

Urals Energy Public Company Limited

Consolidated Financial Statements

As of and for the Six Months Ending 30 June 2016

Urals Energy Public Company Limited
Consolidated Financial Statements

CONTENTS

	Page
Interim Condensed Consolidated Statement of Financial Position	3
Interim Condensed Consolidated Statement of Comprehensive Income	4
Interim Condensed Consolidated Statement of Cash Flows	5
Interim Condensed Consolidated Statement of Changes in Shareholders' Equity	6
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information	7-22

Urals Energy Public Company Limited
Consolidated Statement of Financial Position
(presented in US\$ thousands)

	Note	30 June 2016	31 December 2015
<i>Assets</i>			
Current assets			
Cash and cash equivalents		2,591	1,695
Accounts receivable and prepayments	5	4,016	2,903
Inventories	6	14,065	7,576
Total current assets		20,672	12,174
Non-current assets			
Property, plant and equipment	7	61,033	53,110
Supplies and materials for capital construction		1,601	1,469
Other non-current assets		481	115
Total non-current assets		63,115	54,694
Total assets		83,787	66,868
<i>Liabilities and equity</i>			
Current liabilities			
Accounts payable and accrued expenses	8	1,559	1,871
Income tax payable		4,478	4,559
Other taxes payable		3,946	2,990
Short-term borrowings and current portion of long-term borrowings	9	10,996	2,419
Advances from customers		186	604
Total current liabilities		21,165	12,443
Long-term liabilities			
Long-term borrowings	9	1,661	1,516
Long term finance lease obligations		597	559
Dismantlement provision		1,193	971
Deferred income tax liabilities		4,495	3,519
Total long-term liabilities		7,946	6,565
Total liabilities		29,111	19,008
<i>Equity</i>			
Share capital		1,589	1,589
Share premium		656,855	656,855
Translation difference		(64,339)	(67,667)
Accumulated deficit		(540,085)	(543,464)
Equity attributable to shareholders of Urals Energy Public Company Limited		54,020	47,313
Non-controlling interest		656	547
Total equity	10	54,676	47,860
Total liabilities and equity		83,787	66,868

Approved on behalf of the Board of Directors on 29 September 2016

L.Y. Dyachenko
Interim Chief Executive Officer

S.E. Uzornikov
Chief Financial Officer

The accompanying notes on pages 7 to 22 are an integral part of these interim condensed consolidated financial information

Urals Energy Public Company Limited
Consolidated Statement of Comprehensive Income
(presented in US\$ thousands)

	Note	Six months ended 30 June	
		2016	2015
Revenues after excise taxes and export duties	11	7,525	7,214
Cost of sales	12	(5,207)	(5,264)
Gross profit		2,318	1,950
Selling, general and administrative expenses	13	(1,648)	(1,859)
Other operating loss		(78)	(148)
Operating profit/(loss)		592	(57)
Interest income	9	14	18
Interest expense	9	(281)	(161)
Foreign currency gain		3,584	425
Total net finance income		3,317	282
Profit before income tax		3,909	225
Income tax expenses		(498)	(273)
Profit/(loss) for the period		3,411	(48)
Profit/(loss) for the period attributable to:			
- Non-controlling interest		32	29
- Shareholders of Urals Energy Public Company Limited		3,379	(77)
Profit/(loss) per share from profit attributable to shareholders of Urals Energy Public Company Limited:	10		
- Basic loss per share (in US dollar per share)		0.01	(0.00)
- Diluted loss per share (in US dollar per share)		0.01	(0.00)
Weighted average shares outstanding attributable to:			
- Basic shares		252,446,060	252,446,060
- Diluted shares		252,446,060	252,446,060
Profit/(loss) for the period		3,411	(48)
Other comprehensive profit:			
- Effect of currency translation		3,404	479
Total comprehensive profit for the period		6,815	431
Attributable to:			
- Non-controlling interest		109	29
- Shareholders of Urals Energy Public Company Limited		6,707	402

The accompanying notes on pages 7 to 22 are an integral part of these interim condensed consolidated financial information

Urals Energy Public Company Limited
Consolidated Statements of Cash Flows
(presented in US\$ thousands)

	Note	Six months ended 30 June	
		2016	2015
Cash flows from operating activities			
Profit before income tax		3,909	225
Adjustments for:			
Depreciation, amortization and depletion	12	2,515	2,113
Interest income	9	(14)	(18)
Interest expense	9	281	161
Foreign currency gain		(3,584)	(425)
Other non-cash transactions		(133)	146
Operating cash flows before changes in working capital		2,974	2,202
Increase in inventories		(5,617)	(6,287)
Increase in accounts receivables and prepayments		(2)	(222)
Increase in accounts payable and accrued expenses		197	159
Decrease in advances from customers		(431)	(1,397)
Increase/(Decrease) in other taxes payable		787	(1,948)
Cash used in operations		(2,092)	(7,493)
Interest paid		(272)	(51)
Income tax paid		(757)	(19)
Net cash used in operating activities		(3,121)	(7,563)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,754)	(1,800)
Loans issued		(388)	-
Net cash used in investing activities		(4,142)	(1,800)
Cash flows from financing activities			
Proceeds from borrowings	9	7,907	7,254
Repayment of borrowings	9	(57)	-
Finance lease principal payments		(27)	(30)
Net cash generated from financing activities		7,823	7,224
Effect of exchange rate changes on cash and cash equivalents		336	21
Net decrease in cash in bank and on hand		896	(2,118)
Cash and cash equivalents at the beginning of the year		1,695	3,617
Cash and cash equivalents at the end of the period		2,591	1,499

The accompanying notes on pages 7 to 22 are an integral part of these consolidated financial statements

Urals Energy Public Company Limited
Consolidated Statements of Changes in Shareholders' Equity
(presented in US\$ thousands)

	Notes	Share capital	Share premium	Difference from conversion of share capital into US\$	Cumulative Translation Adjustment	Accumulated deficit	Equity attributable to Shareholders of Urals Energy Public Company Limited	Non-controlling interest	Total equity
Balance at 1 January 2015		1,589	656,968	(113)	(31,350)	(525,747)	101,347	1,254	102,601
Effect of currency translation		-	-	-	479	-	479	-	479
(Loss)/profit for the period		-	-	-		(77)	(77)	29	(48)
Total comprehensive profit/(loss)		-	-	-	479	(77)	402	29	431
Balance at 30 June 2015		1,589	656,968	(113)	(59,538)	(539,468)	59,438	735	60,173
Balance at 1 January 2016		1,589	656,968	(113)	(67,667)	(543,464)	47,313	547	47,860
Effect of currency translation		-	-	-	3,328	-	3,328	76	3,404
Profit for the period		-	-	-		3,379	3,379	33	3,412
Total comprehensive profit		-	-	-	3,328	3,379	6,707	109	6,816
Balance at 30 June 2016		1,589	656,968	(113)	(64,339)	(540,085)	54,020	656	54,676

The accompanying notes on pages 7 to 22 are an integral part of these consolidated financial statements

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

1 Activities

Urals Energy Public Company Limited (“Urals Energy” or the “Company” or “UEPCL”) was incorporated as a limited liability company in Cyprus on 10 November 2003. Urals Energy and its subsidiaries (the “Group”) are primarily engaged in oil and gas exploration and production in the Russian Federation and processing of crude oil for distribution on both the Russian and international markets.

The registered office of Urals Energy is at Glafkos Tower, Office 501, 5th Floor, 3 Menandrou Street, 1066 Nicosia, Cyprus. UEPCL’s shares are traded on the AIM Market operated by the London Stock Exchange.

As at 30 June 2016, the Group’s major shareholder with 44.59% ownership interest was Adler Impex S.A., which is beneficially owned by Mr. Roman Shvets. Other shareholders include the Group’s management team (which collectively has a 6.21% ownership interest), Petraco Oil Company Limited (3.44% ownership interest) and other shareholders who individually have ownership interests of less than 3% each.

The Group comprises UEPCL and the following main subsidiaries:

Entity	Jurisdiction	Effective ownership interest at	
		30 June 2016	31 December 2015
<i>Exploration and production</i>			
AO Petrosakh (“Petrosakh”)	Sakhalin Region	97.2%	97.2%
AO Arcticneft (“Arcticneft”)	Nenetsky Region	100%	100%
OOO BVN-Oil (“BVN-Oil”)	Komi Republic	100%	-
OOO RK-Oil (“RK-Oil”)	Komi Republic	100%	-
<i>Management company</i>			
OOO Urals Energy	Moscow	100%	100%

2 Summary of Significant Accounting Policies

Basis of preparation. The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value.

These policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Critical accounting estimates and judgements are disclosed in Note 6. Actual results could differ from the estimates.

Functional and presentation currency. The United States dollar (“US dollar or US\$ or \$”) is the presentation currency for the Group’s operations as management have used the US dollar accounts to manage the Group’s financial risks and exposures, and to measure its performance. Financial statements of the Russian subsidiaries are measured in Russian Roubles, their functional currency.

The functional currency of the Company is the US Dollar as substantially all the cash flows affecting the Company are in US Dollars.

Translation to functional currency. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the reporting date. Any resulting exchange differences are included in the profit or loss component of the consolidated statement of comprehensive income. Non-monetary assets and liabilities that are measured at historical cost and denominated in a foreign currency are translated into the functional currency using the rates of exchange as at the dates of the initial transactions. The US dollar to Russian Rouble exchange rates were 64.26 and 72.88 as of 30 June 2016 and 31 December 2015, respectively.

Translation to presentation currency. The Group’s consolidated financial statements are presented in US dollars in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The results and financial position of each group entity having a functional currency different from the presentation currency are translated into the presentation currency as follows:

2 Summary of Significant Accounting Policies (Continued)

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position. Goodwill and fair value adjustments arising on the acquisitions are treated as assets and liabilities of the acquired entity.
- (ii) Income and expenses for each statement of comprehensive income are translated to the presentation currency of the Company at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- (iii) All resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in other comprehensive income are reclassified to the profit and loss.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interests that represents present ownership interests and entitle the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Non-controlling interests are that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interests form a separate component of the Group's equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated, unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interests. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interests sold as a capital transaction in the consolidated statement of changes in equity.

Financial instruments - key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

2 Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

2 Summary of Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Property, plant and equipment. Property, plant and equipment acquired as part of a business combination is recorded at fair value at the acquisition date and adjusted for accumulated depreciation, depletion and impairment. All subsequent additions are recorded at historical cost of acquisition or construction and adjusted for accumulated depreciation, depletion and impairment.

Oil and gas exploration and production activities are accounted for in a manner similar to the successful efforts method. Costs of successful development and exploratory wells are capitalised. The cost of property, plant and equipment includes provisions for dismantlement, abandonment and site restoration (refer to Provisions below).

The Group accounts for exploration and evaluation activities in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. The costs incurred in finding, acquiring, and developing reserves are capitalised on a 'field by field' basis.

Exploration and evaluation assets are measured at cost less provision for impairment, where required. Costs directly associated with an exploration well are initially capitalised in exploration and evaluation assets, which are presented within Property, plant and equipment. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. Geological and geophysical exploration costs are expensed as incurred. Amounts paid for the acquisition of exploration and development licenses are also capitalised as exploration and evaluation assets.

If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off.

An exploration and evaluation asset is reclassified from special category of exploration and evaluation assets presented within oil and gas properties to ordinary oil and gas properties when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets are assessed for impairment, and any impairment loss is recognised, before reclassification.

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them to production together with Exploration and Evaluation ("E&E") expenditures incurred in finding commercial reserves and transferred from the intangible E&E assets described above. The cost of development and production assets also include the costs of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised and the costs of recognising provisions for future restoration and decommissioning.

Depletion of capitalized costs of proved oil and gas properties is calculated using the unit-of-production method for each field based upon proved reserves for property acquisitions and proved developed reserves for exploration and development costs. Oil and gas reserves for this purpose are determined in accordance with Society of Petroleum Engineers definitions and were last estimated by Miller and Lents, the Group's independent reservoir engineers in 2014. The Miller and Lents information from the 2014 reserves review is updated annually by management by reference to production information and the equivalent Russian ABC

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

2 Summary of Significant Accounting Policies (Continued)

reserves classification. Gains or losses from retirements or sales of oil and gas properties are included in the determination of profit for the year.

Depreciation of non-oil and gas property, plant and equipment is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	Estimated useful life
Refinery and related equipment	19
Buildings	20
Other assets	6 to 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other operating (loss)/profit' in the profit and loss section of consolidated statement of comprehensive income.

Provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions, including those related to dismantlement, abandonment and site restoration, are evaluated and re-estimated annually, and are included in the consolidated financial statements at each reporting date at the present value of the expenditures expected to be required to settle the obligation using pre – tax discount rates which reflect the current market assessment of the time value of money and the risks specific to the liability.

Changes in provisions resulting from the passage of time are reflected in the profit and loss section of consolidated statement of comprehensive income each year. Other changes in provisions, relating to a change in the expected pattern of settlement of the obligation, changes in the discount rate or in the estimated amount of the obligation, are treated as a change in accounting estimate in the period of the change. Changes in provisions relating to dismantlement, abandonment and site restoration are added to, or deducted from, the cost of the related asset in the current period. The amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

The provision for dismantlement liability is recorded on the consolidated statement of financial position, with a corresponding amount being recorded as part of property, plant and equipment in accordance with IAS 16.

Leases. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are presented as finance lease obligations on the consolidated statement of financial position. The interest element of the finance cost is charged to the profit or loss in the consolidated statement of comprehensive income over the lease period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Impairment of assets. Assets that are subject to depreciation and depletion are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped by license areas, which are the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Reversal of impairment. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

Inventories. Inventories of extracted crude oil, oil products, materials and supplies and construction materials are valued at the lower of the weighted-average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. General and administrative expenditure is excluded from inventory costs and expensed in the period incurred.

2 Summary of Significant Accounting Policies (Continued)

Trade receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, net of provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Such objective evidence may include significant financial difficulties of the debtor, an increase in the probability that the debtor will enter bankruptcy or financial reorganization, and actual default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The change in the amount of the provision is recognised in the profit and loss section of consolidated statement of comprehensive income.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flow. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets. Restricted cash balances are segregated from cash available for the business to use until such time as restrictions are removed.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are recognised initially at the fair value of the liability, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between amount at initial recognition and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Loans receivable. The loans advanced by the Group are classified as "loans and receivables" in accordance with IAS 39 and stated at amortised cost using the effective interest method. These loans are individually tested for impairment at each reporting date.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or benefit comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

2 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Social costs. The Group incurs employee costs related to the provision of benefits such as health insurance. These amounts principally represent an implicit cost of employing production workers and, accordingly, are included in the cost of sales.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

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

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2 Summary of Significant Accounting Policies (Continued)

Segments. The Group operates in one business segment which is crude oil exploration and production. The Group assesses its results of operations and makes its strategic and investment decisions based on the analysis of its profitability as a whole.

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

Share-based payments. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, using market prices, taking into account the terms and vesting conditions upon which those equity instruments were granted.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Group by the weighted average number of participating shares outstanding during the reporting year.

Accounting standards adopted during the period. In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2016.

3 Going Concern

A significant portion of the Group's consolidated net assets of \$54.0 million as of 30 June 2016 (31 December 2015: \$47.3 million) comprises undeveloped mineral deposits requiring significant additional investment. The Group is dependent upon external debt to fully develop the deposits and realise the value attributed to such assets.

The Group had net current liabilities of \$0.5 million as of 30 June 2016 (31 December 2015: net current liabilities of \$0.3 million). The most significant creditor as of 30 June 2016 was \$6.0 million loan from Petraco (31 December 2015: nil) (Note 9).

Management have prepared monthly cash flow projections for 2016 and 2017. Judgements which are significant to management's conclusion that no material uncertainty exists about the Group's ability to continue as a going concern include future oil prices and planned production, which were required for the preparation of the cash flow projections and model. Positive overall cash flows are dependent on future oil prices (a price of \$45 per barrel has been used for 2016 and for 2017). Despite the uncertainties, based on the cash flow projections performed, management considers that the application of the going concern assumption for the preparation of these consolidated financial statements is appropriate.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

Initial recognition of related party transactions. In the normal course of business, the Company enters into transactions involving various financial instruments with its related parties. IAS 39, Financial Instruments: recognition and measurement, requires initial recognition of financial instruments based on their fair values. Judgement was applied in determining if transactions are priced at market or nonmarket interest rates, where

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

there is no active market for such transactions. This judgement was based on the pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Estimation of oil and gas reserves. Engineering estimates of hydrocarbon reserves are inherently uncertain and are subject to future revisions. Accounting measures such as depreciation, depletion and amortization charges, impairment assessments and asset retirement obligations that are based on the estimates of proved reserves are subject to change based on future changes to estimates of oil and gas reserves.

Proved reserves are defined as the estimated quantities of hydrocarbons which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs. Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In some cases, substantial new investment in additional wells and related support facilities and equipment will be required to recover such proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

The Group last obtained an independent reserve engineers report as at 1 January 2014.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As those fields are further developed, new information may lead to further revisions in reserve estimates. Reserves have a direct impact on certain amounts reported in the consolidated financial statements, most notably depreciation, depletion and amortization as well as impairment expenses. Depreciation rates on production assets using the units-of-production method for each field are based on proved developed reserves for development costs, and total proved reserves for costs associated with the acquisition of proved properties. Assuming all variables are held constant, an increase in proved developed reserves for each field decreases depreciation, depletion and amortization expenses. Conversely, a decrease in the estimated proved developed reserves increases depreciation, depletion and amortization expenses. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present. The possibility exists for changes or revisions in estimated reserves to have a significant effect on depreciation, depletion and amortization charges and, therefore, reported net profit/(loss) for the year.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Dismantlement provision. Management makes provision for the future costs of decommissioning hydrocarbon production facilities, pipelines and related support equipment based on the best estimates of future cost and economic lives of those assets. Estimating future dismantlement provision is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation. Management believes that in 2015 and 2016 there were no reasonably possible change in any of the above key assumptions used that would have significant impact on the dismantlement provision recognised in these consolidated financial statements.

Useful lives of non-oil and gas properties. Items of non-oil and gas properties are stated at cost less accumulated depreciation. The estimation of the useful life of an asset is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates. Useful lives applied to oil and gas properties may exceed the license term where management considers that licences will be renewed. Assumptions related to renewal of licences can involve significant judgment of management.

Impairment. Management have estimated the recoverable amount of cash generating units. Changes in the assumptions used can have a significant impact on the amount of any impairment charge.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

5 Accounts Receivable and Prepayments

	30 June 2016	31 December 2015
Trade and other accounts receivable	389	936
Loans issued	461	70
Total financial assets	850	1,006
Recoverable and prepaid taxes including VAT	1,381	882
Advances to suppliers	1,049	295
Prepaid expenses	530	549
Other	206	171
Total accounts receivable and prepayments	4,016	2,903

6 Inventories

	30 June 2016	31 December 2015
Crude oil	9,134	4,331
Oil products	2,482	901
Materials and supplies	2,449	2,335
Total inventories	14,065	7,576

7 Property, Plant and Equipment

<i>Cost at</i>	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
1 January 2015	89,513	4,529	506	3,491	5,524	103,563
Translation difference	1,258	60	3	48	69	1,438
Additions	-	-	-	7	2,064	2,071
Transfers	2,221	-	-	-	(2,221)	-
Disposals	-	-	-	-	-	-
30 June 2015	92,992	4,589	509	3,546	5,436	107,072
<i>Accumulated Depreciation, Amortization and Depletion at</i>						
1 January 2015	(35,580)	(2,258)	(395)	(2,274)	-	(40,507)
Translation difference	(522)	(34)	(6)	(33)	-	(595)
Depreciation	(1,989)	(120)	(13)	(93)	-	(2,215)
Disposals	-	-	-	-	-	-
30 June 2015	(38,091)	(2,412)	(414)	(2,400)	-	(43,317)
<i>Net Book Value at</i>						
1 January 2015	53,933	2,271	111	1,217	5,524	63,056
30 June 2015	54,901	2,177	95	1,146	5,436	63,755

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

7 Property, Plant and Equipment (continued)

<i>Cost at</i>	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
1 January 2016	77,893	3,827	388	3,219	3,020	88,347
Translation difference	10,720	514	52	443	308	12,037
Additions	2,044	-	-	127	1,036	3,207
Capitalised borrowing costs	-	-	-	-	240	240
Transfers	2,283	-	-	-	(2,283)	-
Disposals	-	-	-	(3)	(28)	(31)
30 June 2016	92,940	4,341	440	3,786	2,293	103,800
<i>Accumulated Depreciation, Amortization and Depletion at</i>						
1 January 2016	(31,099)	(1,927)	(326)	(1,885)	-	(35,237)
Translation difference	(4,395)	(268)	(44)	(261)	-	(4,968)
Depreciation	(2,381)	(102)	(11)	(68)	-	(2,562)
Disposals	-	-	-	-	-	-
30 June 2016	(37,875)	(2,297)	(381)	(2,214)	-	(42,767)
<i>Net Book Value at</i>						
1 January 2016	46,794	1,900	62	1,334	3,020	53,110
30 June 2016	55,065	2,044	59	1,572	2,293	61,033

As at 30 June 2016, the Group pledged its property, plant and equipment in amount of \$2.2 million under loan agreements with PJSC Sberbank of Russia (31 December 2015: \$2.0 million) (Note 9).

Additions to Oil and gas properties for the period ended 30 June 2016 included 25-year exploration and development license for the South Dagi oil field on Sakhalin Island. On 15 June 2016 the Company was awarded the license, following an auction by the Russian State Authorities. The license, with an area of 28.8 sq. km, was the subject of an earlier exploration and appraisal programme in the 1970s, followed by additional seismic work performed in the middle of 1990s and 2007. During these periods two exploratory and six appraisal wells were drilled. The auction bid price payable by the Company was Russian Roubles 134.6 million, equivalent to approximately US\$2.0 million.

Included within oil and gas properties at 30 June 2016 and 31 December 2015 were exploration and evaluation assets:

	Cost at 31 December 2015	Additions	Translation difference	Cost at 30 June 2016
<i>Exploration and evaluation assets</i>				
Arcticneft	7,448	-	1,000	8,448
Petrosakh	12,871	2,044	1,779	16,694
BVN-Oil	4,257	-	572	4,829
RK-Oil	395	-	53	448
Total cost of exploration and evaluation assets	24,971	2,044	3,404	30,419

The Group's oil fields are located in the Russian Federation on land owned by the Russian government. The Group holds production licenses and pays production taxes to extract oil and gas from the fields. The licenses expire between 2018 and 2067 and may be extended. Management intends to renew the licenses as the properties are expected to remain productive subsequent to the license expiration date.

Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, amount to \$0.1 million and \$0.1 million at 30 June 2016 and 31 December 2015, respectively, are included in the cost of oil and gas properties. The Group has estimated its liability based on current environmental legislation using estimated costs when the expenses are expected to be incurred.

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

8 Accounts Payable and Accrued Expenses

	30 June 2016	31 December 2015
Trade payables	245	771
Accounts payable for construction in process	310	254
Short-term finance lease obligations	66	52
Other payable and accrued expenses	97	36
Total financial liabilities	718	1,113
Wages and salaries	841	758
Total accounts payable and accrued expenses	1,559	1,871

9 Borrowings

Borrowings. Long-term and short-term borrowings were as follows at 30 June 2016 and 31 December 2015:

	30 June 2016	31 December 2015
<i>Long-term borrowings</i>		
Transnational Bank		
- Principal	1,520	1,396
- Interest	302	160
Sberbank		
- Principal	4,633	2,247
- Interest	27	12
Other	140	120
Subtotal	6,622	3,935
Less: current portion of long-term borrowings	(4,961)	(2,419)
Total long-term borrowings	1,661	1,516
<i>Short-term borrowings</i>		
Petraco		
- Principal	6,000	-
- Interest	35	-
Subtotal	6,035	-
Plus: current portion of long-term borrowings	4,961	2,419
Total short-term borrowings	10,996	2,419
Total borrowings	12,657	3,935

Transnational Bank (managed by the State Corporation Deposit Insurance Agency). On 19 November 2015, the Group acquired two private Russian companies, RK-Oil and BVN-Oil including long-term and short-term borrowings of \$1.8 million inclusive of loans from Transnational Bank of \$1.7 million at an interest rate 15-20% per annum, due for repayment from November 2018 to January 2019. In April 2015, Transnational Bank lost its Central Bank of Russia license and started to be managed by The State Corporation Deposit Insurance Agency, in accordance with established procedure in the Russian Federation. After this event legal owners of the bank cannot participate in the decision making process of the bank. The loss of the licence by Transnational bank did not change the terms of long term loans to OOO RK-Oil and OOO BVN-Oil, and no such changes are not expected.

Sberbank. On 30 June 2015, Petrosakh entered into an 18 month revolving credit facility with the Sakhalin branch of PJSC Sberbank of Russia ("Sberbank") under which Sberbank will provide, by way of several tranches, the sum of 300 million Roubles (representing approximately US\$5.4 million at prevailing exchange rates) to Petrosakh for working capital financing.

The key terms of this loan are that:

- it is repayable on 29 December 2016 (the agreement also provides for early repayment of this loan);

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

9 Borrowings (continued)

- interest is chargeable at the rate of 14.28% plus 1%. The lowest rate of 14.28% is subject to Petrosakh meeting monthly turnover targets and having average cash balances in its bank account;
- it is secured by way of a pledge over property (Note 7) and cash flows from Petrosakh; and
- the agreement provides for a parent company guarantee from Urals Energy.

The Group is in compliance with the debt covenants under its loan agreements as of 30 June 2016.

The carrying values of borrowings are approximate to their fair value.

Petraco. In May 2016 the Company entered into a short-term loan agreement with Petraco under which Petraco was to advance the sum up to US\$6.0 million. The key terms of this loan were that:

- it is repayable immediately following the loading of the next tanker shipment, scheduled for August 2016 or 30 September 2016 (whichever is earlier);
- interest is chargeable at the rate of 5% over LIBOR until the date of the bill of lading of the tanker at which point it reduces to 2% over LIBOR; and
- the Company pledged 100% of the shares it currently holds in Arcticneft to Petraco and 22 thousand tons of crude oil stored at Arcticneft warehouse as security against the loan.

Weighted average interest rate. The Group's weighted average interest rates on borrowings were 10% and 15.1% at 30 June 2016 and 31 December 2015, respectively.

Interest income and expense. Interest income and expense for the six months ended 30 June 2015 and 30 June 2014, respectively, comprised the following:

	Six months ended 30 June	
	2016	2015
Interest income		
Interest on deposits	11	-
Interest on loans issued	3	18
Total interest income	14	18
Interest on loan from Sberbank	(231)	-
Interest on loan from Petraco Oil Company Limited	(35)	(34)
Finance leases	(39)	(52)
Interest on loans from Transnational Bank	(132)	-
Change in dismantlement provision due to passage of time	(84)	(75)
Less: capitalised in PP&E (Note 7)	240	-
Total interest expense	(281)	(161)
Net interest expense	(267)	(143)

10 Equity

At 30 June 2016 authorised share capital was \$1,890 thousand divided into 300 million ordinary shares of \$0.0063 each.

	Number of ordinary shares (thousands of shares)	Share capital	Share premium	Difference from conversion of share capital to USD
Balance at 1 January 2015	252,446	1,589	656,968	(113)
Balance at 30 June 2015	252,446	1,589	656,968	(113)
Balance at 1 January 2016	252,446	1,589	656,968	(113)
Balance at 30 June 2016	252,446	1,589	656,968	(113)

Urals Energy Public Company Limited
Notes to the Consolidated Financial Statements
(presented in US\$ thousands)

10 Equity (continued)

The Share premium is not available for distribution by way of dividend.

Restricted Stock Plan. The restricted stock plan approved by the Group's Board of Directors in February 2006 was fully vested and issued.

11 Revenues

	Six months ended 30 June	
	2016	2015
Petroleum (refined) products – domestic sales	7,955	6,257
Crude oil – domestic sales	802	1,337
Other sales	101	121
Total proceeds from sales	8,858	7,715
Less: excise taxes	(1,333)	(501)
Revenues after excise taxes	7,525	7,214

12 Cost of Sales

	Six months ended 30 June	
	2016	2015
Unified production tax	3,426	5,093
Wages and salaries	2,471	2,593
Depreciation, depletion and amortisation	2,515	2,113
Materials	1,353	1,062
Oil treating, storage and other services	348	492
Rent, utilities and repair services	117	259
Other taxes	157	111
Other	46	45
Change in finished goods	(5,226)	(6,504)
Total cost of sales	5,207	5,264

13 Selling, General and Administrative Expenses

	Six months ended 30 June	
	2016	2015
Wages and salaries	739	864
Professional consultancy fees	250	435
Transport and storage services	193	100
Office rent and other expenses	184	197
Trip expenses and communication services	68	94
Other expenses	214	169
Total selling, general and administrative expenses	1,648	1,859

14 Balances and transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 Related Party Disclosures. Key management personnel are considered to be related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

15 Events after the reporting period

In August 2016 the Company agreed to purchase the entire share capital of Arctic Oil Company Limited ("ANK") from AO ArcticMorNefteGazRazvedka ("AMNGR"), a subsidiary of AO Zarubezhneft, a Russian State owned oil company. The acquisition was made by Urals Energy's subsidiary, AO Arcticneft.

ANK's sole asset is the central part of the Peschanoozerskoe oil field on Kolguyev Island. The eastern and western parts of the Peschanoozerskoe field are already owned by Arcticneft. ANK produces 340 bbls/day and has recoverable reserves registered with the Russian State Authorities of 16 million barrels of C1 plus C2, equivalent to 2P.

The Company has entered into a Sale and Purchase Agreement with AMNGR, which is governed under Russian law, with arbitration at the Moscow Court of Arbitration. The Company paid AMNGR a cash consideration of Russian Rouble 100 million (approximately US\$1.56 million), equivalent to US\$0.09 per barrel of recoverable reserves, on a cash free/debt free basis. In addition, Urals Energy agreed that, in the event that the Company decides to sell its newly combined operations on Kolguyev Island within two years of the acquisition, then the Company will pay AMNGR the equivalent to 20% of the increase in value of the Company's combined operations on Kolguyev Island over US\$6 million, less any capital expenditure incurred in the intervening period.

The cash consideration of Russian Rouble 100 million was financed by a short term loan from Kamchatcomagroprombank ("KKAPB"), a bank in which Mr Shvets, the shareholder of Adler SA, the Company's largest shareholder, is a board member and shareholder with 15.4% of the issued share capital.

In August 2016 the Company successfully completed the shipment of 225,283 bbls of crude oil to Petraco Oil Company Limited. In September 2016 the loan in the amount of US\$6.0 million received from Petraco (Note 9) and accrued interest were settled in full.

In September 2016 JSC Petrosakh ("Petrosakh"), has entered into a new 18 month revolving working capital credit facility with the Sakhalin branch of OJSC Sberbank of Russia ("Sberbank") under which Sberbank will provide, by way of several tranches, the sum of 300 million Russian Roubles (representing approximately US\$4.6 million at then prevailing exchange rates) to Petrosakh.