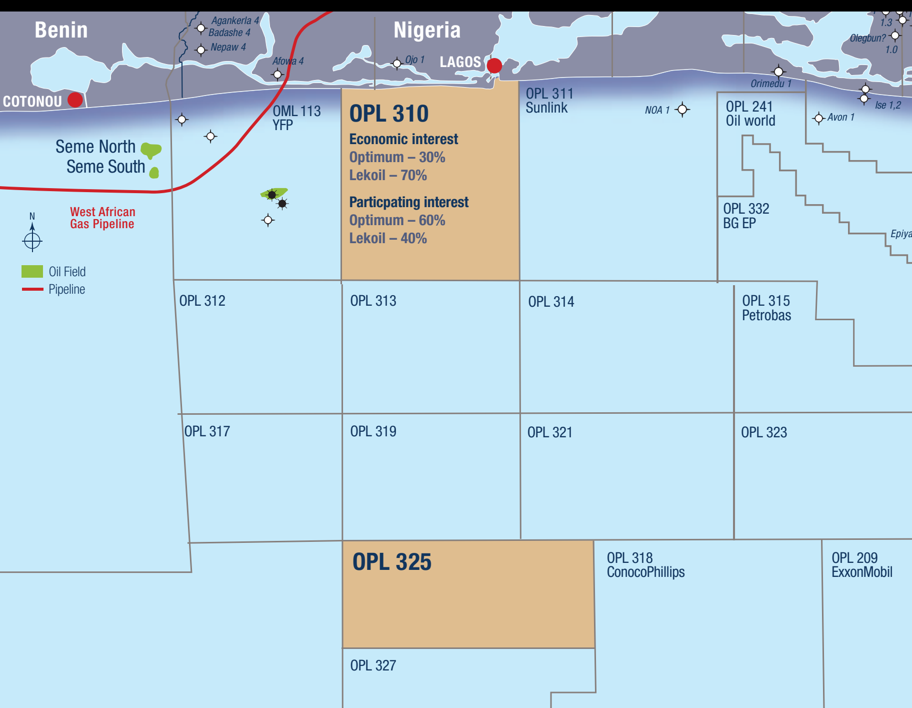
In addition, four exploration prospects within the onshore part of the Otakikpo acreage have had Stock Tank Oil Initially In Place (STOIIP) ranges calculated. These are estimated to contain potential gross aggregate volumes of 162.8 mmbbl, with further potential in the southern (shallow water) portion of the field. We continue to analyse and evaluate these areas.

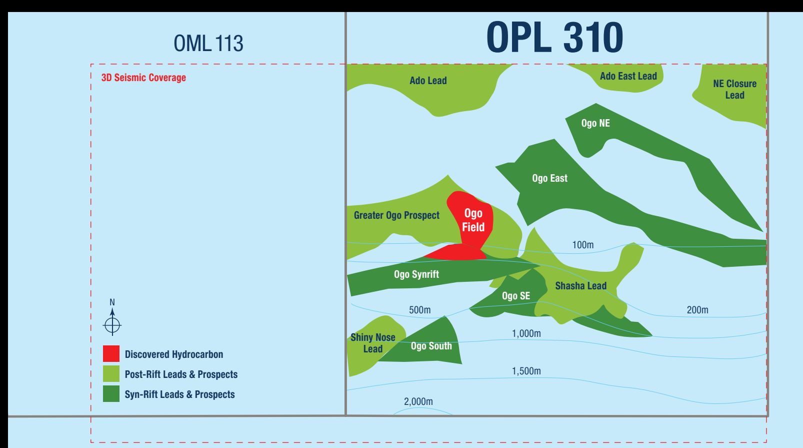


Otakikpo Phase 1 & 2 Cases	Reserves/Unrisked Contingent Resources @ $60/bbl (MMbbls)	
	100%	LEKOIL Ltd. Net
LOW (P90) 1P+1C	47.00	16.92
MID (P50) 2P+2C	56.60	20.38
HIGH (P10) 3P+3C	66.20	23.83

<$30 per bbl

LEKOIL has driven down the cost of production, resulting in a break-even point of less than $30 per bbl (life of field basis)





40%

LEKOIL acquired Afren's participating interest in OPL 310 taking the Company's participating interest to 40 per cent.

1,505 km²

The partners completed a 1,505 square kilometre 3D seismic acquisition programme, which represented approximately 80 per cent of the acreage within OPL 310.

Ogo Discovery and OPL 310 – Appraisal and exploration asset

LEKOIL commissioned a regional basin study and identified the Dahomey Basin block OPL 310 as a key target. The OPL 310 licence is located in the Upper Cretaceous fairway that runs along the West African Transform Margin. The block extends from the shallow water continental shelf close by the City of Lagos, Nigeria into deeper water. The main prospects within the licence area are in water depths ranging from 100 to 800 metres and are within close proximity to the West Africa Gas Pipeline.

OPL 310 Status

Status	Appraisal & Exploration
Participating interest	40 per cent*
Economic interest	70 per cent
LEKOIL status	Technical and Financial Partner
Partner	Optimum Petroleum Development Limited
P50 Gross Risked Prospective Resources	774.0 mmboe

* Subject to Ministerial Consent

Background

In 2013, we invested $50 million in drilling an appraisal well and sidetrack targeting Eko, Agege and the Syn-rift prospects. The result was a significant discovery in the Ogo prospect. Based on data from the vertical and side track wells, revised estimates for the P50 gross recoverable resources attributable to LEKOIL from the Ogo field were identified as being 232 mmboe (P50) from gross recoverable resources of 774 mmboe. This far exceeded the expected pre-drill estimates of 202 mmboe. Additionally, Syn-rift leads identified within OPL 310 are expected to contain light oil or condensate-rich gas, and further shallow water leads are being explored.

Operations

In December 2015 LEKOIL agreed to acquire Afren's 22.86% participating interest (40% economic interest) in OPL 310, increasing LEKOIL's consolidated participating interest from 17.14% to 40%, subject to Ministerial Consent, and will become the technical and financial partner. Optimum Petroleum Development Company, the operator and local partner in OPL 310, retains a 60% participating interest.

Seismic processing and interpretation is now complete, to be followed by an appraisal well.

"In 2013, we invested $50 million in drilling an appraisal well and sidetrack targeting Eko, Agege and the Syn-rift prospects. The result was a significant discovery in the Ogo prospect."

OPL 325 – Exploration asset

OPL 325 was also identified as a target in LEKOIL's regional basin study covering the Dahomey Basin. The OPL 325 licence area is located in the offshore Dahomey Basin within the wrench zone that straddles the western Niger Delta and is a promising exploration licence located 50km to the south of OPL 310.

OPL 325 Status

Status	Exploration
Participating interest	62 per cent
Economic interest	62 per cent
LEKOIL status	Operator
Partner	National Petroleum Development Company Ltd
Gross STOIIP unrisked prospective resources	5-6 billion boe

Background

In October, LEKOIL entered into an agreement with Ashbert Limited to acquire, via LEKOIL Exploration and Production Nigeria Limited (LEPNL), 88.57% of the issued share capital of Ashbert Oil and Gas Limited, which was awarded OPL 325 licence for an initial consideration of US$16.1 million, with other payments due at developmental milestones totalling US$24.12 million.

We have had access to 3D seismic data over 740km^2 and are encouraged by the results and our interpretation of the analysis. Preliminary review of the prospects, based on an independent study by Lumina, prepared for LEKOIL, suggests oil in place volumes of up to 5.7 billion boe with an estimated 2 billion boe recoverable based on analogues.

Namibia 2514A&B – Exploration asset

With a history of oil seeps, LEKOIL is now working to prove and quantify the reserves held within the block.

Namibia 2514A & B Status

Status	Exploration
Participating interest	77.5 per cent
Economic interest	77.5 per cent
LEKOIL status	Operator
Partner	Local content vehicle

Background

To date, we have completed the acquisition of the blocks and made the requisite government payments. The Technical Advisory Committee has met with the Namibian government, and our technicians are currently reviewing historic seismic and well data. In September 2016, we received a one-year extension to the licence with no additional obligations. We intend to seek a further licence extension and potentially commence seismic acquisition within 24 months.

Operations

"Not only has LEKOIL provided active help to the communities surrounding our first development, it has also become a proud sponsor of three pan-African initiatives aimed at empowering children, women in business and the spread of an entrepreneurial culture."

Financial

The results for the year to 31 December 2016 show a total loss of US$15.76 million, as compared to US$18.72 million (restated) for the same period in 2015. Cash balances at the year-end totalled US$4.38 million (2015: US$26.02 million) while loans and borrowing as at year end totalled US$27.39 million (2015: US$8.25 million).

We raised an additional US$12.4 million by way of equity in October 2016 to fund the final stages of capital expenditure on the development of Otakikpo.

Security

The security situation around our Operations facilities at Otakikpo remains benign.

Corporate & Social Responsibility

LEKOIL is dedicated to maintaining high, ethical standards in our business activities and we are committed to the overall welfare and development of the communities around us. Initially, our activities have centred around the local communities surrounding our producing asset, Otakikpo. LEKOIL's corporate and social responsibility ("CSR") plan focuses on three strategic areas: i) education, ii) economic empowerment (women and children development) and; iii) environmental sustainability.

We do not operate in isolation. We are a part of the communities in which we operate. Nowhere is that better exemplified than in Ikuru Town. We recognised the need for community support for our work yet we also understand that creating a supportive environment works both ways. To that end LEKOIL has been helping improve the quality of life for the residents of the coastal town of Ikuru, close to Otakikpo.

We have organised musical events, working with local churches to bring the community together. We have signed a land lease agreement with the people of Ikuru backed by a memorandum of understanding that places on us a responsibility to develop sustainably. We have also operated a health outreach programme, providing medical services to those with greatest need.

When we launched our health outreach programme in Ikuru, we did so with the intention of making life better. From the youngest to the oldest we provided vaccinations, health checks, eye tests and glasses, and surgery for those in most urgent need. From the reaction of the town's residents, it was gratefully received.

Not only has LEKOIL provided active help to the communities surrounding our first development, it has also become a proud sponsor of three pan-African initiatives aimed at empowering children, women in business and the spread of an entrepreneurial culture.

LEKOIL supports educational competition with Spellbound Africa, an international spelling competition that challenges children studying in Africa. Spellbound Africa is the first English word-spelling contest among children aged between 10 and 15 in the English-Speaking African countries. It gathers the most hard working and word-versatile children in the continent and engages them.

We are also promoting diversity and equality with Women in Management, Business and Public Service (WIMBIZ), a Nigeria based non-profit organisation with an overriding vision "to be the catalyst that elevates the status and influence of women and their contribution to nation building". WIMBIZ programmes are geared towards elevating the status of women and their contributions to nation building, increasing the success rate of female entrepreneurs and the proportion of women in senior positions in corporate organisations.

Finally, LEKOIL is a supporter of ENACTUS, an international not-for-profit organisation with a community of students, academic and business leaders. ENACTUS is committed to using the power of entrepreneurial action to transform lives and shape a better more sustainable world by providing a platform for teams of outstanding university students to create community development projects that put people's own ingenuity and talents at the centre of improving their livelihoods.

Environment

Nigeria's Environmental Impact Assessment Act (EIAA) requires every company whose activity or project is likely to have a significant effect on the environment to carry out an impact assessment programme prior to the commencement of the project.

LEKOIL is committed to demonstrating leadership in stewardship of the environment, and to complying with the requirements and regulations in Nigeria, as well as in every other territory in which we operate. We believe we have demonstrated this commitment in our operations in the communities surrounding our Otakikpo development.

These outcomes do not happen by accident. They occur because of the technical expertise of our people and partners. They happen because of a strong leadership team. And they happen because we hold true to our values – especially our ability to think differently.

Outlook

We believe we have made very good progress in 2016 and into 2017. Otakikpo is now a producing asset which we are in the process of ramping up to its Phase 1 steady-state production rate of 10,000 bopd. Phase 2 should see that rate doubled. In addition we are in the process of planning the appraisal drilling campaign for our world class Ogo discovery in OPL 310 and studying the options to finance this drilling. 2017 should see further progress for LEKOIL as we seek to increase production, prove up additional reserves and monetise exploration interests.

Samuel Adegboyega
Chairman

Lekan Akinyanmi
Chief Executive Officer

19 June 2017

LEKOIL is a supporter of ENACTUS, an international not-for-profit organisation with a community of students, academic and business leaders. ENACTUS is committed to using the power of entrepreneurial action to transform lives and shape a better more sustainable world.

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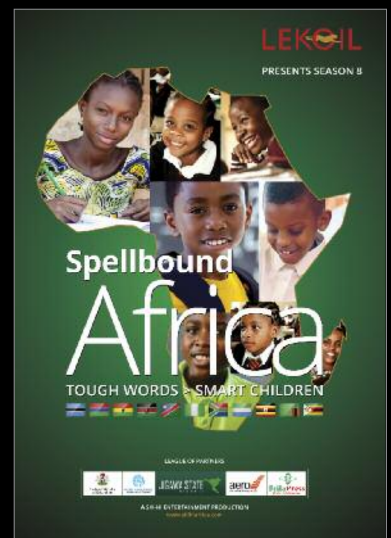

Spellbound Africa

LEKOIL supports educational competition with Spellbound Africa. Spellbound Africa is the first English word-spelling contest among children aged between 10 and 15 in the English-Speaking African countries.

Financial review

Following commencement of commercial oil production in February 2017, going forward the Group Financial Statements will benefit from, and reflect, the significant operational progress achieved in 2016. For 2016 that significant progress, by way of the field development at Otakikpo, resulted in the significant levels of incurred capital expenditure reported in the period, funded by way of: utilising existing cash resources; proceeds from new and expanded debt facilities; and an equity issuance concluded during the period.

Financial overview
In US Dollars

	2016	2015
Loss for the year	**(15,764,871)**	(18,718,507)
Accumulated deficit	**(66,973,567)**	(52,074,677)
Loss per share	**(0.03)**	(0.05)
Net assets	**198,099,719**	200,760,807
Net assets per share	**0.37**	0.52
Cash and cash equivalents	**4,384,738**	26,016,194

Summary
The running costs of the Group were broadly in line with 2015, consistent with the rapid establishment over the period 2010 to 2014, of a Group capable of managing a portfolio of assets in two jurisdictions and executing a field development programme in a comparatively remote location within the Niger Delta. Given the stage of operational and organisational evolution being broadly consistent period on period, the results are broadly in line with 2015, as expanded on below.

Full year results
The Group recorded a total comprehensive loss of $15.8 million for the year ended 31 December 2016 (2015: $18.7 million). No dividends were paid or declared during the year (2015: nil).

Operating loss
Operating costs and administrative expenses were US$21.1 million compared to US$22.8 million for the same period in 2015. The decrease was largely due to Naira currency devaluation in 2016 which impacted the reported costs in spite of increase in activity levels.

Income tax
No income tax was payable for the year ended 31 December 2016 (2015: nil).

Capital expenditure
The Group's capital expenditure during the year ended 31 December 2016 amounted to US$26.3 million compared to US$12.5 million incurred for the same period in 2015. Capital expenditure during the period was primarily associated with development expenditure on the Otakikpo marginal field, as well as exploration and exploitation expenditure on OPL 310.

Cash and cash equivalents
The Group had cash and cash equivalents of US$4.4 million as at 31 December 2016 (2015: US$26.0 million). Included in the cash and cash equivalents balance is restricted cash amounting to US$1.1 million relating to cash funding of the Debt Service Reserve Accounts for two quarters of interest for FBN Capital.

Loans and borrowings
In June 2016, LEKOIL Oil and Gas Investments Limited ("LOGL") (a wholly owned subsidiary of LEKOIL Limited), refinanced an existing debt facility with a two-tranche facility arrangement for $10 million and 2 billion Naira (approximately $10 million), both with FBN Capital Limited.

The Notes Issuance Agreement ("NIA") bridge facility issued in May 2015, of which $5 million was due in May 2016, was extended to August 2016 and subsequently refinanced into a $10 million facility for the Otakikpo field development, secured over the assets of LOGL, with the extinguishment of the $5 million loan balance. The ultimate parent Company (LEKOIL Limited) issued an unconditional guarantee in favour of FBN Capital for the payment of all principal and interest due on the loan, in the event of default by LOGL. The US $10 million facility has a maturity of three years and is repayable quarterly after a six-month moratorium with a margin of 11.25% over LIBOR.

The new 2 billion Naira facility has a maturity of three years, is repayable quarterly with ten quarterly instalments after a six-month moratorium. The notes have an interest rate referencing the higher of the 30-day average of 90 day NIBOR + 6% or 20%.

In August 2016, the Group drew down 1 billion Naira from the 5 billion Naira facility approved by Sterling Bank (as initially announced on 30 June 2016) and increased the 2 billion Naira facility with FBN Capital to 4.5 billion Naira (approximately $14.8 million equivalent). The additional 2.5 billion Naira under the FBN Capital Limited facility has been fully drawn and was used to complete infrastructure at Otakikpo prior to the commencement of commercial production.

In October 2016, LEKOIL raised gross proceeds of approximately US$12.4 million (approximately £10.15 million) through the placing of 48.33 million new Ordinary Shares at a placing price of 21 pence per Ordinary Share with certain existing institutional and other investors via an accelerated bookbuild.

The net proceeds of the Placing were principally used to fund capital

expenditure to bring Otakikpo into commercial production, while the balance of the net proceeds is being used for general corporate and working capital purposes.

In March 2017, subsequent to the initial drawdown of 1 billion Naira from the 5 billion Naira Sterling Bank facility, LOGL drew down additional 350 million Naira via a tripartite agreement with Sterling Bank and Cardinal Stone Partners, wherein Cardinal Stone Partners advanced the same sum backed by a guarantee under the 5 billion Naira facility.

In March 2017, the Group announced the receipt of a $15 million advance payment facility from Shell Western Supply and Trading Limited ("Shell Western"), a member of the Royal Dutch Shell group of companies (LSE: RDSA, RDSB). The facility has a maturity of three years and is repayable quarterly following a six-month moratorium with a market margin over LIBOR.

As at the date of this report, LEKOIL has total debt facilities secured on the Otakikpo field of US$44 million compromising; a two-tranche facility with FBN Capital Limited (US$10 million plus 4.5 billion Naira), which is fully drawn; a 5 billion Naira facility with Sterling Bank plc, of which 1 billion Naira (approximately US$3.3 million) has been drawn down; and a US$15m facility with Shell Western.

Summary statement of financial position

Whilst the Group's non-current assets increased only modestly, from US$192.0 million at 31 December 2015 to US$193.6 million at 31 December 2016, there was: a material (214%) increase in Property Plant and Equipment ("PP&E"), reflecting the additional development expenditure on Otakikpo marginal field: and a material (44%) reduction in other non-current assets, given (based on forecast) the recognition of a significant portion of prepaid development costs due to farm-in agreement that will be recovered in the short term following commencement of commercial production from the Otakikpo marginal field in early 2017.

As noted earlier, 2016 was a year of significant development activity on the Otakikpo marginal field, with the result being the successful commencement of commercial production in early 2017. In 2016 the Group successfully delivered capital expenditure programmes totalling $64.3 million. Majority of the project costs are reflected: partially within the $24.9 million expenditure on PP&E and partially within the $38.0 million increase in Prepaid development costs. Under the terms of the farm-in agreement with Green Energy International Limited ("GEIL"), LEKOIL funds GEIL's participating interest share of all costs in the Otakikpo marginal field joint operations until completion of the initial work programme. Accordingly, GEIL's 60% share of the capital development programme is accounted for by LEKOIL as Prepaid development costs, with LEKOIL's 40% share being accounted for as PP&E as noted above.

Current assets (primarily the Group's cash resources, other assets and other receivables) increased from US$29.7 million as at 31 December 2015 to US$73.8 million as at 31 December 2016. This increase was primarily a function of the $38.0 million in Prepaid development costs noted above, offset by the $21.6 million reduction in cash and cash equivalents. Non-current liabilities consist of: the portion of loans from FBN Capital and Sterling Bank due after twelve months, amounting to US$17.0 million (31 December 2015: nil); deferred income which increased from US$0.7 million as at 31 December 2015 to US$3.0 million as at 31 December 2016; and provision for asset retirement obligation which decreased from US$0.2 million to $0.1 million.

Current liabilities consist of: the portion of loans from FBN Capital and Sterling Bank due within twelve months, amounting to US$10.4 million (31 December 2015: US$8.2 million); trade and other payables which increased, as a result of the significant capital development programme executed in the period, from US$9.5 million as at 31 December 2015 to US$31.3 million as at 31 December 2016; and deferred income which increased from US$2.4 million as at 31 December 2015 to US$7.4 million as at 31 December 2016.

Dividend

The Directors do not recommend the payment of dividend for the year ended 31 December 2016 (2015: nil).

Accounting policies

The Group's significant accounting policies and details of the significant judgments and critical accounting estimates are disclosed within the notes to the financial statements. The Group has not made any material changes to its accounting policies in the year ended 31 December 2016.

Liquidity risk management and going concern

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including changes in timing of production and cost adjustments to development and exploration activity. At 31 December 2016, the Group had liquid resources of approximately US$4.4 million in the form of cash and cash equivalents, which are available to meet ongoing capital, operating, financing and administrative expenditure. The Group's forecasts, taking into account reasonably possible changes as described above, show that the Group expects to have sufficient financial resources for the 12 months from the date of approval of these consolidated financial statements.

These consolidated financial statements have been prepared on the going concern basis of accounting, which assumes the Company will continue in operation for the foreseeable future and be able to realise its assets and discharge its liabilities and commitments in the normal course of business. As discussed in note 2 (b) to these consolidated financial statements, the ability of the Group to continue as a going concern is dependent on the continued operation of the Otakikpo field development, the timing and amount of anticipated cash flows over the next twelve months from production from this field and continued availability of existing debt finance.

Bruce Burrows
Chief Financial Officer

19 June 2017

Board of Directors

Samuel Adegboyega, Non-Executive Chairman

Samuel, has over 30 years' experience in the oil and gas industry, and is currently Managing Director of SOWSCO Well Services (Nig.) Ltd., in Port Harcourt, Nigeria. Samuel is a member of the Board of Trustees Ile-Oluji Economic Summit Group, a traditional local community leadership organisation as well as being a founding member of S.T. Adegboyega & Co., a Nigerian law firm.

Samuel is a founding member and current Executive of the Petroleum Technology Association of Nigeria, an association formed to bring together Nigerian oil and gas entrepreneurs. Samuel graduated from the University of Ibadan with a degree in Petroleum Engineering.

Olalekan Akinyanmi, Chief Executive Officer

Olalekan ('Lekan') is the founder and Chief Executive Officer of LEKOIL Limited. Since inception, he has led the company through an IPO and subsequent fundraises of over US$200 million on the London Stock Exchange's AIM market.

Lekan has over 20 years' experience in the oil and gas industry and was the International Energy Sector Head at AllianceBernstein L.P. in New York (Global asset manager with over US$400 billion under management) with direct responsibility for a US$1 billion Energy and Natural Resource Portfolio.

Prior to that he was a member of the #1 institutional investor-ranked team of analysts covering the oilfield services industry as an Associate Director at UBS Investment Research. Lekan has held Engineering and operational roles within Schlumberger in a career that spanned Nigeria, Egypt, Pakistan, Oman and Scotland.

Lekan graduated from the Obafemi Awolowo University in Nigeria with a Bachelor of Science Degree in Electronic and Electrical Engineering and also holds an MBA from Massachusetts Institute of Technology (MIT) Sloan School of Management. He is also a Member of the Society of Petroleum Engineers.

Bruce Burrows, Chief Financial Officer (appointed 27 February 2017)

Bruce Burrows is Chief Financial Officer (CFO) at LEKOIL Limited. Prior to joining LEKOIL, Bruce was the CFO of Seven Energy, a private integrated gas company in south east Nigeria, with upstream oil and gas interests in the region. Prior to Seven Energy, he was for 14 years Finance Director of JKX Oil & Gas PLC, the London listed exploration and production Company with interests in Ukraine and central and Eastern Europe. Bruce has established and maintained productive, proactive and effective relationships with investors and banks in the UK, Nigeria and internationally.

Mr. Burrows is a member of the Institute of Chartered Accountants of Australia & New Zealand and initially held various positions at Ernst & Young in both Wellington and London. He holds a BSc Honours degree from Canterbury University, a Diploma in Accounting from Victoria University.

Gregory Eckersley, Non-Executive Director

Gregory ('Greg'), has 25 years' experience in international financial markets. He is the global head of the Abu Dhabi Investment Authority's internal equities department, where he oversees portfolios, risk management and the due diligence process.

Prior to joining the Abu Dhabi Investment Authority, Greg worked for AllianceBernstein L.P. in New York, where he acted as Senior Portfolio Manager, leading a team responsible for the construction, management and risk control of multiple global and international growth equity portfolios. Prior to this appointment he was with AllianceBernstein in South Africa as Chief Executive of its regional offices, Draycott Partners, Century Asset Management and Cigma International Investment Advisors in London.

Greg graduated from Oxford University in 1987 with a degree in Philosophy, Politics and Economics (PPE), where he also received a Rhodes scholarship. He then undertook a programme in Investment Management and Modern Portfolio Theory at the London Business School.

H. Adesola Oyinlola, Non-Executive Director

Mr. H. Adesola ('Sola') Oyinlola brings a wealth of industry experience to the Board. He was most recently Chairman of Africa at Schlumberger and was also the President of the Schlumberger Foundation, a non-profit corporate foundation. Having worked with Schlumberger for 30 years, Sola has held a number of senior operational positions across the world, including Vice President and Global Treasurer, and Managing Director for Nigeria and West Africa.

Sola is a co-founder of the Petroleum Club of Lagos and serves on a number of boards including Guaranty Trust Bank plc and the Schlumberger Foundation. He has a passion for human capital and host community development, as evidenced by his participation in issues of economic development, inclusion, and mentoring. He holds a BSc in Accounting from the University of Ghana, and an MBA from Stanford University. He is an alumnus of the Oxford Institute for Energy Studies.

Aisha Oyebode, Non-Executive Director

Mrs. Aisha Oyebode is the CEO of the Murtala Muhammed Foundation and Group Chief Executive Officer, Asset Management Group (AMG) Limited. Prior to becoming CEO, Aisha was the Executive Director of AMG from October 1991 – June 1993. Aisha is a legal practitioner with an LL.M (Public International Law) from Kings College, University of London and a Masters in Business Administration (MBA) with a distinction in Finance from Imperial College, University of London.

Mrs. Oyebode has several years of practical experience in corporate and litigation matters having worked in the prestigious law firm of Ajumogobia, Okeke, Aluko and Oyebode. She was called to the Nigerian Bar in 1989. She has completed several attachments with global financial institutions which include Caisse Privee Banque, Brussels; Banque Rivaud, Paris; and Banque Privee, Geneva. Aisha also serves as a member of various boards.

John van der Welle, Non-Executive Director

John, has over 25 years' oil industry experience, having qualified as a chartered accountant with Arthur Andersen in 1981. He is a member of the Association of Corporate Treasurers and the Institute of Taxation.

After 11 years at Enterprise Oil where he was Business Development Manager and subsequently Group Treasurer, John has been Finance Director of a number of listed E&P companies, including Premier Oil between 1999 and 2005.

He was Managing Director and Head of Oil and Gas at the Royal Bank of Scotland in 2007-2008 and, since 2010 has worked as a consultant to, and non-executive Director of, a number of listed and private E&P companies including Hurricane Energy Plc.

Directors' report

For the year ended 31 December 2016

The Directors submit their Annual Report on the affairs of the Group together with the financial statements and audit report for the year ended 31 December 2016. The remuneration report on pages 19 to 20 forms part of this Directors' report.

Principal activity

The principal activity of the Group is the exploration for, and production of oil and gas.

Domicile

The Parent Company, LEKOIL Limited (Cayman), is a public limited company and is registered in the Cayman Islands.

Results and Dividend

The Group loss for the year ended 31 December 2016 was US$15.8 million (2015: US$17.4 million). The Directors have not recommended the payment of a dividend (2015: US$nil).

Directors and their interests

The Directors who served during the year are listed below. Their beneficial interests in the share capital of the Company at 31 December 2016 and 2015, were as follows:

	At 31 December 2016 Number	At 31 December 2015 Number
Sam Adegboyega	**1,160,000**	1,160,000
Olalekan Akinyanmi	**41,868,293**	41,868,293
Greg Eckersley (and Family)	**2,903,050**	2,753,050
Aisha Oyebode	**256,250**	256,250
John van der Welle	**–**	–
Hezekiah Adesola Oyinlola	**632,431**	632,431

Substantial shareholders

As at 31 December 2016, the following Shareholders held 3% or more of the nominal value of the Company's shares carrying voting rights:

	Number of ordinary shares	% of share capital
Capital Group	52,622,000	9.81
YF finance	43,850,000	8.17
Olalekan Akinyanmi	41,868,293	7.80
Baron Capital Management	38,022,995	7.09
Jennison Associates	29,620,571	5.52
Consilium Investment Management	26,787,833	4.99
Heritage Bank, Geneva	25,317,943	4.72
River and Mercantile Asset Management	21,000,000	3.91
BlackRock	20,177,411	3.76
Blakeney Management	19,860,502	3.70
RWC Partners	17,139,715	3.19

Review of business and future developments

A review on the operations of the Group is contained in the Chairman's & CEO statements on pages 3 to 9 and financial review on pages 10 to 11.

Financial risk management
The Group's risks to financial instruments are outlined on pages 58 and 61.

Directors' indemnity and insurance
The Group provides indemnity to Directors in respect of liabilities incurred as a result of their office. However, neither the indemnity nor the insurance provides cover in the event that the Director is proven to have acted dishonestly or fraudulently.

Post-balance sheet events
All events that have occurred since the year end which require reporting have been disclosed in the consolidated financial statements.

Health, safety and environment
The Group has an overriding commitment to health, safety and environmental responsibility. The Group works closely with host governments and communities in the country in which it operates, together with its contractors and partners, to ensure internationally recognised standards are implemented and maintained along with compliance to local legislation.

The Group's activities are subject to the relevant environmental protection Acts. The Group closely monitors its activities to ensure to the best of its knowledge there is no potential for the breach of such regulations. There have been no breaches of these Acts recorded against the Group during the reporting period.

Financial instruments
Details of the use of financial instruments by the Group are contained in note 3(c) of the consolidated financial statements.

Directors' responsibilities
The Directors are responsible for preparing the Annual report and the consolidated financial statements in accordance with applicable law and regulations.

Under the AIM Rules, the Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the Group's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Directors will not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. The Directors are also required to prepare the consolidated financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market (AIM).

In preparing these consolidated financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the consolidated financial statements comply with IFRS. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Number of board meetings during the year

Attendance	Board	Remuneration Committee	Audit Committee
Sam Adegboyega	6	–	–
Olalekan Akinyanmi	7	–	–
Greg Eckersley	7	4	3
Aisha Oyebode	7	4	–
John van der Welle	7	4	3
Hezekiah Adesola Oyinlola	7	–	3

Going concern

The Directors have assessed the ability of the Group to continue as a going concern having prepared detailed cash, funding and liquidity forecast through to 31 December 2018. The Directors believe that the Group will be able to meet financial obligations through a combination of internal and external funding. Details on the going concern disclosure are shown in note 2 to the financial statements.

Governance

There is no applicable regime of corporate governance to which Directors of a Cayman Islands company must adhere over and above the general fiduciary duties of care, diligence and skill imposed on such directors under Cayman Islands law. The Directors recognise the importance of sound corporate governance commensurate with the size and nature of the Company and the interests of its Shareholders.

The Directors recognise the value of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (QCA Code). While under the AIM rules full compliance with the QCA Code is not required, the Directors seek to apply the recommendations of the QCA Code in so far as is appropriate having regard to the size, current stage of development and resources of the Company.

The Group updated its policies in line with the EU Market Abuse Regulation ('MAR') with effect from 3 July 2016.

The Group continues to implement the following internal policies in order to provide guidance on Corporate Governance issues. These policies are reviewed periodically to ensure continued relevance:

- Related Party Transactions Policy
- Disclosure and Insider Trading Policy
- Share Dealing Code
- Whistleblowing Policy
- Anti-Bribery Policy
- Code of Ethics
- Safety, Health, Environment and Security Policy

Related Party Transaction Policy

The Related Party Policy outlines the procedure for identifying related parties and interests and regulates the disclosure and approval requirements for transactions with such parties ("Related Party Transactions") within the Group, its associates and affiliates. The Related Party Policy provides guidelines and procedures on dealing with Related Party transactions and compels all employees and directors of the Company to fully understand, and adhere to their responsibilities and obligations in respect of such transactions.

Disclosure and Insider Trading Policy
The Company is required to comply with the AIM rules and regulations, MAR and the Financial Conduct Authority's Disclosure Guidance and Transparency Rules relating to the disclosure and control of inside information. The purpose of the Disclosure Policy is to help the Company comply with these rules on an ongoing basis by ensuring both timely and orderly communication of key information concerning the Company to shareholders, the stock market as a whole and to the press.

The Disclosure Policy provides varying authority levels and consultation requirements for information released to the public including shareholders, the press, brokers or others, as well as authority levels to issue communications in relation to the Company's affairs generally, including in particular major announcements such as the preliminary and half-year results and any announcements concerning major business developments.

In addition to disclosure regulations by the Company the Insider Trading Policy places an overriding obligation on the Company and its Directors to manage "inside information" as stated in the policy both internally and externally, in order to prevent market abuse, insider dealing and similar offences by persons in possession of inside information.

Share Dealing Code
The Share Dealing Code applies to all employees, Directors, and persons "associated" with employees and Directors of the Company and sets out the rules governing the dealing in its shares and related securities of by those persons. The Share Dealing Code is intended to serve as a guide to its employees in the various legal requirements relating to dealing in the Company's shares and related securities.

The fundamental principle is that as a matter of law no person should deal in the shares or securities of the Company at any time when they are or may be regarded as privy to insider information.

Whistleblowing Policy
The objective of this policy is to support the Group's values by encouraging all employees to report the occurrence of any misconduct (irrespective of location) by employees, Directors or associates of the Group that affects the business of the Group; without fear of risk to themselves or any inhibition or victimisation.

Anti-Bribery Policy
The purpose of this policy is to reinforce the Group's reputation for integrity and responsibility and its business principle of zero tolerance to bribery and corruption by providing a framework to guard and promote the Group's position in this regard.

This Policy applies not only to Directors or employees of the Group but also to agents, intermediaries, consultants, joint venture or other business partners and any other persons, organisations or bodies doing business with the Group.

Code of Ethics
The Group is committed to the highest standards of ethical and professional conduct. The Code of Ethics (the "Code") provides basic guidelines for business practices, professional and personal conduct which each Director and employee is expected to adopt and uphold.

The Code also serves as the Group's creed to ensure transparency, accountability and openness in all its dealings and activities conducted to promote public trust and confidence in the Group amongst its staff and/or Directors.

Safety, Health, Environment and Security (SHES) Policy
The Group is committed to understanding, managing and reducing the environmental impact of its activities and implements internationally recognised environmental management systems to achieve this goal. The SHES Policy assists the Group in enforcing the health, safety and welfare of its employees in the work place as well as ensuring the protection of its business partners and surrounding community at its sites of operations.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditor

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

Akintola Williams Deloitte have expressed their willingness to continue in office and a Resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board

Gloria Iroegbunam
Company Secretary

19 June 2017

Remuneration report

For the year ended 31 December 2016

Scope of Report

The Remuneration Report sets out the Company's remuneration policy and, particularly, its approach for Directors. It also explains how the Company applies the principles of good corporate governance in relation to remuneration.

Composition and role

The Remuneration Committee ("the Committee") comprises of Gregory Eckersley (the Chairman), Aisha Oyebode and John van der Welle. The members are all independent Non-Executive Directors of the Company. The Committee is responsible for determining and reviewing the terms and conditions of service (including remuneration) and termination of employment of Executive Directors and senior employees and the administration of the Company's share option and share award schemes. It is responsible for determining individual remuneration packages including, where appropriate, bonuses, incentives and share options. The Committee is also permitted to appoint independent remuneration consultants – H2Glenfern Remuneration Advisory – to advise the company on remuneration for the Executive Directors.

Remuneration policy

The Committee, in forming its policy on remuneration has given due consideration to the needs of the Company, Shareholders and best practice provisions set out in the UK Corporate Governance Code. The ongoing policy of the Committee is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality employees capable of achieving the Group's objectives and to incentivize them effectively, so as to deliver long-term shareholder value.

It is the aim of the Committee to reward key employees on a basis which is aligned to the performance of the Company. Also, the remuneration is subject to the broader principle that their remuneration should be competitive with that received by professionals of comparable companies.

There are four main elements of the remuneration package:

- Base salary
- Employee benefits
- Performance-related cash bonus
- Performance share plan

The Company currently does not have a pension scheme for the Directors.

Base salary

The policy is to pay a fair and reasonable base salary, taking into account comparable salaries for similar roles in similar companies. The base salary is reviewed annually by the Committee having regard to the performance of the Company, individual performance, market data, levels of increases applicable to other employees of the Company and economic conditions.

Effective 1 January 2017, the salary of the CEO was increased from US$765,000 by 3% to US$787,950. The Company's CFO, Bruce Burrows, joined the company on 27 February 2017. His basic salary is £300,000.

Employee benefits

The Company's Directors and Officers are covered under a third party indemnity insurance. It also provides Healthcare and Pension Plan arrangements for all its employees.

Performance-related cash bonus

The Group bonus performance measurement for Executive Directors and staff is based upon Group and personal performance towards achieving operational targets.

The targets for the 2016 annual bonus related to operational progress at the Group's licence areas, strengthening the company's financial position, portfolio management, health safety and environment, building of organisation and developing the Group's commercial position.

The Committee determined to pay the CEO a bonus of 64.6% of salary ($494,190) in the light of progress against these objectives during the year.

For 2017, annual bonus targets cover the following areas: operational, financial, SHES, people, external engagement, LEKGAS and portfolio management.

Performance Share Plan

Share awards may be granted to the Company's employees and Directors by the Board, upon recommendation by the Remuneration Committee.

In line with the Long-Term Incentive Plan (LTIP), the CEO was granted 2.6 million options with an exercise price of 21.13p as announced on 8 December 2016. Further awards of 7.2 million options were made to 62 of the Group's employees. Under the Group's Non-Executive Director Share Plan, awards of 500,000 options were also made to the Group's Non-Executive Directors as announced on 8 December 2016.

Details of the options awarded are set out in note 26 of the Financial Statements.

The Remuneration Committee intends to make further option awards in mid-2017.

The following table summarizes the total gross remuneration of the Directors who served during the year ended 31 December 2016 (audited):

	Basic salary or fees						
	Cash US$000	Shares/Options US$000	General benefits US$000	Performance related bonus US$000	Vacation pay US$000	**Total emoluments 2016 US$000**	Total emoluments 2015 US$000
Executive							
Lekan Akinyanmi	765.00	123.23	133.88	494.19	31.88	**1,548.17**	1,483.12
David Robinson[1]	–	–	–	–	–	**–**	1,093.16
Non-Executive							
Samuel Adegboyega	140.00	4.47	–	–	–	**144.47**	140.10
Aisha Muhammed-Oyebode	100.00	4.85	–	–	–	**104.85**	105.20
Greg Eckersley	100.00	4.47	–	–	–	**104.47**	100.10
John van der Welle	100.00	5.60	–	–	–	**105.60**	106.33
Hezekiah Adesola Oyinlola[2]	100.00	4.47	–	–	–	**104.47**	50.10
	1,305.00	147.10	133.88	494.19	31.88	**2,112.04**	3,078.10

1 Left the Board of the Company 26 June 2015 with resignation formally taking effect in November 2015
2 Appointed to the Board of the Company on 26 June 2015

The interests of the Directors, who were in offce at the end of the financial year, in options over the shares of the Parent Company as at 31 December 2016 and 2015 were:

	Outstanding as at 31 Dec 2015 number	Granted in the year number	Exercise price (£)	Exercised in the year number	Forfeited in the year number	Expired in the year number	Outstanding as at 31 Dec 2016 number	Lapse date
Lekan Akinyanmi	8,623,000	2,600,000	0.21	–	–	–	11,223,000	4-Oct-26
David Robinson[1]	1,600,000	–	0.21	–	–	1,600,000	–	1-Feb-16
Greg Eckersley*	1,262,500	100,000	0.21	–	–	–	1,362,500	4-Oct-26
Sam Adegboyega	850,000	100,000	0.21	–	–	–	950,000	4-Oct-26
Aisha Oyebode	287,500	100,000	0.21	–	–	–	387,500	4-Oct-26
John van Der Welle	287,500	100,000	0.21	–	–	–	387,500	4-Oct-26
Hezekiah Adesola Oyinlola	100,000	100,000	0.21	–	–	–	200,000	4-Oct-26

* Outstanding number of shares granted to Gregory Eckersley as at 31 December 2015 was erroneously stated in 2015 financial statements as 1,357,986 shares now restated to 1,262,500 shares, the actual number of his options outstanding as at 31 December 2015.

** All options granted to David Robinson lapsed on the 1st of February 2016 in line with the provisions of the Executive Stock Incentive Plan which allowed him to exercise options awarded at any time within a period of three (3) months after the date of resignation, and not thereafter to the extent such option was exercisable by him on the date of resignation.

*** The Group issued options with 3 different exercise prices $1, $3.75, and $7.50 in 2012. The share price was estimated based on recent arm's length share issues. On 17 May 2013, the issued options with exercise prices of $1.00 & $3.75 were cancelled and the issued options with exercise price of $7.50 were subdivided by a factor of ten in line with the Company's capital reorganisation which resulted in a share split of 10:1. The exercise price of the outstanding options was also subdivided by a factor of ten resulting in a reduction in exercise price from $7.50 to $0.75 and an increase in total number of option shares from 6,000,000 to 19,000,000. Effective 26 March 2014, the exercise price of the outstanding stock options was changed from US$0.75 to GB£0.49 using a conversion rate of US$1.53 to GB£1.00 and the existing stock option agreements have been amended to reflect the exercise price in GB£. Options granted in 2014 and 2015 were issued at an exercise price of GB£0.40. No share options were exercised by the Directors.

Statement of Directors' responsibilities in relation to the consolidated financial statements

For the year ended 31 December 2016

The Directors of LEKOIL Limited ("the Company" and its subsidiaries (together referred to as "the Group")) are responsible for the preparation of consolidated financial statements that give a true and fair view of the financial position of the Group as at 31 December 2016, and the results of their operations, cash flows and changes in equity for the year ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, the Directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company's financial position and financial performance; and
- making an assessment of the Group and Company's ability to continue as a going concern.

The Directors are responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group and Company;
- maintaining 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 Group and Company, and which enable them to ensure that the financial statements of the Group and Company comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Nigeria and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group and Company; and
- preventing and detecting fraud and other irregularities.

Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern and as disclosed in note 2(b), and they believe the Group will remain a going concern in the year ahead.

The consolidated financial statements for the year ended 31 December 2016 were approved by the Directors on 19 June 2017.

Signed on behalf of the Board of Directors by:

Olalekan Akinyanmi
Chief Executive Officer

Bruce Burrows
Chief Financial Officer

Independent Auditor's report

To the Shareholders of LEKOIL Limited

Opinion

We have audited the consolidated financial statements of LEKOIL Limited ('the Company') and its subsidiaries (together referred to as 'the Group') which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of LEKOIL Limited as at 31 December 2016, and the consolidated financial performance and statement of cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note 2(b) in the consolidated financial statements, which indicates that the Group incurred a loss of $15.76 million during the year ended 31 December 2016 and as of that date, the Group's accumulated deficits amounts to $66.97 million. As stated in note 2(b), these events or conditions, along with other matters as set forth in note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section above, we have determined the matters described below to be the key audit matters to be communicated in our report on the consolidated financial statements.

Key Audit Matter	How the matter was addressed in the audit

Share based payment arrangements

The Group has three share based payments arrangements – Share option scheme, Non-Executive Director share plan and Long term incentive plan scheme.

The Directors engaged the services of an expert in order to calculate the fair value of these share options. The fair value is determined based on various assumptions such as share price, weighted average life of share option, expected volatility used for this estimate.

This is a complex account balance which is subject to a significant amount of estimates and assumptions.

We focused our testing of the fair value of the share based payments on the key assumptions made by the management.

Our audit procedures included:

- Evaluating the model used by Management's experts to determine the fair value of the share based payment arrangements and also to ascertain compliance with the requirements of IFRS 2 Share based Payments.
- Validating the inputs used to calculate the fair value and recalculating this value.
- Evaluating the reasonableness of the estimates and assumptions used by management and management's expert.

We found the assumptions used by the management in the calculation of the fair value of the share based payment to be appropriate and the Group's share based payments for the year have been adequately valued and disclosed in the financial statements.

Carrying value of Exploration and Evaluation assets

Exploration and Evaluation assets represent a significant portion of the Group's total assets. These assets have been recognised in the consolidated statement of financial position in relation to the Group's interest in OPL 310.

As required by the applicable accounting standards, management conducts an annual impairment assessment to determine the existence of an impairment trigger and assesses the recoverability of the carrying value of the E&E assets. This is performed using discounted cash flow models. As disclosed in note 9, management has made a number of key judgments in determining the inputs into these models which include:

- Crude oil price;
- Future costs and operating margins;
- The discount rates applied to the projected cash flows.

Other factors considered by management include the outcome of on-going negotiations with the operator of OPL 310 as well as feedback from regulators in respect of ministerial consent for the Group's various interests.

Accordingly, the impairment test of these assets is considered to be a key audit matter.

The Directors have engaged an expert to assist with a detailed analysis of the net present value of cash flows that may arise on OPL 310 over the life of the asset.

We focused our testing of the impairment assessment of Exploration and Evaluation assets on the key assumptions made by management.

Our audit procedures included:

- Evaluating the appropriateness and the reasonableness of the model and inputs used by management and also to ascertain whether it complies with the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources and IAS 36 Impairment of Assets.
- Challenging the assumptions used by management regarding future development and fiscal matters.
- Analysing the future projected cash flows used in the models to determine whether they are reasonable and consistent with the current oil price climate and expected future performance of the field.
- Comparing the projected cash flows, including the assumptions relating to production, price and operating margins, against market peers to test the reasonableness of management's projections.

We found the assumptions used by management in the determination of the net present value of cash flows on OPL 310 to be appropriate and no impairment loss is recognised as the carrying amount of the OPL 310 does not exceed its recoverable value.

Key Audit Matter	How the matter was addressed in the audit
Basis of consolidation of LEKOIL Nigeria Limited	
The Group (LEKOIL Limited) has an equity interest of 40% in LEKOIL Nigeria Limited, a company incorporated in Nigeria on 5th November 2010. On 13th May 2013, a shareholders' agreement was signed between LEKOIL Nigeria Limited and its shareholders. This agreement confers on the Group an economic interest of 90% in periods of dividend distribution and settlements during the process of winding-up or liquidation. Clarification was required as the basis of Group control over the investee (LEKOIL Nigeria Limited) and whether the Group applied the appropriate basis of consolidating the records of the investee into the books of the Group (i.e. the use of equity interest of 40% or the use of economic interest of 90%). The Group had been using the equity interest of 40% as the basis of consolidation. This position was reassessed during the year and was changed to using the economic interest of 90% as the basis for consolidation. This change in consolidation basis may not be properly accounted for and the restatement of the prior year figures may not be in line with the applicable standards.	We reviewed the reassessment of the Directors in respect of whether the Group (LEKOIL Limited) has control over LEKOIL Nigeria and also in respect of what the appropriate basis is for consolidating the records of LEKOIL Nigeria Limited into the books of the Group. Our review was based on the provisions of IFRS 10 and other applicable IFRS standards. We also consulted with accounting experts within Deloitte's technical department during the process. The Group's disclosures in respect of the basis of consolidation in the current year are included in note 3(r) of the financial statements and we considered the basis of consolidation and restatement of prior years' figures as provided by the Directors to be appropriate.

Other Information
The Directors are responsible for the other information. The other information comprises the Chairman's and CEO's Statements, Audit Committee's Report, Financial Review, Directors' Report and Remuneration Report, which we obtained prior to the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, if we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Olufemi Abegunde FCA-FRC/2013/ICAN/000000004507
for: Akintola Williams Deloitte
Chartered Accountants
Lagos, Nigeria

21 June 2017

Consolidated statement of financial position

As at 31 December

In US Dollars	Notes	2016	2015 Restated*
ASSETS			
Property, plant and equipment	8	**39,625,376**	12,602,414
Exploration and evaluation assets	9	**112,651,963**	111,976,751
Intangible assets	10	**8,237,415**	8,002,389
Other receivables	12	**795,851**	1,620,589
Other assets	13	**32,325,773**	29,017,897
Prepaid development costs	14	**–**	28,807,397
Total non-current assets		**193,636,378**	192,027,437
Inventories	11	**671,666**	–
Other receivables	12	**1,682,839**	939,224
Other assets	13	**186,454**	2,744,725
Prepaid development costs	14	**66,824,720**	–
Cash and bank balances	15	**4,384,738**	26,016,194
Total current assets		**73,750,417**	29,700,143
Total assets		**267,386,795**	221,727,580
EQUITY			
Share capital	16(a)	**26,828**	24,412
Share premium	16(b)	**264,004,066**	252,207,651
Accumulated deficit		**(66,973,567)**	(52,074,677)
Share based payment reserve		**6,478,650**	5,173,698
Equity attributable to owners of the Company		**203,535,977**	205,331,084
Non-controlling interests	17	**(5,436,258)**	(4,570,277)
Total equity		**198,099,719**	200,760,807
LIABILITIES			
Provision for Asset Retirement Obligation	19	**91,199**	176,621
Deferred income	20	**3,032,803**	697,897
Loans	21	**17,024,335**	–
Non-current liabilities		**20,148,337**	874,518
Trade and other payables	18	**31,346,552**	9,476,968
Deferred income	20	**7,426,486**	2,368,541
Loans	21	**10,365,701**	8,246,746
Current liabilities		**49,138,739**	20,092,255
Total liabilities		**69,287,076**	20,966,773
Total equity and liabilities		**267,386,795**	221,727,580

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to notes 3(q) and 3(r).

These financial statements were approved by the Board of Directors on 19 June 2017 and signed on its behalf by:

Olalekan Akinyanmi
Chief Executive Officer

Bruce Burrows
Chief Financial Officer

The notes on pages 30 to 61 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In US Dollars	Notes	2016	2015 Restated*
Revenue	22	–	–
Cost of sales		–	–
Gross profit		–	–
Operating expenses	23	(629,464)	–
General and administrative expenses	24	(21,075,259)	(21,735,522)
Impairment of property, plant and equipment		–	(1,102,500)
Loss from operating activities		(21,704,723)	(22,838,022)
Finance income	25	6,868,445	4,119,515
Finance costs	25	(928,593)	–
Net finance income/(costs)		5,939,852	4,119,515
Loss before income tax		(15,764,871)	(18,718,507)
Income tax expense	26	–	–
Loss for the year		(15,764,871)	(18,718,507)
Total comprehensive loss for the year		(15,764,871)	(18,718,507)
Total comprehensive loss attributable to:			
Owners of the Company		(14,898,890)	(17,397,970)
Non-controlling interests		(865,981)	(1,320,537)
		(15,764,871)	(18,718,507)
Loss per share:			
Basic loss per share ($)	27(a)	(0.03)	(0.05)
Diluted loss per share ($)	27(b)	(0.03)	(0.05)

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to notes 3(q) and 3(r).

The notes on pages 30 to 61 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December

In US Dollars	Note	Share capital	Share premium	Restated* Accumulated deficit	Share-based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2015		18,152	207,947,439	(34,676,707)	3,726,918	177,015,802	(3,249,740)	173,766,062
Total comprehensive loss for the year								
Loss for the year		–	–	(17,397,970)	–	(17,397,970)	(1,320,537)	(18,718,507)
Total comprehensive loss for the year		–	–	(17,397,970)	–	(17,397,970)	(1,320,537)	(18,718,507)
Transactions with owners of the company								
Issue of ordinary shares		6,260	44,260,212	–	–	44,266,472	–	44,266,472
Share-based payment-personnel expenses	26	–	–	–	1,446,780	1,446,780	–	1,446,780
Total contributions		6,260	44,260,212	–	1,446,780	45,713,252	–	45,713,252
Total transactions with owners of the Company		6,260	44,260,212	–	1,446,780	45,713,252	–	45,713,252
Balance at 31 December 2015		24,412	252,207,651	(52,074,677)	5,173,698	205,331,084	(4,570,277)	200,760,807
Balance at 1 January 2016		24,412	252,207,651	(52,074,677)	5,173,698	205,331,084	(4,570,277)	200,760,807
Total comprehensive loss for the year								
Loss for the year		–	–	(14,898,890)	–	(14,898,890)	(865,981)	(15,764,871)
Total comprehensive loss for the year		–	–	(14,898,890)	–	(14,898,890)	(865,981)	(15,764,871)
Transactions with owners of the Company								
Issue of ordinary shares		2,416	11,796,415	–	–	11,798,831	–	11,798,831
Share-based payment-personnel expenses	26	–	–	–	1,304,952	1,304,952	–	1,304,952
Total transactions with owners of the Company		2,416	11,796,415	–	1,304,952	13,103,783	–	13,103,783
Balance at 31 December 2016		**26,828**	**264,004,066**	**(66,973,567)**	**6,478,650**	**203,535,977**	**(5,436,258)**	**198,099,719**

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to notes 3(q) and 3(r).

The notes on pages 30 to 61 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

In US Dollars	Notes	2016	2015 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		**(15,764,871)**	(18,718,507)
Adjustments for:			
– Equity-settled share-based payment		**1,304,952**	1,446,780
– Finance income		**(73,055)**	(72,505)
– Impairment of property, plant and equipment		**–**	1,102,500
– Depreciation and amortisation	8,10	**1,195,753**	860,023
		(13,337,221)	(15,381,709)
Changes in:			
– Inventory		**(671,666)**	166,337
– Trade and other payables		**29,262,435**	6,923,043
– Other assets		**(749,605)**	(15,690,716)
– Other receivables		**476,994**	15,661,575
Net cash provided by/(used in) operating activities		**14,980,937**	(8,321,470)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	8	**(24,923,787)**	(10,514,984)
Deposit for investment	13	**–**	(12,240,000)
Prepaid development costs	14	**(38,017,323)**	(25,101,600)
Expenditure on behalf of Partner		**(395,871)**	(399,980)
Interest received		**73,055**	11,517
Loan to Ashbert Oil and Gas Limited	13(b)	**–**	(16,080,000)
Acquisition of exploration and evaluation assets	9	**(675,212)**	(1,943,019)
Acquisition of intangible assets	10	**(672,085)**	(46,931)
Net cash used in investing activities		**(64,611,223)**	(66,314,997)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	16	**11,798,831**	44,266,472
Proceeds from issue of loan note	21(a)	**28,028,149**	10,000,000
Repayment of loan	21(a)	**(8,000,000)**	(2,000,000)
Interest and transaction costs related to loan	21(a)	**(3,828,150)**	(839,537)
Net cash generated from financing activities		**27,998,830**	51,426,935
Net decrease in cash and bank balances		**(21,631,456)**	(23,209,532)
Cash and bank balances at 1 January		**26,016,194**	49,225,726
Cash and bank balances at 31 December	15	**4,384,738**	26,016,194

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to notes 3(q) and 3(r).

The notes on pages 30 to 61 are an integral part of these consolidated financial statements.

Notes to the financial statements

1. Reporting entity

LEKOIL Limited (the "Company" or "LEKOIL") is a company domiciled in the Cayman Islands. The address of the Company's registered office is Intertrust Group, 190 Elgin Avenue, Georgetown, Grand Cayman, Cayman Islands. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group's principal activity is exploration and production of oil and gas.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements were authorised for issue by the Board of Directors on 19 June 2017.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. The revised and new accounting standards and interpretations issued but not yet effective for accounting year beginning on 1 January 2016 are set out in note 5.

(b) Going concern basis of accounting

These consolidated financial statements have been prepared on the going concern basis of accounting, which assumes that the Group will continue in operation for the foreseeable future and be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

The Group incurred a total comprehensive loss of $15.76 million for the year ended 31 December 2016 (2015: loss $18.72 million), and has had negative cash flows from operations in previous years.

The ability of the Group to continue to operate as a going concern is dependent on a number of factors considered by the Directors as disclosed below:

- The ability of the Group to maintain steady state production and lifting from its activities on the Otakikpo marginal field in order to generate sufficient cash inflows to fund the cash outflows of the Group;
- The availability of sufficient funds to meet its obligations relating to production activities on Otakikpo marginal field as well as execution of work programs on OPL 310 and 325;
- The ability of the Group to successfully raise additional funding if required for the operational activities and other cash outflows of the Group; and
- Satisfactory execution of the work program on OPL 310 and 325 or successful negotiation of contractual terms with the stakeholders to enable the Group to defer the cash outflow in respect of the work programs to later years if the cash inflow from Otakikpo field production and additional third party funding will not be sufficient to fund further exploration and development activities of OPL 310 and 325 in the short term.

The Directors, having evaluated these factors, believe the use of the going concern assumption is appropriate for the preparation of the 2016 consolidated financial statements, for the following reasons:

- The Company has raised sufficient funds through debt finance to continue commercial production which began at Otakikpo in February 2017 after the completion of the MRT testing. The Company is targeting production of 10,000 bopd. Otakikpo-002 and Otakikpo-003 have been completed with four production strings. All onshore facilities have been fully commissioned and signed off by the regulators, and the offshore pipeline leading from the storage tanks to the tanker offloading manifold has been completed. Crude evacuation from the storage tanks to Amni terminals commenced in February 2017.
- In November 2015, LEKOIL acquired Afren Investment Oil & Gas (Nigeria) Limited to secure its existing investment and furthermore increase the participating interest on OPL 310 to 40% which is subject to Ministerial consent. Subsequently, LEKOIL began negotiating with the Operator and a nonbinding term sheet was signed setting out possible terms upon which the two companies would be prepared to transact in relation to OPL 310. The benefits that will accrue to LEKOIL together with the obligations in the draft agreement are contingent on the execution of the final definitive agreement. The Directors are optimistic of a positive outcome for the Group in the final definitive agreement. The obligations are detailed in note 31 to the financial statement.
- Furthermore, LEKOIL carried out detailed analysis of the Net Present Value of cash flows that may arise on OPL 310 over the life of the asset taking into account the weakness in the oil price and future costs that may be required on the asset. The assessment was carried out by Wood Mackenzie, an external expert. The Directors are of the opinion that the valuation although subject to uncertainties remains appropriate in the circumstances and the assets are not impaired. The Directors are satisfied with the potential commercial viability of the resources of OPL 310.
- In March and April 2017, the Group successfully obtained additional funding of US$16 million from third parties, which are structured as advances on future liftings. The facilities will be repaid over a thirty six (36) month period.

2. Basis of preparation continued

Having considered and taking into account the material uncertainties that may occur with respect to the above matters, the Directors believe that the Group will achieve adequate resources to continue operations into the foreseeable future and the Group will be able to realise their assets and discharge their liabilities in the normal course of business. The Directors therefore adopt and approve the going concern basis in the preparation of the consolidated financial statements.

(c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for share based payments which are measured at fair values.

(d) Functional and presentation currency

These consolidated financial statements are presented in US Dollars which is the Company's functional currency. All amounts have been rounded to the nearest unit, unless otherwise indicated.

(e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 2(b) – Going concern basis of accounting
- Note 13 – On the basis that the Group will obtain Ministerial consent for the acquisition of the entire issued share capital of Afren Investments Oil and Gas (Nigeria) Limited (Afren Oil and Gas) and that LEKOIL Limited will seek clarifications as to whether or not Ministerial consent is required for the acquisition of 88.57% of the issued share capital of Ashbert Oil and Gas Limited together with the control of the oil mineral rights interest held by Afren Oil and Gas and Ashbert Oil and Gas Limited, the Group has accounted for payments made as other assets.
- Note 9 – Exploration and Evaluation assets. On the basis that Ministerial consent will be obtained and the ongoing negotiations with Optimum together with the existing arrangements between Optimum and Afren Oil and Gas, will result in a favorable outcome for the Group's participating and economic interests in OPL 310, the Group has accounted for expenditures incurred on OPL 310 as Exploration and Evaluation assets.
- Note 9(c) – The Directors are confident that the license for OPL 310 will be converted or renewed as appropriate upon expiration.
- Note 30 – Judgment around the use of economic interest of 90/10% instead of equity interest of 60/40% as the basis of consolidating LEKOIL Nigeria Limited.

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2016 is included in the following notes:

- Note 2(b) – Going Concern. Key assumptions made and judgment exercised by the Directors in preparing the Group's cash forecast.
- Note 9(d) – Carrying value of Exploration and Evaluation assets. Basis for the conclusion that the carrying value of E&E assets do not exceed their recoverable amount.
- Note 13 – Carrying value of other assets. Basis for the conclusion that the carrying value of other assets do not exceed their recoverable amount.
- Note 14 – Carrying value of Prepaid development costs. Basis for the conclusion that the carrying value of Prepaid development costs do not exceed their recoverable amount.
- Note 28(b) – Unrecognised deferred tax assets. Availability of future taxable profit against which carry forward losses can be used.
- Note 32 – Financial Commitments and Contingencies. Key assumptions about the likelihood and magnitude of an outflow of economic resources.

3. Significant accounting policies

The accounting policies set out below have been applied by the Group consistently to all years presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payments awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's award and the extent to which the replacement awards relates to pre-combination service.

(ii) Non-controlling interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. The basis of recognition of Non-controlling interests in 2015 has been restated (note 3(r)).

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date on which control ceases. The Group controls an entity when it 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. The Group is deemed not to control an entity where regulatory approval is a substantive requirement for the passing of control.

(iv) Interests in joint arrangements

A joint arrangement is an arrangement in which the Group has joint control i.e. either rights to the net assets of the arrangement (joint venture), or rights to the assets and obligations for the liabilities of the arrangement (joint operation).

Interests in joint arrangements relate to joint operations and are recognised by incorporating the Group's share of each of the assets, liabilities, income and expenses line items into the Group's profit or loss and financial position on a line-by-line basis.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into US Dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into US Dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in Other Comprehensive Income (OCI) and accumulated in the translation reserve except to the extent that the translation difference is allocated to NCI.

3. Significant accounting policies continued

(c) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(d) Financial instruments

The Group classifies non-derivative financial assets into loans and receivables and non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Short-term loans and receivables that do not attract interest rate are measured at their original invoice amount where the effect of discounting is not material.

Financial assets classified as loans and other receivables comprise cash and cash equivalents, trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group has the following non-derivative financial liabilities: trade and other payables and loans & borrowings.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Short term payables that do not attract interest are measured at original invoice amount where the effect of discounting is not material.

(iii) Impairment

Non-derivative financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset and can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables.

3. Significant accounting policies continued

Non-financial assets
At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e) Property, plant and equipment

(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Depreciation
Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- Motor vehicles – 5 years
- Furniture and fittings – 5 years
- Leasehold improvement – 2 years
- Computer and household equipment – 4 years
- Leasehold property – 25 years
- Property, plant and machinery – 4 years
- Oil and gas assets – Unit of production method based on estimated proved developed reserves

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) Derecognition
An item of property plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(f) Exploration and Evaluation (E&E) expenditures

(i) Licence acquisition costs: licence acquisition costs are capitalised as intangible E&E assets. These costs are reviewed on a continual basis by management to confirm that drilling activity is planned and that the asset is not impaired. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Capitalised licence acquisition costs are measured at cost less accumulated amortisation and impairment losses. Costs incurred prior to having obtained the legal rights to explore an area are expensed directly as they are incurred.

(ii) Exploration expenditure: All exploration and appraisal costs are initially capitalised in well, field or specific exploration cost centres as appropriate pending future exploration work programmes and pending determination. All expenditure incurred during the various exploration and appraisal phase is capitalised until the determination process has been completed or until such point as commercial reserves have been established. Payments to acquire technical services and studies, seismic acquisition, exploratory drilling and testing, abandonment costs, directly attributable administrative expenses are all capitalised as exploration and evaluation assets. Capitalised exploration expenditure is measured at cost less accumulated amortisation and impairment losses.

3. Significant accounting policies continued

Treatment of E & E assets at conclusion of exploratory and appraisal activities
Exploration and evaluation assets are carried forward until the existence, or otherwise, of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment or intangible assets. If however, commercial reserves have not been found, the capitalised costs are charged to expense after the conclusion of the exploratory and appraisal activities. Exploration and evaluation costs are carried as assets and are not amortised prior to the conclusion of exploratory and appraisal activities.

An E&E asset is assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such circumstances include the point at which a determination is made as to whether or not commercial reserves exist. Where the E&E asset concerned falls within the scope of an established full cost pool, the E&E asset is tested for impairment together with any other E&E assets and all development and production assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. Where the E&E asset to be tested falls outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E asset concerned will be written off in full.

(g) Development expenditure

Once the technical feasibility and commercial viability of extracting oil and gas resources are demonstrable, expenditure related to the development of oil and gas resources which are not tangible in nature are classified as intangible development expenditure. Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses. Amortisation of development assets attributable to the participating interest is recognised in profit or loss using the unit-of-production method.

(h) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Inventories

Inventories comprise crude oil stock at year end and consumable materials.

Inventories are valued at the lower of cost and net realisable value. Cost of consumable materials is determined using the weighted average method and includes expenditures incurred in acquiring the stocks, and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory values are adjusted for obsolete, slow-moving or defective items where appropriate.

3. Significant accounting policies continued

(j) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The Group expends resources or incurs liabilities on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes on systems, licences, signature bonus, intellectual property, market knowledge and trademarks.

The Group recognises an intangible asset if, and only if;

(a) economic benefits that are attributable to the asset will flow to the entity; and

(b) the costs of the asset can be measured reliably.

The Group assesses the probability of future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. Intangible assets are measured initially at cost.

Amortisation is calculated to write off the cost of the intangible asset less its estimated residual value using the straight-line basis over the estimated useful lives or using the units of production basis from the date that they are available for use. The estimated useful life and methods of amortisation of intangible assets for current and comparative years are as follows:

Type of asset	Basis
Mineral rights acquisition costs (signature bonus)	Unit of production method based on estimated proved developed reserves.
Accounting software	Amortised over a useful life of three years.
Geological and geophysical software	Amortised over a useful life of five years.

(k) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees and Directors is recognised as an employee expense and other general and administrative expense respectively, with a corresponding increase in equity, over the vesting period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(iii) Post-employment benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan (pension fund) under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods.

In line with the provisions of the Pension Reform Act 2014 (Amended), a subsidiary domiciled in Nigeria has instituted a defined contribution pension scheme for its permanent staff. Staff contributions to the scheme are funded through payroll deductions while the subsidiary's contribution is recognised in profit or loss as employee benefit expense in the periods during which services are rendered by employees. Employees contribute 8% each of their gross salary to the fund on a monthly basis. The subsidiary's contribution is 10% of each employee's gross salary.

(iv) Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange of the related services. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

3. Significant accounting policies continued

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

The Group's asset retirement obligation ("ARO") primarily represents the estimated present value of the amount the Group will incur to plug, abandon and remediate its areas of operation at the end of their productive lives, in accordance with applicable legislations. The Group determines the ARO on its oil and gas properties by calculating the present value of estimated cash flows related to the liability when the related facilities are installed or acquired.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are only disclosed and not recognised as liabilities in the statement of financial position. If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

(m) Finance income and finance costs

"Finance income comprises, where applicable, interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, fair value gains on financial assets at fair value through profit or loss, gains on the remeasurement to fair value of any pre-existing interest in an acquiree in a business combination, gains on hedging instruments that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise, where applicable, interest expense on borrowings, unwinding of the discount on provisions and deferred consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial assets at fair value through profit or loss and contingent consideration, impairment losses recognised on financial assets (other than trade receivables), losses on hedging instruments that are recognised in profit or loss and reclassifications of net losses previously recognised in other comprehensive income.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which comprise share options granted to employees. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings from continuing operations.

(o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incurs expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's CEO include items attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's head office expenses) and income tax assets and liabilities.

(p) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

3. Significant accounting policies continued

(i) Current tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

(ii) Deferred tax
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporal differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary difference when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(q) Re-classification of Prior Year Otakikpo Development Costs
In the prior year, a significant portion of Prepaid development costs due to a farm-in agreement related to Green Energy International Limited's share of costs in the Otakikpo marginal field was classified as current assets within the Statement of Financial Position, based on estimated recoverability by the Directors. Such classification did not reflect the expected timing of recovery. There were no recoveries in 2016, hence these costs have been reclassified as non-current assets. As a result, total non-current assets have increased by $27 million and current assets have decreased by $27 million in the consolidated statement of financial position for the comparative year. This item had no impact on reported losses or basic and diluted earnings per share.

Further, this cost was treated as an operating activity within the Statement of Cash Flows for the comparative period. Costs incurred by LEKOIL Limited on behalf of Green Energy International Limited on the Otakikpo marginal field represents an investing activity. The Directors have now concluded and have reclassified the cash incurred on behalf of Green Energy International Limited on the Otakikpo marginal field to investing activities. Consequently, the cash used in operating activities has decreased by $24 million and cash used in investing activities has a corresponding increase in the comparative year.

(r) Restatement of Non-Controlling Interest and Accumulated Deficit
Loss attributable to the non-controlling interest now reflects the 90%/ 10% economic interest of LEKOIL Limited in LEKOIL Nigeria Limited based on the Shareholders Agreement. The agreement awards 90% of dividends, other distribution as well as any return of capital (whether following winding-up, reduction of capital or any other form of return of capital) from LEKOIL Nigeria Limited and its associated entities, to LEKOIL Limited.

Prior years' financial statements were consolidated on the Equity basis of 40%/60% basis. As a result, total accumulated deficit increased by $22 million while the non-controlling interest has a corresponding decrease in the prior year (2015 YE) consolidated financial statement. As at 1 January 2015 (2014 YE), there was an increase in accumulated deficit by $16 million while the non-controlling interest has a corresponding decrease.

Similarly, loss attributable to owners of the Company increased by $6.3 million while loss attributable to non-controlling has a corresponding decrease in the prior year (2015 YE). The restated basic and diluted loss increased by $0.02 when compared to prior year (2015 YE) consolidated financial statement.

4. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation expert that has responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

The valuation expert regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation expert assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 24 – share-based payment arrangements

Note 32 – financial risk management and financial instruments

5. Application of new and revised IFRS

New and revised IFRS in issue but not yet effective
There are new or revised accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretations that are applicable to the business of the entity and may have an impact on future financial statements.

Effective for the financial year commencing 1 January 2017
- Disclosure Initiative (Amendments to IAS 1)
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

Effective for the financial year commencing 1 January 2018
- IFRS 15 Revenue from contracts with customers.
- IFRS 9 Financial Instruments.

Effective for the financial year commencing 1 January 2019
- IFRS 16 Leases.

5. Application of new and revised IFRS continued

The Directors are of the opinion that the impact of the application of the new standards and interpretations will be as follows:

IFRS 15 Revenue from Contracts with Customers

The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue- Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The Directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the consolidated financial statements.

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group is yet to carry-out an assessment to determine the impact that the initial application of IFRS 9 could have on its business; however, the Group (or Company) will adopt the standard for the year ending 31 December 2018.

The Group will assess the impact once the standard has been finalised and becomes effective.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as operating leases or finance leases as required by IAS 17 and introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and

(b) depreciation of lease assets separately from interest on lease liabilities in profit or loss.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Amendments to IFRS that are mandatorily effective for the current year

In the current year, the Group considered amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarifies how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

The amendments require the Group to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.
- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Group recognises the reduction in the service cost in the period in which the related services are rendered.

The Group operates defined contribution plans and does not operate defined benefit plans. Therefore, the use of these amendments was not applicable to the Group and as such had no impact on the disclosures or on the amounts recognised in the consolidated financial statements.

6. Operating segments

The Group has a single class of business which is exploration, development and production of petroleum oil and natural gas. The geographical areas are defined by the Group as operating segments in accordance with IFRS 8- Operating Segments. As at the year end, the Group had operational activities mainly in one geographical segment, Nigeria.

Geographical information

In presenting information on the basis of geographical segments, segment assets are based on the geographical location of the assets.

Non-current assets

In US Dollars	2016	2015
Nigeria	193,130,991	189,937,610
Namibia	465,108	407,445
USA	40,279	117,727
Cayman	–	1,564,655
	193,636,378	192,027,437

Non-current assets presented consists of property, plant & equipment, intangible assets, long term prepayment, other receivables and E&E assets.

Profit and loss

	2016					
In US Dollars	Nigeria	Namibia	USA	Cayman Islands	Others	Total
Revenue	–	–	–	–	–	–
Loss from operating activities	(11,168,273)	(143,634)	(486)	(9,792,589)	(599,741)	(21,704,723)
Net finance income/(costs)	5,708,239	138,946	326	84,160	8,181	5,939,852
Total comprehensive loss for the year	(5,460,034)	(4,688)	(160)	(9,708,429)	(591,560)	(15,764,871)

	2015					
In US Dollars	Nigeria	Namibia	USA	Cayman Islands	Others	Total
Revenue	–	–	–	–	–	–
Loss from operating activities	(12,335,751)	(305,515)	–	(10,151,051)	(45,705)	(22,838,022)
Net finance income/(costs)	2,569,454	–	1,607	1,548,453	–	4,119,515
Total comprehensive loss for the year	(9,766,297)	(305,515)	1,607	(8,602,598)	(45,705)	(18,718,507)

No revenue has been reported for each segment as the Group is yet to commence production activities. See note 22.

7. Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors capital using a ratio of adjusted net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities less cash and cash equivalents.

The Group's net debt to equity ratio at the end of the reporting year was as follows:

In US Dollars	**2016**	2015
Total liabilities	**69,287,076**	20,966,773
Less: cash and cash equivalents	**(4,384,738)**	(26,016,194)
Net debt	**64,902,338**	(5,049,421)
Total equity	**198,099,719**	200,760,807
Net debt to equity ratio	**0.33**	(0.03)

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

8. Property, plant and equipment

The movement on this account was as follows:

In US Dollars	Oil and Gas Assets	Motor Vehicles	Furniture & Fittings	Computers, Communication & Household Equipment	Plant, Machinery, Storage Tank & Others	Leasehold Improvements	Total
Cost:							
Balance at 1 January 2015	311,510	174,214	215,967	222,433	–	759,303	1,683,427
Additions	10,752,704	121,310	136,657	366,801	–	400,416	11,777,888
Balance at 31 December 2015	11,064,214	295,524	352,624	589,234	–	1,159,719	13,461,315
Balance at 1 January 2016	11,064,214	295,524	352,624	589,234	–	1,159,719	13,461,315
Additions	27,376,048*	–	57,029	159,421	125,963	63,195	27,781,656**
Balance at 31 December 2016	**38,440,262**	**295,524**	**409,653**	**748,655**	**125,963**	**1,222,914**	**41,242,971**
Accumulated depreciation and impairment losses:							
Balance at 1 January 2015	–	66,385	36,375	51,327	–	155,436	309,523
Charge for the year	–	42,928	61,965	98,673	–	345,812	549,378
Balance at 31 December 2015	–	109,313	98,340	150,000	–	501,248	858,901
Balance at 1 January 2016	–	109,313	98,340	150,000	–	501,248	858,901
Charge for the year	136,036	51,993	72,231	181,502	10,394	306,539	758,694
Balance at 31 December 2016	**136,036**	**161,306**	**170,571**	**331,502**	**10,394**	**807,787**	**1,617,595**
Carrying amounts:							
At 31 December 2016	**38,304,226**	**134,218**	**239,082**	**417,153**	**115,569**	**415,127**	**39,625,376**
At 31 December 2015	11,064,214	186,211	254,284	439,234	–	658,471	12,602,414

* The addition of $27.38 million during the year is mainly in respect of the production drilling and facilities, infrastructure pipelines, site remediation and rehabilitation and land reclamation activities on the Otakikpo marginal field.

** Included in additions to property, plant and equipment of $27.78 million are borrowing costs amounting to $2.96 million representing capitalised interest and transaction costs with respect to the loan facilities from FBN Capital and Sterling Bank; and change in capitalised asset retirement obligation of $0.09 million. These amounts have been adjusted for in the statement of cashflows.

9. Exploration and Evaluation (E&E) assets

E & E assets represent the Group's oil mineral rights acquisition and exploration costs.

(a) The movement on the E&E assets account was as follows:

In US Dollars	2016	2015
Balance at 1 January	**111,976,751**	111,136,232
Additions during the year (see (b) below)	**675,212**	1,943,019
Impairment loss	**–**	(1,102,500)
Balance at 31 December	**112,651,963**	111,976,751

(b) The additions during the year mainly consists of the Group's share of expenditure on OPL 310 amounting to $0.68 million (2015: $1.94 million). Total expenditure incurred on OPL 310 from inception of farm-in agreement to 31 December 2016 and expected to be recovered in oil amounts to $112.15 million.

(c) The unexpired lease term on OPL 310 is two years as at year end. The Directors are confident that the license will be converted to OML or renewed as appropriate upon expiration. The Group in June 2017, received the consent of the Honourable Minister of Petroleum for the complete transfer of the original 17.14% participating interest acquired on OPL 310 in February 2013 by Mayfair Assets and Trust Limited, a subsidiary of the Group.

The Directors continue to monitor the progress of its application for minister's consent for the 22.86% participating interest in OPL 310 through the acquisition of the shares of Afren Oil and Gas Investments Limited. The Directors are positive that all the legal and contractual issues will be resolved.

(d) Exploratory, geological and geophysical activities continued on OPL 310 during 2016 financial year. On the basis of the expert's evaluation of the resource capability of OPL 310 done in June 2016, which is believed to be significantly higher than the results of the Competent Persons Report of 2013, the Directors are of the opinion that the investment in OPL 310 is not impaired despite the decline in oil price.

10. Intangible assets

The movement on the intangible assets account was as follows:

In US Dollars	Mineral Rights Acquisition Costs	Geological and Geophysical Software	Accounting Software	Total
Costs				
Balance at 1 January 2015	7,000,000	1,406,308	57,125	8,463,433
Additions during the year	–	–	46,931	46,931
Balance at 31 December 2015	7,000,000	1,406,308	104,056	8,510,364
Balance at 1 January 2016	7,000,000	1,406,308	104,056	8,510,364
Additions during the year	–	672,085	–	672,085
Balance at 31 December 2016	**7,000,000**	**2,078,393**	**104,056**	**9,182,449**
Accumulated amortisation				
Balance at 1 January 2015	–	188,547	8,783	197,330
Charge for the year	–	281,261	29,384	310,645
Balance at 31 December 2015	–	469,808	38,167	507,975
Balance at 1 January 2016	–	469,808	38,167	507,975
Charge for the year	25,746	409,002	2,311	437,059
Balance at 31 December 2016	**25,746**	**878,810**	**40,478**	**945,034**
Carrying amounts				
At 31 December 2016	**6,974,254**	**1,199,583**	**63,578**	**8,237,415**
At 31 December 2015	7,000,000	936,500	65,889	8,002,389

* Mineral rights acquisition costs represents the signature bonus for the Otakikpo marginal field amounting to $7.0 million.

11. Inventories

Inventories consist of the Group's share of crude stock as at 31 December 2016 (31 December 2015: nil)

12. Other receivables

Other receivables comprise:

In US Dollars	2016	2015
Director's loan (See note 29)	**1,626,312**	1,564,655
Due from Afren Investment Oil & Gas (Nigeria) Limited (See note 12(a))	**795,851**	399,980
Other receivables	**35,564**	539,244
Employee loans and advances	**20,963**	55,934
	2,478,690	2,559,813
Non-current	**795,851**	1,620,589
Current	**1,682,839**	939,224
	2,478,690	2,559,813

(a) The amount due from Afren Investment Oil & Gas (Nigeria) Limited (Afren) represents Afren's share of Optimum's overheads paid by the Group on Afren's behalf.

13. Other assets

Other assets comprises:

In US Dollars	2016	2015
Due from Ashbert Oil and Gas Limited (See note 13 (a))	**19,119,201**	16,777,897
Deposit for investments in Afren Investments Oil & Gas (Nigeria) Limited (See note 13 (b))	**12,000,000**	12,000,000
Prepaid rent	**399,242**	834,205
Deposit for investments in Ashbert Oil & Gas Limited (note 13 (a))	**240,000**	240,000
Prepaid insurance	**209,442**	248,797
Advance for captive generating plant	**–**	1,502,448
Others	**544,342**	159,275
	32,512,227	60,570,019
Current	**186,454**	2,744,725
Non-current	**32,325,773**	57,825,294
	32,512,227	60,570,019

(a) On 1 September 2015, LEKOIL Exploration and Production Nigeria Limited, a wholly owned subsidiary of LEKOIL Nigeria Limited, executed a share purchase agreement with Ashbert Limited for the acquisition of 88.57% of the issued Capital in Ashbert Oil and Gas Limited (Ashbert). As at the date of LEKOIL's acquisition of 88.57% shareholding in Ashbert, Ashbert had received only an award letter, notifying the Company of the award of OPL 325 Asset to Ashbert. The payment of the signature bonus on OPL 325 is to be made in three tranches of $16,080,000, $12,060,000 and $12,060,000. The first tranche of $16,080,000 was paid on 27 October 2015. The second tranche of $12,060,000 is due on conversion of OPL 325 to an Oil Mining Lease and the last tranche of $12,060,000 is due on achieving first oil. The initial payment of $240,000 being part of the consideration for the acquisition of interests in Ashbert has been reported as deposit for investment pending the conclusion of the acquisition and the receipt of the consent of the Minister of Petroleum.

The Company entered into a loan agreement with Ashbert for the signature bonus payment and will lend an aggregate sum of $40,200,000, in three tranches of $16,080,000, $12,060,000 and $12,060,00. The total commitment plus interest, fees, commissions and accessories due in respect thereof shall be repaid in the equivalent of barrels of crude oil from the Borrower's share of crude oil produced from the Field, subject to any existing agreements between the Borrower and the Lender regarding the allocation of crude oil entitlements; converted at the crude oil barrel price prevailing on the open market. The loan bears interest at a rate referencing 90-day LIBOR plus 12.5% per annum. The principal and accrued interest as at 31 December 2016 on the first tranche of $16,080,000 is $19.1 million (2015:$16.7 million).

13. Other assets continued

(b) On 30, November 2015, LEKOIL 310 Limited, a wholly owned subsidiary of LEKOIL Limited also executed a sale and purchase agreement with the Administrators of Afren Nigeria Holdings Limited and Afren Plc relating to the entire issued share capital of Afren Investment Oil & Gas (Nigeria) Limited and certain intra-company debts following Afren Plc's insolvency.

In accordance with the agreement, LEKOIL 310 Limited shall acquire the entire share of Afren Investment Oil & Gas (Nigeria) Limited and will be assigned the intra-company debts of Afren Nigeria Holdings Limited and Afren Plc, with Afren Investment Oil & Gas (Nigeria) Limited for considerations of $1, $6.4 million and $6.6 million respectively.

Consequently on 18 November 2015, LEKOIL 310 Limited made the Initial Payments of $5.9 million and $6.1 million for Afren Investment Oil & Gas (Nigeria) Limited intra-company debts with Afren Plc and Afren Nigeria Holdings Limited respectively.

The SPA gives LEKOIL an irrevocable right to the intercompany debt of Afren Plc. and Afren Nigeria Holdings. As at the date of execution of the Agreement, the total debt amounted to $150 million in the books of Afren Investment Oil and Gas (Nigeria) Limited. The Group has evaluated the fair value of this receivable on initial recognition to be nil, considering the recoverability surrounding this balance from Afren Investment Oil and Gas (Nigeria) Limited. Accordingly, this receivable has been recognised as nil as at 31 December 2015.

The shares sale and purchase is subject to ministerial consent. The payment has been reported as deposit for share's pending the receipt of the consent of the Minister of Petroleum.

14. Prepaid development costs

In US Dollars	2016	2015
Prepaid development costs due to farm-in agreement (note 14 (a))	**66,824,720**	28,807,397
Current	**66,824,720**	–
Non-current	**–**	28,807,397
	66,824,720	28,807,397

(a) Prepaid development costs represents Green Energy International Limited share of costs (60% of joint operations' costs) in the Otakikpo marginal field. Under the terms of the farm-in agreement, LEKOIL Oil and Gas Investment Limited undertakes to fund GEIL participating interest share of all costs relating to the joint operation on the Otakikpo marginal field, until the completion of the Initial Work Program. The Group will recover costs at a rate of LIBOR plus a margin of 10% through crude oil lifting when the field commences production. However, for expenditure above $70 million, the recovery rate increases to LIBOR plus a margin of 13%. The interest on carried cost has been included as part of the Prepaid development costs. The Prepaid development costs is non recourse.

15. Cash and bank balances

In US Dollars	2016	2015
Cash at hand		
Bank balances	**3,283,327**	26,016,194
Restricted cash (see note 15 (a))	**1,101,411**	–
Cash and bank balances	**4,384,738**	26,016,194

(a) Restricted cash represents cash funding of the debt service reserve accounts for two quarters of FBN Capital Notes repayment as stated in note 21.

16. Capital and reserves

(a) Share capital

In US Dollars	2016	2015
Authorised	**50,000**	50,000
Issued, called up and fully paid	**26,828**	24,412
Total issued and called up share capital	**26,828**	24,412

	Ordinary shares	
In US Dollars	2016	2015
In issue at 1 January	**24,412**	18,152
Issued for cash	**2,416**	6,260
In issue at 31 December – fully paid	**26,828**	24,412
Authorised – par value $0.00005 (2015: $0.00005)	**1,000,000,000**	1,000,000,000

(b) Share premium

Share premium represents the excess of amount received over the nominal value of the total issued share capital as at the reporting date. The analysis of this account is as follows:

Number of shares @ US$0.0005 each	Consideration (US$)	Nominal value (US$)	Premium (US$)
43,318,430	6,022,165	2,166	6,019,999
30,000,000	1,500	1,500	–
2,990,660	1,121,500	150	1,121,350
3,500,000	203,000	175	202,825
512,500	98,250	26	98,224
19,470,570	1,396,661	974	1,395,687
82,732,073	46,100,445	4,137	46,096,308
147,382,000	116,492,386	7,369	116,485,017
33,000,000	36,416,700	1,650	36,415,050
93,750	112,984	5	112,979
125,200,000	44,266,472	6,260	44,260,212
48,330,000	11,798,831	2,416	11,796,415
536,529,983	**264,030,894**	**26,828**	**264,004,066**

The movement in share premium during the year was as follows:

In US Dollars	2016	2015
Balance at 1 January	**252,207,651**	207,947,439
Additional issue of shares during the year	**11,796,415**	44,260,212
Balance at 31 December	**264,004,066**	252,207,651

The increase of $11.8 million relates to the placement of new ordinary shares issued in October 2016. The Company raised capital by issuing 48,330,200 new ordinary shares at a placing price of $0.37 (21 pence) per share raising gross proceeds of $12.4 million and net proceeds of $11.8 million.

17. Non-controlling interests

In US Dollars	2016	2015
LEKOIL Nigeria Limited	**5,296,726**	4,431,694
LEKOIL Exploration and Production (Pty) Limited (Namibia)	**139,532**	138,583
	5,436,258	4,570,277

18. Trade and other payables

In US Dollars	2016	2015
Accounts payable	**18,314,337**	5,029,596
Accrued expenses	**10,512,541**	3,080,574
Other statutory deductions	**2,372,721**	1,201,150
Other payables	**141,518**	30,575
Payroll liabilities	**5,435**	135,073
	31,346,552	9,476,968

19. Provisions for asset retirement obligation

(a) The movement in provision for asset retirement obligation account was as follows:

In US Dollars	2016	2015
Balance at 1 January	**176,621**	–
Additions during the year	**–**	176,621
Unwinding of discount	**19,994**	–
Effect of changes to decommissioning estimates	**(105,416)**	–
Balance at 31 December	**91,199**	176,621

The Group has recognised provision for asset retirement obligation ("ARO") which represents the estimated present value of the amount the Group will incur to plug, abandon and remediate Otakikpo operation at the end of the productive lives, in accordance with applicable legislations. These costs are expected to be incurred in the year 2040 dependent on government legislation and future production profiles of the project. The provision has been estimated at a US inflation rate of 2% and discounted to present value at 17%. The provision recognised represents 40% of the net present value of the estimated total future cost as the Company's partner, GEIL is expected to bear 60% of the cost.

A corresponding amount equivalent to the provision is recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements, reflecting management's best estimates.

The unwinding of the discount on the decommissioning is included as a finance cost.

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment.

During 2016, the Group's internal specialist re-evaluated the decommissioning costs for the oil and gas assets following additional development costs incurred on Otakikpo, which led to the adjustment of the amounts previously provided for asset retirement obligation. Management believe the estimates continue to form a reasonable basis for the expected future costs of decommissioning, which are expected to be incurred in 2040.

20. Deferred income

Deferred income comprises:

In US Dollars	2016	2015
Interest on Prepaid development costs (note 14 (a))	**7,426,486**	2,368,541
Interest on loan due from Ashbert Oil and Gas Limited (note 13 (a))	**3,032,803**	697,897
	10,459,289	3,066,438
Current	**7,426,486**	2,368,541
Non-current	**3,032,803**	697,897
	10,459,289	3,066,438

21. Loans and borrowings

In June 2016, LEKOIL Oil and Gas Investments Limited (a wholly owned subsidiary of LEKOIL Nigeria Limited), refinanced its existing $10 million Notes Issuance Agreement ("NIA") with FBN Capital Limited ("FBN") and secured a new 2 billion Naira facility from FBN for Otakikpo Field development. The 2 billion Naira loan was increased to 4.5 billion Naira (approximately $3.3 million) facility in August 2016. The Group also drew down 1 billion Naira (approximately $3.3 million) out of the 5 billion Naira facility with Sterling Bank plc in August 2016.

The $10 million facility has a maturity of three years and is repayable quarterly after a six-month moratorium with a margin of 11.25% over LIBOR. The existing NIA bridge facility, of which $5 million was due May 2016, was extended and subsequently refinanced into the new USD facility.

The revised 4.5 billion Naira facility has a maturity of three years, is repayable quarterly with ten quarterly instalments after a six-month moratorium. The notes have an interest rate referencing the higher of the 30-day average of 90 day NIBOR + 6% or 20%.

The Sterling bank facility has a maturity of three years and is repayable quarterly following a six-month moratorium with a margin of 10% over NIBOR.

The principal plus accrued interest as at 31 December 2016 is $27,390,036 (31 December 2015 is $8,246,746).

(a) The movement in short-term loan account was as follows:

In US Dollars	2016	2015
Balance at 1 January	**8,246,746**	–
Draw-down during the year	**28,028,149**	10,000,000
Pay-off during the year	**(8,000,000)**	(2,000,000)
Effective interest during the year	**2,943,291**	1,086,283
Interest and fees paid during the year	**(3,828,150)**	(839,537)
Balance at 31 December	**27,390,036**	8,246,746
Non-current	**17,024,335**	–
Current	**10,365,701**	8,246,746
	27,390,036	8,246,746

22. Revenue

No revenue is reported in these consolidated financial statements as the Group is yet to commence production of oil and gas (2015: nil).

23. Operating expenses

In US Dollars	2016	2015
Production and operating costs	355,863	–
Community and security expenses (see note 24 (c))	111,819	–
Depreciation and amortisation (see notes 8 and 10)	161,782	–
	629,464	–

Operating expenses relate to production expenditure on MRT testing which commenced on 8 December 2016.

24. General and administrative expenses

In US Dollars	2016	2015
Expenses by nature		
Personnel expenses (note 24 (a))	8,584,453	9,045,510
Legal, consultancy and technical fees	2,654,651	1,841,823
Corporate services, legal, hotel expenses, insurance and travel costs	3,083,302	3,849,898
Rent expenses (note 24 (b))	1,703,351	941,935
Depreciation and amortisation (notes 8 and 10)	1,033,970	860,023
Donations, sponsorships and overhead costs	746,353	508,256
Directors' fees	538,514	490,000
Community and security expenses	2,032,228	936,581
Other expenses	204,247	3,261,496
	20,581,069	21,735,522

(a) Personnel expenses

In US Dollars	2016	2015
Wages and salaries	7,074,462	7,458,236
Defined contribution pension expense	205,039	140,494
Equity settled share-based payment	1,304,952	1,446,780
	8,584,453	9,045,510

(b) Operating leases

The Group leases office and residential facilities under cancellable operating leases. Leases payments are made upfront covering the lease period with no additional obligations.

(c) The Group incurred $2.1 million on community and security costs (2015: $0.9 million). A large part of the expenditure was incurred on the Community Trust Fund.

25. Finance income and costs

In US Dollars	2016	2015
Finance income		
Interest income	**73,055**	72,505
Net foreign exchange gains (see note 25 (a))	**6,795,390**	4,047,010
	6,868,445	4,119,515
Finance costs		
Finance expenses	**928,593**	–

(a) Foreign exchange gains
Foreign exchange gains present realised currency exchange difference gains resulting from the conversion of US dollar amounts to Nigerian Naira amounts; to meet obligations settled in Nigerian Naira. The significant devaluation of Nigerian Naira to the US dollars in 2016 and the huge exchange rates disparity between the official exchange rate and the parallel market exchange rate accounted for the significant foreign exchange gain.

26. Share-based payment arrangements

At 31 December 2016, the Group had the following share-based payment arrangements:

Share option scheme (equity-settled)
The Group established a share option scheme that entitles employees, key management personnel and consultants providing employment-type services to purchase shares in the Group. In accordance with the scheme, holders of vested options are entitled to purchase shares at established prices of the shares at the date of grant during a period expiring on the tenth anniversary of the effective date i.e. grant date. The grant dates for awards were 3 December 2010, 1 June 2011, 1 November 2011, 4 June 2012, 19 February 2013, 7 April 2013, 17 May 2013 and 26 March 2014 based upon a shared understanding of the terms of the awards at that time.

At inception of the share option scheme, the terms and conditions related to the scheme are as follows:

Vesting periods	Cumulative vested percentage	Number of option shares per vesting period and exercise price		
		US$1	US$3.75	US$7.50
Less than 12 months from the effective date	25%	550,000	475,000	475,000
12 months from the effective date	50%	550,000	475,000	475,000
24 months from the effective date	75%	550,000	475,000	475,000
36 months from the effective date	100%	550,000	475,000	475,000
		2,200,000	1,900,000	1,900,000

The Group issued options with 3 different exercise prices $1.00, $3.75, and $7.50 in 2012. The share price was estimated based on recent arm's length share issues. On 17 May 2013, the issued options with exercise prices of $1.00 & $3.75 were cancelled and the affected employees were awarded shares at par value in consideration for the cancellation of the vested options. The issued options with exercise price of $7.50 were subdivided by a factor of ten in line with the Group's capital reorganisation which resulted in a share split of 10:1. The exercise price of the outstanding options was also subdivided by a factor of ten resulting in a reduction in exercise price from $7.50 to $0.75 and an increase in total number of option shares from 6,000,000 to 19,000,000.

Effective 26 March 2014, the exercise price of the outstanding stock options was changed from $0.75 to GB£0.49 using a conversion rate of US$1.53 to GB£1.00 and the existing stock option agreements was amended to reflect the exercise price in GB£. In 2014, 93,750 units of share options were exercised by the Directors.

26. Share-based payment arrangements continued

The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at 1 January	**0.58**	**17,462,986**	0.58	17,462,986
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Outstanding at 31 December	**0.58**	**17,462,986**	0.58	17,462,986
Exercisable at 31 December	**0.75**	**17,352,986**	0.75	16,742,778

The options outstanding at 31 December 2016 have an exercise price of GB£0.49 and a weighted average contractual life of 5.05 years (2015: 6.05 years).

Inputs for measurement of grant date fair values

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model for plain vanilla European call options with the following inputs:

	2016	2015	2014
Fair value of share options and assumptions			
Weighted average fair value at grant date	**$0.54**	$0.54	$0.54
Share price at grant date	**$0.91**	$0.91	$0.91
Exercise price	**$0.75**	$0.75	$0.75
Option life (Expected weighted average life in Years)	**7.0**	7.0	5.0
Expected volatility	**60%**	60%	60%
Risk-free Interest rate	**1.70%**	1.70%	1.70%
Expected dividends	**na**	na	na

Long-Term Incentive Plan scheme (equity-settled)

Awards were made under the Group's Long-Term Incentive Plan (LTIP) which was approved on 19 November 2014 and amended on 21 December 2015. The Board approved the grant of 7,895,000 stock options to employees of the Group on 26 June 2015 and 3,143,000 stock options to the CEO, Lekan Akinyanmi on 23 December 2015. In October 2016, 9,800,000 stock options were awarded to employees.

The options vest three years from the grant date subject to meeting the performance criteria. If they vest, they will remain exercisable for seven years after the vesting date. The granted share options are subject to market-based vesting conditions. The options will vest subject to the Company's annual compound Total Shareholder Return ("TSR") over the three year performance period starting on the grant date, with:

- no options vest if annual compound TSR is less than 10%;
- 30% of options vest if annual compound TSR is 10%;
- 100% options vest if annual compound TSR is 20% or more; and
- between 30% and 100%, the percentage of options that will vest is determined on a straight-line basis for annual compound TSR between 10% and 20%.

26. Share-based payment arrangements continued

The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at 1 January	**0.62**	**10,978,000**	–	–
Granted during the year	**0.27**	**9,800,000**	0.62	11,038,000
Forfeited during the year	**0.27**	**(32,000)**	0.62	(60,000)
Outstanding at 31 December	**0.46**	**20,746,000**	0.62	10,978,000

The options outstanding at 31 December 2016 had an exercise price in the range of $0.27 to $0.62 and a weighted average contractual life of 4.22 years.

Inputs for measurement of grant date fair values
The fair value of each stock option granted was estimated on the date of grant using the Monte-Carlo simulation with the following inputs:

Fair value of share options and assumptions

In US Dollars	2016	2015
Weighted average fair value at grant date	**$0.62**	$0.67
Share price at grant date – Stock options issued as announced on 8 December 2016	**$0.27**	
Exercise price – Stock options issued as announced on 8 December 2016	**$0.27**	
Option life (expected life in years)	**6 year**	
Expected volatility – Stock options issued as announced on 8 December 2016	**61%**	
Risk-free Interest rate	**0.34%**	
Share price at grant date – Stock options issued on 26 June 2015		$0.46
Share price at grant date – Stock options issued on 23 December 2015		$0.31
Exercise price – Stock options issued on 26 June 2015		$0.62
Exercise price – Stock options issued on 23 December 2015		$0.59
Option life (expected life in years)		3.5
Expected volatility – Stock options issued on 26 June 2015		60%
Expected volatility – Stock options issued on 23 December 2015		65%
Risk-free Interest rate		1.5%
Expected dividends	**na**	na

Volatility was estimated with reference to empirical data for proxy companies with listed equity.

Non-Executive Director Share Plan (equity-settled)
On 21 December 2015 the Board adopted the Group's Non-Executive Director Share Plan designed to provide incentives to Non-Executive Directors. The Committee made an award of 500,000 stock options to the Non-Executive Directors under this plan on 23 December 2015. In December 2016, the Company announced that 500,000 stock options were awarded to Non-Executive Directors.

The NED stock options are not subject to any performance criteria and vest three years from the grant date, subject to successful completion of the three year service period starting on the grant date. The options can be exercised over a seven year period beginning on the expiry of the service period.

26. Share-based payment arrangements continued

The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at 1 January	**0.59**	**500,000**	–	–
Granted during the year	**0.27**	**500,000**	0.59	500,000
Outstanding at 31 December	**0.43**	**1,000,000**	0.59	500,000

The options outstanding at 31 December 2016 had an exercise price of $0.43 to and a weighted average contractual life of 7.5 years.

Inputs for measurement of grant date fair values

The fair value of each stock option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following inputs:

Fair value of share options and assumptions

In US Dollars	2016	2015
Weighted average fair value at grant date	**$0.59**	$0.13
Share price at grant date	**$0.27**	$0.31
Exercise price	**$0.27**	$0.59
Option life (Expected life in Years)	**6.0**	6.0
Expected volatility – Stock options issued on 23 December 2015	**61%**	65%
Risk-free Interest rate	**0.3%**	1.5%
Expected dividends	**na**	na

Volatility was estimated with reference to empirical data for proxy companies with listed equity.

Employee benefit expenses

In US Dollars	2016	2015
Non-Executive Director Share Plan (equity-settled)	**22,353**	489
Long-term incentive plan scheme (equity-settled)	**837,223**	200,328
Share option scheme (equity-settled)	**445,376**	1,245,963
Total expense recognised as employee costs	**1,304,952**	1,446,780

27. Loss per share

(a) The calculation of basic loss per share has been based on the following loss attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding.

(i) Loss attributable to ordinary shareholders (basic)

In US Dollars	2016	2015
Loss for the year attributable to owners of the Group	**(14,898,890)**	(17,397,970)

(ii) Weighted-average number of ordinary shares (basic)

In US Dollars	2016	2015
Issued ordinary shares at I January	**488,199,893**	362,999,983
Effect of shares issued in October 2016	**10,299,836**	–
Effect of shares issued in November 2015	**–**	20,580,822
Effect of share options	**–**	–
Weighted-average number of ordinary shares at 31 December	**498,499,729**	383,580,805

27. Loss per share continued

(b) The calculation of diluted loss per share has been based on the following loss attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Basic and diluted loss per share are equal as all options are anti-dilutive.

(i) Loss attributable to ordinary shareholders (basic)

In US Dollars	2016	2015
Loss for the year attributable to owners of the Company	**(14,898,890)**	(17,397,970)

(ii) Weighted-average number of ordinary shares (diluted)

In US Dollars	2016	2015
Weighted-average number of ordinary shares (basic)	**498,499,729**	383,580,805
Effect of share options	**–**	–
Weighted-average number of ordinary shares (diluted) at 31 December	**498,499,729**	383,580,805

28. Taxes

(a) Income tax

The Group with its principal assets and operations in Nigeria is subject to the Petroleum Profit Tax Act of Nigeria (PPTA). However, the Group is yet to commence production and therefore earned no revenue during the year. As a result, no Petroleum Profit Tax (PPT) was charged during the year.

(b) Unrecognised deferred tax assets

Deferred tax assets will arise from unrelieved losses as well as the tax base of assets. These have not been recognised due to uncertainty over the availability of future taxable profit to offset the losses.

In US Dollars	2016	2015
Unrelieved losses	**57,088,829**	21,766,873
	57,088,829	21,766,873

(c) Reconciliation of how the tax on the Company's loss before tax differs from the theoretical

In US Dollars	2016	2015
Loss before tax	**(15,764,871)**	(18,718,507)
Tax at Cayman corporate tax rate of 0%	**–**	–
Effects of tax rate applicable in foreign jurisdictions		
– Nigeria	**(22,857,823)**	(12,438,619)
– Namibia	**(1,661)**	(106,930)
– US	**7,474**	–
– Singapore	**–**	–
– Benin	**–**	(103)
– UK	**(114,622)**	(20,644)
Unrecognised deferred tax asset	**22,966,632**	12,566,296
Total tax charge	**–**	–

29. Related party transactions

The Group had transactions during the year with the following related parties:

(a) Transactions with key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. These are the Directors of the Group.

(i) Loans to key management personnel
An unsecured loan of $1,500,000 was granted to a Director on 9 December 2014. The loan has a three year term and bears interest at a rate of four per cent per annum. Repayment is due at the end of the term. At 31 December 2016, the balance outstanding was $1,626,312 (2015: $1,564,655) and is included in 'trade and other receivables'.

(ii) Key management personnel transactions
The value of transactions and the outstanding balance at year end due to key management personnel and entities over which they have significant influence was $3.05 million and $1.87 million respectively. In 2015, LEKOIL Oil & Gas Investments Limited entered into a contract with SOWSCO Wells Services Nigeria Limited, a company controlled by a Director, for the provision of well completion services.

Key management personnel compensation
In addition to their salaries, the Group also provides non-cash benefits to key management personnel, in the form of share based payments.

Key management personnel compensation comprised the following:

In US Dollars	2016	2015
Short-term benefits	1,964,940	3,064,410
Share-based payments	147,096	13,686
	2,112,036	3,078,096

Short-term employee benefits comprised the following:

In US Dollars	2016	2015
Salaries	930,750	1,974,410
Fees	540,000	490,000
Bonus	494,190	600,000
	1,964,940	3,064,410

Details of Directors' remuneration (including fair value of share based payments) earned by each Director of the Company during the period are as follows:

2016

In US Dollars	Fees	Salaries	Bonus	Share-based payments	Total
Lekan Akinyanmi	–	930,750	494,190	123,232	1,548,172
Samuel Adegboyega	140,000	–	–	4,471	144,471
Aisha Muhammed-Oyebode	100,000	–	–	4,848	104,848
Greg Eckersley	100,000	–	–	4,471	104,471
John van der Welle	100,000	–	–	5,603	105,603
Hezekiah Adesola Oyinlola**	100,000	–	–	4,471	104,471
	540,000	930,750	494,190	147,096	2,112,036

29. Related party transactions continued

2015

In US Dollars	Fees	Salaries	Bonus	Share-based payments	Total
Lekan Akinyanmi	–	881,250	600,000	1,868	1,483,118
David Robinson***	–	1,093,160*	–	–	1,093,160
Samuel Adegboyega	140,000	–	–	98	140,098
Aisha Muhammed-Oyebode	100,000	–	–	5,196	105,196
Greg Eckersley	100,000	–	–	98	100,098
John van der Welle	100,000	–	–	6,328	106,328
Hezekiah Adesola Oyinlola**	50,000	–	–	98	50,098
	490,000	1,974,410	600,000	13,686	3,078,096

* Salaries include severance benefits amounting to $740,664
** Appointed 26 June 2015
*** Resigned 26 June 2015

(iii) Key management personnel and Director transactions

Directors of the Company control 8.73% (2015: 9.57%) of the voting shares of the Company.

(b) LEKOIL Limited, Cayman Islands has a Management & Technical Services Agreement with LEKOIL Management Corporation (LMC) under the terms of which LMC was appointed to provide management, corporate support and technical services. The remuneration to LMC includes reimbursement for charges and operating costs incurred by LMC.

30. Group entities

(a) Significant subsidiaries:

	Country of incorporation	Ownership interest 2016	2015
LEKOIL Nigeria Limited (see (a)(i))	Nigeria	**40%**	40%
LEKOIL Exploration and Production (Pty) Limited	Namibia	**80%**	80%
LEKOIL Management Corporation	USA	**100%**	100%
LEKOIL Singapore PTE Limited	Singapore	**100%**	100%
LEKOIL Limited SARL	Benin	**100%**	100%
LEKOIL 310 Limited	Cayman Islands	**100%**	100%
LEKOIL Management Services	Cayman Islands	**100%**	100%

(i) Although the Company holds less than 50% ownership interests in LEKOIL Nigeria Limited, it has control over the entity because it controls 40% of the votes and other Directors of the Company control more than 10% of the votes, giving the Company and its Directors a greater than 50% voting interest. The Company is also entitled to 90% of the benefits related to its operations and net assets based on terms of agreements under which the entity was established. Consequently, the Company consolidates LEKOIL Nigeria Limited.

LEKOIL Nigeria Limited has five wholly owned subsidiaries, namely: Mayfair Assets and Trust Limited, LEKOIL Oil & Gas Investments Limited, LEKOIL Exploration and Production Nigeria Limited, LEKOIL Energy Nigeria Limited and Princeton Assets and Trust Limited. The results of these subsidiaries have been included in the consolidated financial results of LEKOIL Nigeria Limited.

30. Group entities continued

(b) Non-controlling interests (NCI)

The following table summarises the information relating to each of the Group's subsidiaries, before any intra-group eliminations:

31 December 2016

In US Dollars	LEKOIL Nigeria Limited Group	LEKOIL Exploration and Production (Pty) Limited	Intra-group eliminations	**Total**
NCI percentage	10%	20%		
Non-current assets	161,516,270	465,108		
Current assets	72,596,067	17,107		
Non-current liabilities	(270,575,740)	–		
Current liabilities	(30,241,368)	(1,179,874)		
Net assets	(66,704,771)	(697,659)		
Carrying amount of NCI	(6,670,477)	(139,532)	1,373,750	**(5,436,258)**
Revenue	–	–		
Loss	(14,358,618)	(143,634)		
Net finance income/(cost)	(14,491,205)	138,889		
Total comprehensive income	(28,849,823)	(4,745)		
Loss allocated to NCI	(2,884,982)	(949)	2,019,950	**(865,981)**
OCI allocated to NCI	–	–	–	**–**
Cash flows from operating activities	16,617,510	(91,618)		
Cash flows from investment activities	(59,536,169)	–		
Cash flows from financing activities	43,609,729	60,000		
Net decrease in cash and cash equivalents	691,070	(31,618)		

31 December 2015

In US Dollars	LEKOIL Nigeria Limited Group	LEKOIL Exploration and Production (Pty) Limited	Intra-group eliminations	Total
NCI percentage	10%	20%		
Non-current assets	133,654,464	407,445		
Current assets	35,102,783	46,065		
Non-current liabilities	–	–		
Current liabilities	(208,556,166)	(1,146,423)		
Net assets	(39,798,919)	(692,913)		
Carrying amount of NCI	(3,979,892)	(138,583)	(451,802)	(4,570,277)
Revenue	–	–		
Loss	(13,672,779)	(305,515)		
Net finance income/(cost)	(10,738,051)	–		
Total comprehensive income	(24,410,830)	(305,515)		
Loss allocated to NCI	(2,441,083)	(61,103)	1,181,649	(1,320,537)
OCI allocated to NCI	–	–	–	–
Cash flows from operating activities	(42,858,455)	(622,107)		
Cash flows from investment activities	(13,067,404)	–		
Cash flows from financing activities	55,439,642	522,160		
Net increase in cash and cash equivalents	(486,217)	(99,947)		

31. Events after the reporting date

In accordance with the farm-in agreement with Green Energy International Limited (GEIL), the Company will pay GEIL, contingent on production, a production bonus of US$4 million.

In March 2017, subsequent to the initial drawdown of 1 billion Naira from the 5 billion Naira Sterling Bank facility, LOGL drew down additional 350 million Naira via a tripartite agreement with Sterling Bank and Cardinal Stone Partners, wherein Cardinal Stone Partners advanced the same sum backed by a guarantee under the 5 billion Naira facility.

In March 2017, the Group announced the receipt of a $15 million advance payment facility from Shell Western Supply and Trading Limited ("Shell Western"), a member of the Royal Dutch Shell group of companies (LSE: RDSA, RDSB). The facility has a maturity of three years and is repayable quarterly following a six-month moratorium with a market margin over LIBOR.

In April 2017, the Group announced it has signed a Memorandum of Understanding ("MOU") with GE Oil & Gas ("GE"), a subsidiary of General Electric Company (NYSE: GE) for the development of a work programme for the Ogo field in OPL310.

In May 2017, the Group announced it has lifted the first crude cargo of 120,000 barrels produced from Otakikpo Marginal field, from FSO Ailsa Craig by Shell Western Supply and Trading Limited, a subsidiary of Royal Dutch Shell.

In June 2017, the Group announced that it has received payment for its first cargo lifted from the Otakikpo Marginal Field in OML 11, announced on 10 May 2017.

Also in June 2017, the Group announced that the Honourable Minister of Petroleum Resources of Nigeria has granted consent to complete the transfer of the original 17.14% participating interest that LEKOIL acquired in OPL 310 in February 2013 to Mayfair Assets and Trust Limited, a subsidiary of LEKOIL.

There have been no other events between the reporting date and the date of authorising these financial statements other than those disclosed under the financial review on pages 10 to 11 that have not been adjusted for or disclosed in these financial statements.

32. Financial commitments and contingencies

(a) LEKOIL Limited, Namibia is bound to an agreement for the acquisition of a 77.5% participating interest in the Production Sharing Agreement (PSA) and operatorship in respect of Namibia Blocks 2514A and 2514B with Hallie Investments (Namibia) for the sum of $2.75 million, out of which an initial deposit of $69,660 was made. The amount of $69,660 paid is included in exploration and evaluation assets.

The initial licence expired in July 2016 and was renewed for one year till July 2017.

(b) LEKOIL Oil and Gas Investment Limited is bound to the terms under a farm-in agreement with Green Energy International Limited (GEIL) in respect to Otakikpo marginal field. In accordance with this agreement, the Company will pay GEIL, contingent on production, a production bonus of US$4 million.

(c) On 5 December 2014, the joint venture signed a Memorandum of Understanding (MoU) with its host community, Ikuru with respect to the Otakikpo Marginal Field area. The key items of the MoU include the following:

- The joint venture will allocate 3% of its revenue from the Liquefied Petroleum Gas (LPG) produced from the field to Ikuru Community in each financial year; and
- The joint venture will allocate the sum of $0.53 million (NGN 90 million) annually for sustainable community development activities.

(d) In May 2015, the Company provided a corporate guarantee in favour of FBN Capital for loan notes issued by LEKOIL Oil and Gas Investment Limited, a sub-subsidiary of the Company.

(e) Litigation and claims
There are no litigations or claims involving the Group as at 31 December 2016 (2015: nil).

33. Financial risk management and financial instruments

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from joint venture partners, employees and related parties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
In US Dollars	Notes	**2016**	2015
Cash and cash equivalents	15	**4,384,738**	26,016,194
Other receivables	12	**2,478,690**	2,559,813

The Group's exposure to credit risk is minimised as the Group is still in the exploratory and development phase. Trade and other receivables represent loans to companies, employee receivables and loan to Director which management has assessed as unimpaired.

Cash and cash equivalents

The cash and cash equivalents of $4.4 million (2015: $26.0 million) are held with reputable financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, and excluding the impact of netting agreement:

In US Dollars	Notes	Carrying amount	Contractual cash flows	6 months or less
Non-derivative financial liabilities				
31 December 2016				
Loans	21	27,390,036	35,310,657	7,592,257
Trade and other payables*	18	31,346,552	31,346,552	31,346,552
		58,736,588	**66,657,209**	**38,938,809**
31 December 2015				
Short-term loan	21	8,246,746	8,408,769	8,408,769
Trade and other payables*	18	8,140,745	8,140,745	8,140,745
		16,387,491	16,549,514	16,549,514

* The carrying amount of trade and other payables is stated net of statutory deductions.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

33. Financial risk management and financial instruments continued

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group manages market risks by keeping costs low through various cost optimisation programmes. Moreover, market developments are monitored and discussed regularly, and mitigating actions are taken where necessary.

Currency risk

The Group is exposed to currency risk on bank balances, employee receivables and trade and other payables denominated in Nigerian Naira.

The summary quantitative data about the Group's exposure to currency risks are as follows:

	Carrying amounts	
In US Dollars	**2016**	2015
Trade and other receivables	**227,562**	68
Cash and cash equivalents	**1,197,173**	225,366
Trade and other payables	**(1,632,103)**	(1,166,513)
Net exposure	**(207,368)**	(941,079)

Sensitivity analysis

A 20 per cent strengthening of the US Dollar against the following currencies at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

		Foreign exchange rate risk			
		20%		(-20%)	
31 December 2016 In US Dollars	Carrying amount	Profit or loss	Other movements in Equity	Profit or loss	Other movements in Equity
Financial assets:					
Naira					
Cash and cash equivalents	**1,197,173**	**239,435**	**–**	**(239,435)**	**–**
Trade and other receivables	**227,562**	**45,512**	**–**	**(45,512)**	**–**
Impact on financial assets	**–**	**284,947**	**–**	**(284,947)**	**–**
Financial liabilities:					
Naira					
Accounts payable	**(1,632,103)**	**(326,421)**	**–**	**326,421**	**–**
Impact on financial liabilities	**–**	**(326,421)**	**–**	**326,421**	**–**
Total increase (decrease)	**–**	**(41,474)**	**–**	**41,474**	**–**

		Foreign exchange rate risk			
		20%		(-20%)	
31 December 2015 In US Dollars	Carrying amount	Profit or loss	Other movements in Equity	Profit or loss	Other movements in Equity
Financial assets:					
Naira					
Cash and cash equivalents	225,366	45,073	–	(45,073)	–
Trade and other receivables	68	14	–	(14)	–
Impact on financial assets	–	45,087	–	(45,087)	–
Financial liabilities:					
Naira					
Accounts payable	(1,166,513)	(233,303)	–	233,303	–
Impact on financial liabilities	–	(233,303)	–	233,303	–
Total increase (decrease)	–	(188,216)	–	188,216	–

33. Financial risk management and financial instruments continued

The amounts shown represent the impact of foreign currency risk on the groups consolidated profit or loss. The foreign exchange rate movements have been calculated on a symmetric basis. This method assumes that an increase or decrease in foreign exchange movement would result in the same amount and further assumes the currency is used as a stable denominator.

(d) Fair values

Fair values vs carrying amounts

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2016 In US Dollars	Note	Carrying amount Loans and receivables	 Other financial liabilities	 Total
Loans and receivables				
Other receivables	12	**2,478,690**	**–**	**2,478,690**
Cash and cash equivalents	15	**4,384,738**	**–**	**4,384,738**
		6,863,428	**–**	**6,863,428**
Financial liabilities measured at amortised costs				
Loan	21	**–**	**27,390,036**	**27,390,036**
Trade and other payables	18	**–**	**31,346,552**	**31,346,552**
		–	**58,736,588**	**58,736,588**

31 December 2015 In US Dollars	Note	Carrying amounts Loans and receivables	 Other financial liabilities	 Total
Loans and receivables				
Other receivables	12	2,559,813	–	2,559,813
Cash and cash equivalents	15	26,016,194	–	26,016,194
		28,576,007	–	28,576,007
Financial liabilities measured at amortised costs				
Short-term loan	21	–	8,246,746	8,246,746
Trade and other payables	18	–	9,476,968	9,476,968
		–	17,723,714	17,723,714

Company information

Financial calendar

Annual General Meeting

The Annual General Meeting of the Company will be held at 11.00 a.m. on 21 July 2015 at Churchgate Tower 1, 9th Floor, PC 30, Churchgate Street, Victoria Island, Lagos, Nigeria.

Announcements

- Half-year results for 2017 are expected in September 2017.

Dates are correct at the time of printing, but are subject to change.

Directors

Samuel Adegboyega *Non-Executive Chairman*
Olalekan Akinyanmi *Chief Executive Officer*
Bruce Burrows *Chief Financial Officer*
Gregory Eckersley *Non-Executive Director*
H. Adesola Oyinlola *Non-Executive Director*
Aisha Oyebode *Non-Executive Director*
John van der Welle *Non-Executive Director*

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