Urals Energy Public Company Limited

Consolidated Financial Statements
As of and for the Six Months Ending 30 June 2018

CONTENTS

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

	Note	30 June 2018	31 December 2017
Assets			
Current assets			
Cash and cash equivalents		1,270	683
Accounts receivable and prepayments	5	10,319	6,982
Inventories	6	19,701	13,814
Current income tax prepayments		279	384
Total current assets		**31,569**	**21,863**
Non-current assets			
Property, plant and equipment	7	66,246	72,672
Investments in associates		1,777	-
Supplies and materials for capital construction		1,781	2,025
Deferred income tax assets		8,025	8,365
Other non-current assets		897	544
Total non-current assets		**78,726**	**83,606**
Total assets		**110,295**	**105,469**
Liabilities and equity			
Current liabilities			
Accounts payable and accrued expenses	8	3,605	5,037
Income tax payable		1,739	1,789
Other taxes payable		7,896	6,388
Short-term borrowings and current portion of long-term borrowings	9	15,214	8,818
Advances from customers		6,622	1,588
Total current liabilities		**35,076**	**23,620**
Long-term liabilities			
Long-term borrowings	9	2,927	1,116
Long term finance lease obligations		503	702
Dismantlement provision		2,706	2,802
Long-term accounts payable		141	144
Total long-term liabilities		**6,277**	**4,764**
Total liabilities		**41,353**	**28,384**
Equity			
Share capital		1,589	1,589
Share premium		(113)	(113)
Translation difference		(64,667)	(60,172)
Retained earnings		131,593	135,155
Equity attributable to shareholders of Urals Energy Public Company Limited		**68,402**	**76,459**
Non-controlling interest		540	626
Total equity	10	**68,942**	**77,085**
Total liabilities and equity		**110,295**	**105,469**

Approved on behalf of the Board of Directors on 27 September 2018

L.Y. Dyachenko
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

(presented in US$ thousands)

		Six months ended 30 June	
	Note	**2018**	**2017**
Revenues after excise taxes and export duties	11	11,187	22,433
Cost of sales	12	(10,190)	(19,614)
Gross profit		**997**	**2,819**
Selling, general and administrative expenses	13	(2,371)	(2,777)
Other operating loss		(32)	(253)
Operating loss		**(1,406)**	**(211)**
Interest income	9	89	109
Interest expense	9	(898)	(758)
Foreign currency (loss)/gain, net		(1,730)	437
Total net finance expense		**(2,539)**	**(212)**
Loss before income tax		**(3,945)**	**(423)**
Income tax benefit/(expenses)		349	(336)
Loss for the period		**(3,596)**	**(759)**
Profit/(loss) for the period attributable to:			
- Non-controlling interest		(34)	35
- Shareholders of Urals Energy Public Company Limited		(3,562)	(794)
Loss per share from profit attributable to shareholders of Urals Energy Public Company Limited:	10		
- Basic loss per share (in US dollar per share)		(0.28)	(0.06)
- Diluted loss per share (in US dollar per share)		(0.28)	(0.06)
Weighted average shares outstanding attributable to:			
- Basic shares		12,622,303	12,622,303
- Diluted shares		12,622,303	12,622,303
Loss for the period		(3,596)	(759)
Other comprehensive (loss)/profit:			
- Effect of currency translation		(4,547)	1,010
Total comprehensive (loss)/profit for the period		**(8,143)**	**251**
Attributable to:			
- Non-controlling interest		(86)	54
- Shareholders of Urals Energy Public Company Limited		(8,057)	197

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

(presented in US$ thousands)

	Note	Six months ended 30 June 2018	Six months ended 30 June 2017
Cash flows from operating activities			
Loss before income tax		**(3,945)**	**(423)**
Adjustments for:			
Depreciation, amortization and depletion	12	3,054	3,246
Interest income	9	(89)	(109)
Interest expense	9	898	758
Foreign currency (loss)/gain		1,730	(437)
Other non-cash transactions		32	(221)
Operating cash flows before changes in working capital		**1,680**	**2,814**
(Increase)/decrease in inventories		(7,317)	1,544
Increase in accounts receivables and prepayments		(3,448)	(6,829)
Increase in accounts payable and accrued expenses		418	311
Increase/(decrease) in advances from customers		5,175	(419)
Increase in other taxes payable		2,343	507
Cash used in operations		**(1,149)**	**(2,072)**
Interest received		17	20
Interest paid		(660)	(442)
Income tax paid		-	(1,252)
Net cash used in operating activities		**(1,792)**	**(3,746)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(3,724)	(2,819)
Acquisition of interests in associates		(1,879)	-
Loans given		(244)	(110)
Net cash used in investing activities		**(5,847)**	**(2,929)**
Cash flows from financing activities			
Proceeds from borrowings	9	11,733	5,966
Repayment of borrowings	9	(2,696)	-
Finance lease principal payments		(722)	(102)
Net cash generated from financing activities		**8,315**	**5,864**
Effect of exchange rate changes on cash and cash equivalents		(89)	10
Net decrease in cash in bank and on hand		**587**	**(801)**
Cash and cash equivalents at the beginning of the year		683	1,202
Cash and cash equivalents at the end of the period		**1,270**	**401**

Urals Energy Public Company Limited
Consolidated Statement of Changes in Equity
(presented in US$ thousands)

	Notes	Share capital	Share premium	Difference from conversion of share capital into US$	Cumulative Translation Adjustment	Retained earnings/ (Accumulated deficit)	Equity attributable to Shareholders of Urals Energy Public Company Limited	Non-controlling interest	Total equity
Balance at 1 January 2017		**1,589**	**656,968**	**(113)**	**(62,252)**	**(535,554)**	**60,638**	**766**	**61,404**
Effect of currency translation		-	-	-	991	-	991	19	1,010
(Loss)/profit for the period		-	-	-		(794)	(794)	35	(759)
Total comprehensive (loss)/profit		-	-	-	**991**	**(794)**	**197**	**54**	**251**
Acquisition of subsidiary		-	-	-	-	-	-	(25)	**(25)**
Share premium reduction	**10**	-	(656,968)	-	-	656,968	-	-	-
Balance at 30 June 2017		**1,589**	-	**(113)**	**(61,261)**	**120,620**	**60,835**	**795**	**61,630**
Balance at 1 January 2018	**10**	**1,589**	-	**(113)**	**(60,172)**	**135,155**	**76,459**	**626**	**77,085**
Effect of currency translation		-	-	-	(4,495)	-	(4,495)	(52)	(4,547)
Loss for the period		-	-	-		(3,562)	(3,562)	(34)	(3,596)
Total comprehensive loss		-	-	-	**(4,495)**	**(3,562)**	**(8,057)**	**(86)**	**(8,143)**
Balance at 30 June 2018	**10**	**1,589**	-	**(113)**	**(64,667)**	**131,593**	**68,402**	**540**	**68,942**

The accompanying notes on pages 7 to 23 are an integral part of these 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 2018 and 31 December 2017 major shareholder with 44.59% ownership interest was Adler Impex S.A. which is beneficially owned by Mrs. Anastasia Kononova. Other shares belong to management (3.35%), Petraco Oil Company ("Petraco") (3.44%) and other insignificant shareholders.

The Group comprises UEPCL and the following main subsidiaries:

		Effective ownership interest at	
Entity	**Jurisdiction**	**30 June 2018**	**31 December 2017**
Management, exploration and production company			
AO Petrosakh ("Petrosakh")	Management division in Moscow, Exploration and production in Sakhalin Region	98.56%	98.56%
Exploration and production			
AO Arcticneft ("Arcticneft")	Nenetsky Region	100%	100%
OOO Arctic Oil Company ("Arctic Oil Company")	Nenetsky Region	100%	100%
OOO BVN-Oil ("BVN-Oil")	Komi Republic	100%	100%
OOO RK-Oil ("RK-Oil")	Komi Republic	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 62.76 and 57.60 as of 30 June 2018 and 31 December 2017, 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 interest that represents present ownership interest and entitles 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 interest is 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 interest forms 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 interest. 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 carrying amount of non-controlling interest 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 Petroleum Services Ltd, the Group’s independent reservoir engineers in 2017. Blackwatch information from the 2017 reserves review is updated semi-annually by management by reference to production information and the equivalent Russian ABC reserves classification. Gains or losses from retirements or sales of oil and gas properties are included in the determination of profit for the year.

2 Summary of Significant Accounting Policies (Continued)

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 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 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 2018.

3 Going Concern

A significant portion of the Group's consolidated net assets of $-68.4 million (31 December 2017: $76.5 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 $–3.5 million as of 30 June 2018 (31 December 2017: net current liabilities of $1.8 million).

Management have prepared monthly cash flow projections for 2018 and for 6 months 2019. 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 was used for 2018 and $70 per barrel for six months ended 30 June 2019). Despite the uncertainties, based on the cash flow projections performed and taking into account financing received from Petraco (Note 9), 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 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 in June 2018 with the estimate of reserve as at 31 December 2017. As result, proved reserves estimates of the Okruzhnoye field determined by independent reserve engineers were revised significant downwards. Proved developed reserves estimates of the Okruzhnoye field were revised significant upwards.

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 2017 and 2018 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 licenses will be renewed. Assumptions related to renewal of licenses can involve significant judgment of management. Management believes that in 2017 and 2018 there were no reasonably possible changes in useful lives of non-oil and gas properties that would have significant impact on the depreciation charge recognised in these consolidated financial statements.

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.

(presented in US$ thousands)

5 Accounts Receivable and Prepayments

	30 June 2018	31 December 2017
Loans receivable	2,273	2,145
Trade and other accounts receivable	1,125	616
Total financial assets	**3,398**	**2,761**
Advances to suppliers	2,637	1,533
Recoverable and prepaid taxes including VAT	887	2,306
Other	3,330	382
Total accounts receivable and prepayments	**10,319**	**6,982**

Trade accounts receivable arise primarily from sales to ongoing customers with standard payment terms. The category 'Other' primarily relates to prepaid amounts to customs, which will be returned to the Group either in cash or through an offset against future export shipments.

6 Inventories

	30 June 2018	31 December 2017
Crude oil	11,319	5,132
Oil products	5,505	4,740
Materials and supplies	2,877	3,942
Total inventories	**19,701**	**13,814**

As at 30 June 2018 and 31 December 2017 the Group pledged its crude oil stored at Arcticneft's warehouse of $1.3 million and $1.5 million under loan agreements with Kamchatcomagroprombank (Note 9).

7 Property, Plant and Equipment

Cost at	**Oil and gas properties**	**Refinery and related equipment**	**Buildings**	**Other Assets**	**Assets under construction**	**Total**
1 January 2017	**100,545**	**4,817**	**466**	**4,621**	**2,527**	**112,976**
Translation difference	2,672	122	7	104	51	**2,956**
Additions	77	-	345	1,087	950	**2,459**
Capitalised borrowing costs	-	-	-	-	61	**61**
Transfers	147	-	-	-	(147)	**-**
Disposals	-	(1)	-	(4)	-	**(5)**
30 June 2017	**103,441**	**4,938**	**818**	**5,808**	**3,442**	**118,447**
Accumulated Depreciation, Amortization and Depletion at						
1 January 2017	**(42,752)**	**(2,552)**	**(416)**	**(2,167)**	**-**	**(47,887)**
Translation difference	(1,082)	(67)	(10)	(62)	-	**(1,221)**
Depreciation	(2,973)	(123)	(26)	(184)	-	**(3,306)**
Disposals	-	1	-	4	-	5
30 June 2017	**(46,807)**	**(2,741)**	**(452)**	**(2,409)**	**-**	**(52,409)**
Net Book Value at						
1 January 2017	**57,793**	**2,265**	**50**	**2,454**	**2,527**	**65,089**
30 June 2017	**56,634**	**2,197**	**366**	**3,399**	**3,442**	**66,038**

(presented in US$ thousands)

7 Property, Plant and Equipment (Ccontinued)

Cost at	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
1 January 2018	**108,544**	**5,034**	**1,709**	**6,524**	**5,635**	**127,446**
Translation difference	(9,076)	(415)	(141)	(539)	(427)	**(10,598)**
Additions	-	8		71	2,439	**2,518**
Capitalised borrowing costs	-	-	-	-	109	**109**
Transfers	3,207	-	-	-	(3,207)	**-**
Disposals	-	-	-	(10)	-	**(10)**
30 June 2018	**102,675**	**4,627**	**1,568**	**6,046**	**4,549**	**119,465**
Accumulated Depreciation, Amortization and Depletion at						
1 January 2018	**(48,655)**	**(2,937)**	**(485)**	**(2,697)**	**-**	**(54,774)**
Translation difference	4,142	247	47	229	-	**4,665**
Depreciation	(2,655)	(118)	(110)	(237)	-	**(3,120)**
Disposals	-	-	-	10	-	10
30 June 2018	**(47,168)**	**(2,808)**	**(548)**	**(2,695)**	**-**	**(53,219)**
Net Book Value at						
1 January 2018	**59,889**	**2,097**	**1,224**	**3,827**	**5,635**	**72,672**
30 June 2018	**55,507**	**1,819**	**1,020**	**3,351**	**4,549**	**66,246**

As at 30 June 2018 the Group pledged its property, plant and equipment in amount of $3.2 million under loan agreements with PJSC Sberbank of Russia (31 December 2017: $3.6 million) (Note 9).

Included within oil and gas properties at 30 June 2018 and 31 December 2017 were exploration and evaluation assets:

	Cost at 1 January 2018	Additions	Translation difference	Cost at 30 June 2018
Exploration and evaluation assets				
Petrosakh	18,829	-	(1,547)	17,282
Arcticneft	9,420	-	(776)	8,644
BVN-Oil	5,564	-	(457)	5,107
RK-Oil	500	32	(42)	490
Total cost of exploration and evaluation assets	**34,313**	**77**	**(2,822)**	**31,523**

Included within oil and gas properties at 30 June 2017 and 31 December 2016 were exploration and evaluation assets:

	Cost at 1 January 2017	Additions	Translation difference	Cost at 30 June 2017
Exploration and evaluation assets				
Petrosakh	17,783	77	472	18,332
Arcticneft	8,947	-	236	9,183
BVN-Oil	5,284	-	140	5,424
RK-Oil	474	-	13	487
Total cost of exploration and evaluation assets	**32,488**	**77**	**861**	**33,426**

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 2018 and 31 December 2017, 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.

(presented in US$ thousands)

8 Accounts Payable and Accrued Expenses

	30 June 2018	31 December 2017
Short-term finance lease obligations	1,323	245
Trade payables	275	280
Accounts payable for non-current assets	63	2,804
Other payable and accrued expenses	614	665
Total financial liabilities	**2,275**	**3,994**
Wages and salaries	1,330	1,043
Total accounts payable and accrued expenses	**3,605**	**5,037**

9 Borrowings

Borrowings. Long-term and short-term borrowings were as follows at 30 June 2018 and 31 December 2017:

	30 June 2018	31 December 2017
Long-term borrowings		
Sberbank		
- Principal	2,926	4,236
- Interest	5	17
Transnational Bank		
- Principal	1,557	1,696
- Interest	835	767
Other	170	180
Subtotal	**5,493**	**6,896**
Less: current portion of long-term borrowings	(2,566)	(5,780)
Total long-term borrowings	**2,927**	**1,116**
Short-term borrowings		
Petraco	5,052	-
Sberbank	4,793	-
Kamchatcomagroprombank	2,803	3,038
Subtotal	**12,648**	**3,038**
Plus: current portion of long-term borrowings	2,566	5,780
Total short-term borrowings	**15,214**	**8,818**
Total borrowings	**18,141**	**9,934**

On 19 November 2015, the Group acquired two private Russian companies, OOO RK-Oil and OOO BVN Oil that carried long-term and short-term borrowings in the amount of $1.8 million including loans of Transnational Bank in the amount 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. Loss of the licence by Transnational bank did not change the terms of long term loans of OOO RK-Oil and OOO BVN Oil, and such changes are not expected. The companies suspended loan interest payments in 2015, following the bank's license being revoked. In 2016, the State Corporation Deposit Insurance Agency filed a lawsuit against BVN-Oil for breach of the respective loan agreements' terms and claiming immediate repayment of the principal, accrued interest and penalties for non-payment of the loan interest.

9 Borrowings (continued)

Sberbank. On 14 February 2017 Petrosakh has entered into a new 24 month non-revolving credit facility with the Sakhalin branch of PJSC Sberbank of Russia. Under the loan agreement, Sberbank will provide, by way of several tranches, the amount of 50 million Roubles (representing approximately $0.9 million at prevailing exchange rates) to Petrosakh. The interest rate under the loan agreement is 15.6% plus 1%. The lowest rate of 15.6% is subject to Petrosakh meeting certain conditions. The loan is secured by property, plant and equipment of Petrosakh.

On 26 September 2017 Petrosakh has entered into a new 36 month non-revolving credit facility with the Sakhalin branch of PJSC Sberbank of Russia. Under the loan agreement, Sberbank will provide, by way of several tranches, the amount of 70 million Roubles (representing approximately $1.2 million at prevailing exchange rates) to Petrosakh. The interest rate under the loan agreement is 11% plus 1%. The lowest rate of 11% is subject to Petrosakh meeting certain conditions. The loan is secured by property, plant and equipment of Petrosakh.

On 30 October 2017 Petrosakh has entered into a new 36 month non-revolving credit facility with the Sakhalin branch of PJSC Sberbank of Russia. Under the loan agreement, Sberbank will provide, by way of several tranches, the amount of 30 million Roubles (representing approximately $0.5 million at prevailing exchange rates) to Petrosakh. The interest rate under the loan agreement is 11% plus 1%. The lowest rate of 11% is subject to Petrosakh meeting certain conditions. The loan is secured by property, plant and equipment of Petrosakh.

On 31 January 2018 Petrosakh entered into an 12 month revolving credit facility with the Sakhalin branch of PJSC Sberbank of Russia ("Sberbank") for a total amount of 300 million Roubles (representing approximately US$5.2 million at prevailing exchange rates) to Petrosakh for working capital financing. The key terms of the loan are that:

- it is repayable on 30 January 2019 (the agreement also provides for early repayment of the loan by Petrosakh without incurring any penalties);
- interest is chargeable at the rate of 9.6% plus 1%. The lowest rate of 9.6% is subject to Petrosakh meeting monthly turnover targets and volume of salary transferred to Sberbank accounts of employees;
- it is secured by way of a pledge over property and cash flows from Petrosakh;
- the agreement provides for a parent company guarantee from Urals Energy and a guarantee from Arcticneft.

Kamchatcomagroprombank. On 10 August 2017 Arcticneft has entered into a new short-term non-revolving credit facility with Kamchatcomagroprombank. Under the loan agreement the bank will provide a total of 130 million Roubles (representing approximately $2.3 million at prevailing exchange rates) to Arcticneft, via several tranches. Interest is chargeable at the rate 14%. Arcticneft pledged crude oil stored at its warehouse under the loan agreement with Kamchatcomagroprombank. The proceeds of this new loan will be used by Arcticneft for its general working capital financing. The loan is repayable in August 2018.

On 18 October 2017 Arcticneft has entered into a new short-term non-revolving credit facility with Kamchatcomagroprombank. Under the loan agreement the bank will provide a total of 10 million Roubles (representing approximately $0.2 million at prevailing exchange rates) to Arcticneft, via several tranches. Interest is chargeable at the rate 14%. Arcticneft pledged crude oil stored at its warehouse under the loan agreement with Kamchatcomagroprombank. The proceeds of this new loan will be used by Arcticneft for its general working capital financing. The loan is repayable in August 2018.

On 25 October 2017 Arcticneft has entered into a new short-term non-revolving credit facility with Kamchatcomagroprombank. Under the loan agreement the bank will provide a total of 35 million Roubles (representing approximately $0.6 million at prevailing exchange rates) to Arcticneft, via several tranches. Interest is chargeable at the rate 14%. Arcticneft pledged crude oil stored at its warehouse under the loan agreement with Kamchatcomagroprombank. The proceeds of this new loan will be used by Arcticneft for its general working capital financing. The loan is repayable in August 2018.

Petraco. In May 2018 Company obtained a short-term secured loan from Petraco in the amount of $5.0 million at an interest rate of three months Libor plus 5% per annum due on the 30 day after the date of next tanker shipment. From the date of the next tanker shipment the interest rate is three month Libor plus 2% per annum. Company pledged its 100% shares in its subsidiary AO Arcticneft under the loan agreement with Petraco. Loan is repayable immediately following the loading of the tanker shipment of approximately 20,000 tonnes of crude oil, scheduled for July 2018. The proceeds of the Loan will be used by the Company for general working capital financing.

(presented in US$ thousands)

9 Borrowings (continued)

Weighted average interest rate. The Group's weighted average interest rates on borrowings were 11.8% and 13.7% at 30 June 2018 and 31 December 2017, respectively.

Interest income and expense. Interest income and expense for the six months ended 30 June 2018 and 30 June 2017, respectively, comprised the following:

	Six months ended 30 June	
	2018	**2017**
Interest income		
Interest on loans issued	72	89
Interest on deposits	17	20
Total interest income	**89**	**109**
Interest on loan from Sberbank	(317)	(359)
Interest on loans from Kamchatcomagroprombank	(205)	(90)
Interest on loans from Transnational Bank	(143)	(141)
Change in dismantlement provision due to passage of time	(142)	(125)
Finance leases	(140)	(59)
Interest on loan from Petraco Oil Company Limited	(52)	(33)
Interest on other loans	(9)	(12)
Less: capitalised in PP&E (Note 7)	110	61
Total interest expense	**(898)**	**(758)**
Net interest expense	**(809)**	**(649)**

10 Equity

At 30 June 2018 authorised share capital was $1,890 thousand divided into 15 million shares of $0.126 each.

	Number of shares (thousand of shares)	Share capital	Share premium	Difference from conversion of share capital to USD
Balance at 1 January 2017	**252,446**	**1,589**	**656,968**	**(113)**
Balance at 30 June 2017	**252,446**	**1,589**	**656,968**	**(113)**
Balance at 1 January 2018	**12,622**	**1,589**	**-**	**(113)**
Balance at 30 June 2018	**12,622**	**1,589**	**-**	**(113)**

On 26 May 2017 shareholders approved the Company's share consolidation: the 252,446,060 existing ordinary shares of nominal value $0.0063 each in the issued share capital of the Company have been consolidated and divided into 12,622,303 new ordinary shares of nominal value $0.126 each, effective on 30 May 2017.

On 26 May 2017 shareholders approved a reduction of the Company's share premium account from $656,167,589 to nil by writing off the losses of the Company equivalent to this reduction of share premium account.

Restricted Stock Plan. On 20 January 2017 the Company announced the granting of conditional share awards over a total of 656,360 new ordinary shares of $0.126 each in the capital of the Company, pursuant to the Company's performance share plan.

Grants of Conditional Share Awards have been made to a total of seven employees, including members of the Company's Board and certain key employees within the Group's subsidiaries. In aggregate, the Performance Shares represent 5.2 per cent of the Company's current issued ordinary share capital. For the time being, the Board intends to retain the balance of a further 4.8 per cent of the Company's current issued ordinary share capital, which is approved under the Performance Share Plan.

The performance Share Plan is conditional on the establishment of certain KPI indicators. To date the KPI indicators have not been established, therefore the management is of the view that there is no service commencement date.

The Conditional Share Awards would only vest once the Board has determined that certain key performance indicators allocated to the individuals have been achieved. The KPIs in all cases will relate to performance in the underlying operations and developments achieved by the Group.

On 10 January 2018 the Remuneration committee of the Company passed a resolution to postpone the Plan.

11 Revenues

	Six months ended 30 June	
	2018	**2017**
Petroleum (refined) products – domestic sales	12,401	16,842
Crude oil		
Domestic sales (Russian Federation)	676	828
Export sales	-	10,237
Other sales	9	82
Total proceeds from sales	**13,086**	**27,989**
Less: excise taxes	(1,899)	(3,121)
Less: export duties	-	(2,435)
Revenues after excise taxes	**11,187**	**22,433**

(presented in US$ thousands)

12 Cost of Sales

	Six months ended 30 June	
	2018	**2017**
Unified production tax	8,148	6,405
Wages and salaries	3,997	3,963
Depreciation, depletion and amortisation	3,054	3,246
Materials	2,555	3,498
Oil treating, storage and other services	451	613
Other taxes	183	33
Rent, utilities and repair services	139	119
Other	77	85
Change in finished goods	(8,414)	1,652
Total cost of sales	**10,190**	**19,614**

13 Selling, General and Administrative Expenses

	Six months ended 30 June	
	2018	**2017**
Wages and salaries	1,251	1,100
Office rent and other expenses	349	403
Transport and storage services	311	450
Professional consultancy fees	220	188
Trip expenses and communication services	107	68
Loading services	-	279
Other expenses	133	289
Total selling, general and administrative expenses	**2,371**	**2,777**

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 2018 the Group has finished the merger of Arctic Oil Company to Arcticneft, which is intended to simplify and streamline the operational structure.

On 6 August 2018, the Company announced that it had acquired a 23% voting interest in the Kholmsk commercial seaport, which is situated on the Western side of Sakhalin Island. In conjunction with support from other shareholders in the seaport the Company has secured the election of five of the Company's representatives as directors to the seaport's board (out of a total board of seven directors).

The Company intends to work with its partners, which include the local government and other stakeholders, to enhance the management and administration of the seaport. The seaport has bunkering facilities to supply fuel oil to local fishing fleets and ferries, which are the main users of the seaport. The Group's refinery at Petrosakh on Sakhalin Island refines all of the Company's crude oil production on the island, including producing fuel oil, and the Board believes that the investment in the seaport will allow the Group to market its fuel oil directly to clients of the seaport and therefore enhance the margins of its bunker fuel sales operations at Kholmsk. The Board also believes that the investment in the seaport will provide the Group with greater strategic flexibility in terms of storage capacity relating to both the importation and exportation of products from Sakhalin Island.

There were no other material events after the balance sheet date, which have a bearing on the understanding of the financial statements.