Urals Energy Public Company Limited

Consolidated Financial Statements
As of and for the Year Ended 31 December 2014

CONTENTS

Independent Auditor's Report
To the Members of Urals Energy Public Limited

INDEPENDENT AUDITOR'S REPORT

(presented in US$ thousands)

	Note	31 December 2014	31 December 2013
Assets			
Current assets			
Cash and cash equivalents	7	3,617	5,207
Accounts receivable and prepayments	8	3,443	3,988
Inventories	9	7,672	13,429
Total current assets		**14,732**	**22,624**
Non-current assets			
Property, plant and equipment	10	63,056	112,500
Supplies and materials for capital construction		1,831	3,110
Other non-current assets	11	256	892
Total non-current assets		**65,143**	**116,502**
Total assets		**79,875**	**139,126**
Liabilities and equity			
Current liabilities			
Accounts payable and accrued expenses	12	1,466	3,801
Provisions	13	911	2,519
Income tax payable		4,937	5,301
Other taxes payable	14	4,008	6,767
Advances from customers		1,770	2,235
Total current liabilities		**13,092**	**20,623**
Long-term liabilities			
Long term finance lease obligations	10	790	1,461
Dismantlement provision	16	895	1,700
Deferred income tax liabilities	14	5,356	12,741
Total long-term liabilities		**7,041**	**15,902**
Total liabilities		**20,133**	**36,525**
Equity			
Share capital	17	1,589	1,589
Share premium	17	656,855	656,855
Translation difference		(60,017)	(31,350)
Accumulated deficit		(539,391)	(525,747)
Equity attributable to shareholders of Urals Energy Public Company Limited		**59,036**	**101,347**
Non-controlling interest		706	1,254
Total equity		**59,742**	**102,601**
Total liabilities and equity		**79,875**	**139,126**

Approved on behalf of the Board of Directors on 18 June 2015

L.Y. Dyachenko	S.E.Uzornikov
Interim CEO	Chief Financial Officer

The accompanying notes on pages 8 to 40 are an integral part of these consolidated financial statements

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

	Note	Year ended 31 December 2014	2013
Revenues after excise taxes and export duties	18	44,481	50,267
Cost of sales	20	(35,777)	(37,844)
Gross profit		**8,704**	**12,423**
Selling, general and administrative expenses	21	(8,672)	(9,313)
Other operating profit/(loss)	8,12,13	1,138	(323)
Operating profit		**1,170**	**2,787**
Interest income	15	914	1,037
Interest expense	15	(527)	(538)
Foreign currency loss	22	(17,658)	(3,690)
Total net finance expense		**(17,271)**	**(3,191)**
Loss before income tax		**(16,101)**	**(404)**
Income tax benefit	14	2,402	131
Loss for the year		**(13,699)**	**(273)**
(Loss)/profit for the year attributable to:			
- Non-controlling interest		(55)	132
- Shareholders of Urals Energy Public Company Limited		(13,644)	(405)
Loss per share from profit attributable to shareholders of Urals Energy Public Company Limited:	17		
- Basic loss per share (in US dollar per share)		(0.05)	(0.00)
- Diluted loss per share (in US dollar per share)		(0.05)	(0.00)
Weighted average shares outstanding attributable to:	17		
- Basic shares		252,446,060	252,446,060
- Diluted shares		252,446,060	252,446,060
Loss for the year		(13,699)	(273)
Other comprehensive loss that may be reclassified subsequently to profit (loss), net of income tax:			
- Effect of currency translation		(29,160)	(4,689)
Total comprehensive loss for the year		**(42,859)**	**(4,962)**
Attributable to:			
- Non-controlling interest		(548)	23
- Shareholders of Urals Energy Public Company Limited		(42,311)	(4,985)

The accompanying notes on pages 8 to 40 are an integral part of these consolidated financial statements

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

	Note	Year ended 31 December 2014	2013
Cash flows from operating activities			
Loss before income tax		**(16,101)**	**(404)**
Adjustments for:			
Depreciation, amortization and depletion	20	6,179	5,939
Interest income	15	(914)	(1,037)
Interest expense	15	527	538
Loss on disposal of property, plant and equipment		54	66
Charge of provision for doubtful accounts receivable	8, 21	913	990
Release of provision on claims	13	(1,462)	
Foreign currency loss, net	22	17,658	3,690
Other non-cash transactions	8, 12	12	122
Operating cash flows before changes in working capital		**6,866**	**9,904**
Decrease/(Increase) in inventories		1,940	(3,104)
Increase in accounts receivables and prepayments		(5,323)	(177)
Decrease in accounts payable and accrued expenses		(845)	(735)
(Decrease)/Increase in advances from customers		(95)	991
(Decrease)/Increase in other taxes payable		(1,923)	1,178
Cash generated from operations		**620**	**8,057**
Interest paid		(242)	(446)
Income tax paid		(1,281)	-
Net cash (used in)/generated from operating activities		**(903)**	**7,611**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,981)	(4,823)
Proceeds on loans issued		-	233
Net cash used in investing activities		**(2,981)**	**(4,590)**
Cash flows from financing activities			
Proceeds from borrowings	15	3,800	5,600
Repayment of borrowings	15	-	(8,604)
Net cash generated from/(used in) financing activities		**3,800**	**(3,004)**
Effect of exchange rate changes on cash in bank and on hand		(1,506)	(226)
Net decrease in cash in bank and on hand		**(1,590)**	**(209)**
Cash in bank and on hand at the beginning of the year	7	5,207	5,416
Cash in bank and on hand at the end of the year	7	**3,617**	**5,207**

The accompanying notes on pages 8 to 40 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 31 December 2012	**17**	**1,589**	**656,968**	**(113)**	**(26,770)**	**(525,342)**	**106,332**	**1,231**	**107,563**
Effect of currency translation		-	-	-	(4,580)	-	(4,580)	(109)	(4,689)
(Loss)/profit for the year		-	-	-	-	(405)	(405)	132	(273)
Total comprehensive (loss)/income		-	-	-	**(4,580)**	**(405)**	**(4,985)**	**23**	**(4,962)**
Balance at 31 December 2013	**17**	**1,589**	**656,968**	**(113)**	**(31,350)**	**(525,747)**	**101,347**	**1,254**	**102,601**
Effect of currency translation		-	-	-	(28,667)	-	(28,667)	(493)	(29,160)
Loss for the year		-	-	-	-	(13,644)	(13,644)	(55)	(13,699)
Total comprehensive loss		-	-	-	**(28,667)**	**(13,644)**	**(42,311)**	**(548)**	**(42,859)**
Balance at 31 December 2014	**17**	**1,589**	**656,968**	**(113)**	**(60,017)**	**(539,391)**	**59,036**	**706**	**59,742**

(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 31 Evagorou Avenue, Suite 34, CY-1066, Nicosia, Cyprus. UEPCL's shares are traded on the AIM Market operated by the London Stock Exchange.

The Group does not have an ultimate controlling party.

The Group comprises UEPCL and the following main subsidiaries:

		Effective ownership interest at 31 December	
Entity	**Jurisdiction**	**2014**	**2013**
Exploration and production			
ZAO Petrosakh ("Petrosakh")	Sakhalin	97.2%	97.2%
ZAO Arcticneft ("Arcticneft")	Nenetsky Region	100%	100%
Management company			
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 56.26 and 32.73 as of 31 December 2014 and 2013, 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:

(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.

2 Summary of Significant Accounting Policies (Continued)

(ii) Income and expenses for each statement of comprehensive income are translated to the functional 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.

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.

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.

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 shareholders’ 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.

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.

2 Summary of Significant Accounting Policies (Continued)

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 one 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, as 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.

In 2014 and 2013 all financial assets of the Group related to loans and receivables.

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.

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

2 Summary of Significant Accounting Policies (Continued)

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 (see Provisions below).

The Group accounts for exploration and evaluation activities in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources.* Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are initially capitalised as an intangible asset within oil and gas properties until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. 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. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to the tangible part of oil and gas properties and an impairment review of the property is undertaken at that time.

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. 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

2 Summary of Significant Accounting Policies (Continued)

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' in the profit and loss section of consolidated statement of comprehensive income.

Intangible assets. The Group measures intangible assets at cost less accumulated amortisation and impairment losses. All of the Group's other intangible assets have finite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	Estimated useful life
Software licences	1-5
Capitalised internal software development costs	3
Other licences	5 to 7

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 under financial items. 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.

2 Summary of Significant Accounting Policies (Continued)

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.

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.

2 Summary of Significant Accounting Policies (Continued)

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.

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.

2 Summary of Significant Accounting Policies (Continued)

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.

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. The Group operates within geographic segments as disclosed in note 19.

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.

3 Going Concern

A significant portion of the Group's consolidated net assets of $59.0 million (31 December 2013: $101.3 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 assets of $1.6 million as of 31 December 2014 (31 December 2013: net current assets of $2.0 million).

Management have prepared monthly cash flow projections for 2015 and 2016. 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 $60 per barrel has been used for 2015 and for 2016). 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 Adoption of New or Revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2014:

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective in EU for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group considers the impact of the new standard on its consolidated financial statements is insignificant.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective in EU for annual periods beginning on or after 1 January 2014), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The new standard does not have any material impact on the Group's consolidated financial statements.

4 Adoption of New or Revised standards and interpretations (continued)

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective in EU for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group considers the impact of the new standard on its consolidated financial statements is insignificant.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective in EU for annual periods beginning on or after 1 January 2014), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group considers the impact of the new standard on its consolidated financial statements is insignificant.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective in EU for annual periods beginning on or after 1 January 2014). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group considers the impact of the new standard on its consolidated financial statements is insignificant.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective in EU for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group considers the impact of the amendment is insignificant.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective in EU for annual periods beginning 1 January 2014). The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group considers the impact of the amendments on its consolidated financial statements is insignificant.

Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27 (issued on 31 October 2012 and effective in EU for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amendment does not have any material impact on the Group's consolidated financial statements.

4 Adoption of New or Revised standards and interpretations (continued)

Recoverable Amount Disclosures for Non-financial Assets - Amendments to IAS 36 (issued on 29 May 2013 and effective in EU for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group considers the impact of the amendments on the disclosures in its consolidated financial statements is insignificant.

Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39 (issued on 27 June 2013 and effective in EU for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group considers the impact of the amendments on the disclosures in its consolidated financial statements is insignificant.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and not yet endorsed in EU). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting

5 New Accounting Pronouncements (Continued)

requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 21 - Levies (issued on 20 May 2013 and effective in EU for annual periods beginning 1 January 2015). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective in EU for annual periods beginning 1 January 2016). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective in EU for annual periods beginning on or after 1 January 2016, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective in EU for annual periods beginning on or after 1 January 2015). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

5 New Accounting Pronouncements (Continued)

IFRS 14, Regulatory deferral accounts (issued in January 2014, not yet endorsed in EU). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and not yet endorsed in EU). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and not yet endorsed in EU). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and not yet endorsed in EU). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and not yet endorsed in EU). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and not yet endorsed in EU). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and not yet endorsed in EU). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

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

6 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. Please see Note 23 for more details.

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.

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.

(presented in US$ thousands)

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

Impairment provision for receivables. The impairment provision for receivables (including loans issued) is based on management's assessment of the probability of collection of individual receivables. Significant financial difficulties of the debtor/lender, probability that the debtor/lender will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a debtor's/lender's creditworthiness or actual defaults are higher than the estimates (see Note 8)..

When there is no expectation of recovering additional cash for an amount receivable, the expected amount receivable is written off against the associated provision.

Future cash flows of receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Asset retirement obligations. 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 asset retirement obligations 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 2013 and 2014 there were no reasonably possible change in any of the above key assumptions used that would have significant impact on the asset retirement obligation 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 2013 and 2014 there were no reasonably possible change in useful lives of non-oil and gas properties that would have significant impact on the depreciation charge recognised in these consolidated financial statements.

7 Cash and cash equivalents

	31 December	
	2014	**2013**
Cash at bank and on hand	3,617	4,718
Short-term bank deposits with maturities of 3 months or less	-	489
Total cash and cash equivalents	**3,617**	**5,207**

Based on Moody's rating, the credit quality of Open Joint-Stock Company Promsvyazbank in which the Group mostly held its cash and cash equivalents as at 31 December 2014 and 2013 is A+ and BB-, accordingly.

(presented in US$ thousands)

8 Accounts Receivable and Prepayments

	Year ended 31 December	
	2014	**2013**
Loans issued	791	464
Trade accounts and other accounts receivable	413	1,120
Total financial assets	**1,204**	**1,584**
Recoverable and prepaid taxes including VAT	856	1,109
Prepaid expenses	539	536
Advances to suppliers	261	605
Other	583	154
Total accounts receivable and prepayments	**3,443**	**3,988**

At 31 December 2013 and 2014 loans receivable represent US dollar denominated long-term loans (interest inclusive) issued by UEPCL to OAO Komineftegeophysica (Note 25).

Included in total accounts receivable and prepayments are $1.5 million and $1.1 million at 31 December 2014 and 2013, respectively, denominated in US dollars and substantially all remaining amounts are denominated in Russian Roubles.

Trade accounts receivable arise primarily from sales to ongoing customers with standard payment terms. The category 'Other' primarily relates to prepaid amounts to customs and tax authorities, which will be returned to the Group either in cash or through an off-set against future payments.

In 2014 the Group wrote off recoverable and prepaid taxes amounting to $0.7 million. The amount of this non-cash transaction in 2014 included in other operating profit.

Changes in the provision for impairment of trade and other receivables related to the recognition/(reversal) of a provision against receivables from related parties are as follows:

	Year ended 31 December	
	2014	**2013**
At 1 January	8,517	7,527
Accrual of provision against related party (Note 21 and 25)	818	990
Accrual of provision against third party accounts receivable (Note 21)	95	-
Using of provision against related party (Note 21 and 25)	(9,335)	-
Effect of currency translation	(30)	-
At 31 December	**65**	**8,517**

The carrying values of trade and other receivables approximate their fair value (Level 3 of fair value hierarchy). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial receivables mentioned above. The Group does not hold any collateral as security for trade and other receivables (see Note 24 for credit risk disclosures).

9 Inventories

	31 December	
	2014	**2013**
Crude oil	3,117	4,943
Oil products	964	3,284
Materials and supplies	3,591	5,202
Total inventories	**7,672**	**13,429**

(presented in US$ thousands)

10 Property, Plant and Equipment

Cost at	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
1 January 2013	**161,850**	**8,630**	**933**	**5,843**	**5,815**	**183,071**
Translation difference	(11,739)	(622)	(66)	(425)	(455)	**(13,307)**
Additions	2,251	-	-	252	2,685	**5,188**
Capitalised borrowing costs	-	-	-	-	30	**30**
Transfers	1,405	-	-	-	(1,405)	-
Disposals	(172)	-	-	(85)	-	**(257)**
31 December 2013	**153,595**	**8,008**	**867**	**5,585**	**6,670**	**174,725**
Translation difference	(64,372)	(3,349)	(361)	(2,449)	(3,550)	**(74,081)**
Additions	232	-	-	397	2,623	**3,252**
Transfers	190	-	-	-	(190)	-
Changes in estimate of dismantlement provision	(132)	(130)	-	-	-	**(262)**
Disposals	-	-	-	(42)	(29)	**(71)**
31 December 2014	**89,513**	**4,529**	**506**	**3,491**	**5,524**	**103,563**

Additions to assets under construction included capitalised depreciation in the amount of $211 thousand (for the year ended 31 December 2013: $248 thousand).

The average capitalisation rate for the year ended 31 December 2014 is 5.5% (for the year ended 31 December 2013: 5.5%).

In 2014 the Group recorded the change in estimate of dismantlement provision for oil and gas properties and for refinery and related equipment mainly due to the change in discount rate (Note 16).

Accumulated Depreciation, Amortization and Depletion at	Oil and gas properties	Refinery and related equipment	Buildings	Other Assets	Assets under construction	Total
1 January 2013	**(53,253)**	**(3,274)**	**(634)**	**(3,610)**	**-**	**(60,771)**
Translation difference	3,976	248	47	265	-	**4,536**
Depreciation	(5,342)	(433)	(47)	(359)	-	**(6,181)**
Disposals	122	-	-	69	-	**191**
31 December 2013	**(54,497)**	**(3,459)**	**(634)**	**(3,635)**	**-**	**(62,225)**
Translation difference	24,590	1,560	278	1,602	-	**28,030**
Depreciation	(5,673)	(359)	(39)	(258)	-	**(6,329)**
Disposals	-	-	-	17	-	**17**
31 December 2014	**(35,580)**	**(2,258)**	**(395)**	**(2,274)**	**-**	**(40,507)**
Net Book Value at						
31 December 2013	**99,098**	**4,549**	**233**	**1,950**	**6,670**	**112,500**
31 December 2014	**53,933**	**2,271**	**111**	**1,217**	**5,524**	**63,056**

(presented in US$ thousands)

10 Property, Plant and Equipment (continued)

Included within oil and gas properties at 31 December 2014 and 2013 were exploration and evaluation assets:

	Cost at 31 December 2013	Additions	Translation difference	Cost at 31 December 2014
Exploration and evaluation assets				
Arcticneft	15,745	-	(6,585)	9,160
Petrosakh	28,661	-	(11,987)	16,674
Total cost of exploration and evaluation assets	**44,406**	**-**	**(18,572)**	**25,834**

	Cost at 31 December 2012	Additions	Translation difference	Cost at 31 December 2013
Exploration and evaluation assets				
Arcticneft	16,967	-	(1,222)	15,745
Petrosakh	30,885	-	(2,224)	28,661
Total cost of exploration and evaluation assets	**47,852**	**-**	**(3,446)**	**44,406**

At the each reporting date management assess whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment.

In 2014 market debt interest rates available for the Group increased by the end of the year and that was considered by management as an indicator of potential impairment of Group's assets. The Group conducted impairment tests assessing whether the carrying amount of each cash-generating unit exceeds the recoverable amount of the respective cash-generating unit. The recoverable amount has been determined as values in use of respective assets. The values in use of cash-generating units have been calculated as the present values of projected future cash flows discounted using the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units. 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). Key assumptions for impairment test are discount rate 20%, an average oil price of $60 for 2015 and $60 in real terms for future sales. Based on the results of the impairment test the Group did not identify impairment.

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 2037 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 31 December 2014 and 2013, 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.

The Group leases certain items within oil and gas properties under a number of finance lease agreements. The Group classified these leases as finance lease based on contract terms that include transfer of ownership rights at the end of contract.

As at 31 December 2014 cost of the leased assets amounted to $1,279 thousand (2013: $2,199 thousand). Accumulated depreciation for the leased assets as at 31 December 2014 amounted to $410 thousand (2013: $447 thousand).

(presented in US$ thousands)

10 Property, Plant and Equipment (continued)

Future minimum lease payments were as follows:

	31 December 2014		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Financial lease obligations payable			
Not later than 1 year	165	105	60
Later than 1 year and not later than 5 years	660	338	322
Above 5 years	742	274	468
Total	**1,567**	**717**	**850**

	31 December 2013		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Financial lease obligations payable			
Not later than 1 year	284	193	91
Later than 1 year and not later than 5 years	1,136	643	493
Above 5 years	1,560	592	968
Total	**2,980**	**1,428**	**1,552**

11 Other Non-Current Assets

	Year ended 31 December	
	2014	2013
Advances to contractors and suppliers for construction in process	202	494
Loans issued (Note 25)	-	292
Intangible assets	54	106
Total other non-current assets	**256**	**892**

At 31 December 2013 loans receivable represent US dollar denominated long-term loans (interest inclusive) issued by UEPCL to OAO Komineftegeophysica (Note 25).

12 Accounts Payable and Accrued Expenses

	Year ended 31 December	
	2014	2013
Trade payables	340	550
Accounts payable for construction in process	186	359
Short-term finance lease obligations	60	91
Other payable and accrued expenses	90	1,371
Total financial liabilities	**676**	**2,371**
Wages and salaries	790	1,430
Total accounts payable and accrued expenses	**1,466**	**3,801**

Total accounts payable and accrued expenses in the amount of $ 0.2 million and $0.4 million at 31 December 2014 and 2013, respectively, are denominated in US dollars. Substantially all remaining amounts are denominated in Russian Roubles.

Other payable and accrued expenses include accounts payable relate to supply of goods under agency agreement made in prior years in the amount $1.1 million at 31 December 2013.

During the years ended 31 December 2014 the Group wrote-off overdue accounts payable relate to supply of goods under agency agreement made in prior years in the amount $0.6 million. The amount of this non-cash transaction in 2014 included in other operating profit.

(presented in US$ thousands)

13 Provisions

	Provision on claims
1 January 2013	**2,199**
Charge of provision due to exchange differences	320
31 December 2013	**2,519**
Release of provision	(1,462)
Release of provision due to exchange differences	(146)
31 December 2014	**911**

Provision on claims (Note 25)

On 2 June 2010 the Company was notified that Finfund Limited has exercised its rights to acquire 13,000,000 existing Urals shares with a nominal value of US$0.0063 from entities beneficially owned by two directors (being Leonid Y. Dyachenko and Aleksey V. Ogarev) and another significant shareholder (being Vyacheslav V. Rovneiko) (together the "Shareholders") pursuant to a share pledge agreement dated 26 November 2007 (the "Share Pledge Agreement").

The Share Pledge Agreement was entered into by entities beneficially owned by the Shareholders and secured various obligations of the Company under the terms of the Share Pledge Agreement relating to the acquisition by Urals of Taas-Yuriakh Neftegazodobycha (the "Acquisition"). Such obligations included certain pledge fees which Finfund Limited claimed were owed by the Company. Based on Finfund Limited's alleged defaults by the Company in respect of such pledge fees, Finfund Limited chose in 2010 to exercise its rights under the Share Pledge Agreement to acquire 13,000,000 shares in the Company from entities beneficially owned by the Shareholders (the "Pledged Shares"). The Shares beneficially owned and transferred to Finfund Limited as a result of such exercise of its rights against each Shareholder are as follows:

Name	**Number of Pledged Shares**
Vyacheslav V. Rovneiko	8,010,000
Leonid Y. Dyachenko (Executive Chairman)	3,422,000
Aleksey V. Ogarev (Executive Director)	1,568,000
Total	**13,000,000**

On 26 December 2014 the Company signed a comprehensive settlement agreement with Mr V Rovneiko. As part of the overall settlement, Mr Rovneiko has agreed to withdraw his claim for collateral allegedly provided by the Company in relation to the 8,010,000 pledged shares to Finfund (see Note 23).

As a consequence of the exercise of Finfund Limited's rights, as described above, any liability owed by Urals to Finfund Limited was reduced by the value of the shares transferred, estimated to equal $2.2 million. The Company has recorded a provision for the potential reimbursement to these shareholders. The company has recorded this provision based on the historical value of 4,990,000 shares (2013: 13,000,000 shares). The provision is equal to $ 0.9 million as of 31 December 2014 (as of 31 December 2013: $2.5 million) after release of the provision 2014 in the amount of $1.46 million. The amount of provision release in 2014 included in other operating profit.

14 Taxes

Income taxes for the years ended 31 December 2014 and 2013 comprised the following:

	Year ended 31 December	
	2014	**2013**
Current tax expense	609	413
Deferred tax benefit	(3,011)	(544)
Income tax benefit	**(2,402)**	**(131)**

(presented in US$ thousands)

14 Taxes (continued)

Below is a reconciliation of loss before taxation to income tax benefit:

	Year ended 31 December	
	2014	**2013**
Loss before income tax	(16,101)	(404)
Theoretical benefit at the statutory rate of 20%	(3,220)	(81)
Income tax refund	-	(473)
Unrecognised statutory tax loss carry forward	734	-
Effects of different tax rate	(185)	(81)
Other non-deductible expenses, net of non-taxable income	269	504
Income tax benefit	**(2,402)**	**(131)**
Effective tax rate	**14.9%**	**32.4%**

The movements in deferred tax assets and liabilities during the years ended 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	**Credited/(charged) in equity for translation differences**	**Credited/(charged) to the profit and loss section of consolidated statement of comprehensive income**	**31 December 2013**
Deferred income tax liabilities				
Property, plant and equipment	(8,814)	6,461	717	(15,992)
Inventories	(648)	465	(5)	(1,108)
Deferred income tax assets				
Dismantlement provision	231	(156)	59	328
Payables	30	(21)	-	51
Tax losses	3,845	(2,375)	2,240	3,980
Net deferred income tax liabilities	**(5,356)**	**4,374**	**3,011**	**(12,741)**

	31 December 2013	**Credited/(charged) in equity for translation differences**	**Credited/(charged) to the profit and loss section of consolidated statement of comprehensive income**	**31 December 2012**
Deferred income tax liabilities				
Property, plant and equipment	(15,992)	1,273	666	(17,931)
Inventories	(1,108)	64	(453)	(719)
Deferred income tax assets				
Dismantlement provision	328	(24)	33	319
Payables	51	(7)	(69)	127
Tax losses	3,980	(292)	367	3,905
Net deferred income tax liabilities	**(12,741)**	**1,014**	**544**	**(14,299)**

The amount of deferred tax assets and liabilities that will be settled in 2015 is not significant.

The Company is subject to corporation tax on taxable profits at the rate of 12.5%. Under certain conditions interest expense or interest income may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

Most of the individual operating entities are taxed in the Russian Federation at the rate of 20%.

(presented in US$ thousands)

14 Taxes (continued)

In the context of the Group’s current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity. At 31 December 2014 and 2013, deferred tax assets of $13.9 million and $23.3 million, respectively, have not been recognized for deductible temporary differences for which it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax assets to be utilised. Accumulated tax losses were $91.0 million and $140.0 million at 31 December 2014 and 2013, respectively. The $91.0 million of the accumulated tax losses at 31 December 2014 expire in 2015-2024 years and of the remaining $140.0 million of the accumulated tax losses at 31 December 2013 expire in 2014-2023 years.

Other taxes payable at 31 December 2014 and 2013 were as follows:

	31 December	
	2014	**2013**
VAT	1,967	3,019
Unified production tax	1,297	2,512
Other taxes payable	744	1,236
Total other taxes payable	**4,008**	**6,767**

15 Borrowings

Weighted average interest rate. The Group’s weighted average interest rates on borrowings were nil and 5.5% at 31 December 2014 and 2013, respectively.

Interest income and expense. Interest income and expense for the years ended 31 December 2014 and 2013, respectively, comprised the following:

	Year ended 31 December	
	2014	**2013**
Interest income		
Loans issued	914	1,037
Total interest income	**914**	**1,037**
Interest on loan from Petraco Oil Company Limited	*(117)*	*(129)*
- *accrued*	*(117)*	*(159)*
- *capitalised in PP&E*	-	*30*
Finance leases	(164)	(208)
Change in dismantlement provision due to unwinding of discount (Note 16)	(246)	(201)
Total interest expense	**(527)**	**(538)**
Net finance income	**387**	**499**

All of the borrowings obtained and repaid by the Group during 2014 and 2013 were from Petraco, a Group’s related party (Note 25).

Petraco. In June 2013 the Company has entered into a short-term loan agreement with Petraco under which Petraco was to advance the sum of up to US$7.0 million to the Company. The Company received US$5.6 million under the agreement, the loan including the accrued interest was fully repaid in December 2013.

In May 2014 the Company has entered into a short-term loan agreement with Petraco under which Petraco was to advance the sum of up to US$7.6 million to the Company. The Company received US$3.8 million under the agreement, the loan including the accrued interest was fully paid as a result of the non-cash settlement transactions with trade receivables due to crude oil sales to Petraco in December 2014.

16 Dismantlement Provision

The dismantlement provision represents the net present value of the estimated future obligation for dismantlement, abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the oil and gas fields, which vary from 10 to 40 years depending on the field and type of assets. Nominal discount rate was 17% and 13% as of 31 December 2014 and 2013, respectively. The amount of the provision is not significantly sensitive to changes of the assumptions.

	Year ended 31 December	
	2014	**2013**
Opening dismantlement provision	1,700	1,621
Translation difference	(789)	(122)
Changes in estimates (Note 10)	(262)	-
Unwinding of discount (Note 15)	246	201
Closing dismantlement provision	**895**	**1,700**

As further discussed in Note 23, environmental regulations and their enforcement are being developed by governmental authorities. Consequently, the ultimate dismantlement, abandonment and site restoration obligation may differ from the estimated amounts, and this difference could be significant.

17 Equity

At 31 December 2014 authorised share capital was $1,890 thousand divided into 300 million shares of $0.0063 each.

	Number of shares (thousand of shares)	**Share capital**	**Share premium**	**Difference from conversion of share capital to USD**
Balance at 1 January 2013	**252,446**	**1,589**	**656,968**	**(113)**
Shares issued under restricted stock plans	-	-	-	-
Balance at 31 December 2013	**252,446**	**1,589**	**656,968**	**(113)**
Shares issued under restricted stock plans	-	-	-	-
Balance at 31 December 2014	**252,446**	**1,589**	**656,968**	**(113)**

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

Restricted Stock Plan. In February 2006, the Group's Board of Directors approved a Restricted Stock Plan (the "Plan") authorizing the Compensation Committee of the Board of Directors to issue restricted stock of up to five percent of the outstanding shares of the Group. Restricted stock grants entitle the holder to shares of stock for no consideration upon vesting. There are no performance conditions beyond continued employment with the Group. The Plan which was authorized in 2006 expired in 2008. Additionally, of the restricted stock of 3,075,393 shares initially granted in 2007, 93,901 and 75,275 granted shares were cancelled as a result of retirement of certain employees of the Company during years 2008 and 2007.

In March 2008, the Group granted an additional 2,281,677 shares of restricted stock of which nil and 16,966 granted shares were cancelled as a result of retirement of certain employees of the Company during 2010 and 2009 correspondingly.

In September 2010 the Group substantially granted an additional 9,584,742 shares of restricted stock of which nil and 864,198 granted shares were cancelled as a result of retirement of certain employees of the Company during 2011.

During the years ended 31 December 2014 and 2013 no expense related to share-based payments were recognized in the consolidated statements of comprehensive income.

17 Equity (continued)

At 31 December 2014 and 31 December 2013, restricted stock grants for 14,037,685 shares and 14,037,685 shares were fully issued.

Date of Grant	January 2009	January 2010	January 2011	Total
Unvested Restricted Stock Granted as of 31 December 2013	354,096	354,095	260,180	968,371
Vesting in 2014	-	-	-	-
Total Restricted Stock Granted as of 31 December 2014	**354,096**	**354,095**	**260,180**	**968,371**

The fair value of stock granted is evaluated using market prices at the grant date if available. If market prices are not available, the fair value is estimated using a valuation technique to estimate what the price would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties.

Profit/(loss) per share. Basic profit/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares issued was calculated as following:

	Year ended 31 December	
	2014	**2013**
Balance at 1 January	252,446,060	252,446,060
Weighted average number of ordinary shares in issue	252,446,060	252,446,060

	Year ended 31 December	
	2014	**2013**
Loss attributable to equity holders of the Company	(13,644)	(405)
Weighted average shares outstanding (thousands) attributable to:	252,446	252,446
- Basic shares	252,446	252,446
- Diluted shares	252,446	252,446
Basic loss per share (in US dollar per share)	(0.05)	(0.00)
Diluted loss per share (in US dollar per share)	(0.05)	(0.00)

The company has a one category of potential ordinary shares: restricted stock plan. Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding and the loss attributable equity holders of the Company to assume conversion of all 968,371 dilutive (antidilutive) potential ordinary shares (2013: 968,371 shares). Potential ordinary shares have no dilutive effect on the results of the year 2014 due to net loss attributable to equity holders of the Company achieved in 2014.

18 Revenues

	Year ended 31 December	
	2014	**2013**
Crude oil		
Export sales	17,883	21,607
Domestic sales (Russian Federation)	2,108	3,096
Petroleum (refined) products – domestic sales	37,890	39,802
Other sales	323	339
Total proceeds from sales	**58,204**	**64,844**
Less: excise taxes	(4,729)	(4,385)
Less: export duties	(8,994)	(10,192)
Revenues after excise taxes and export duties	**44,481**	**50,267**

All of the Group's export crude oil sales are made to one customer, Group's related party – Petraco (Note 25), with whom the Group was trading for the past several years. The customer is a trader, sales are made purely on market terms, the title over the oil sold passes at the Russian border and, accordingly, management does not monitor the ultimate consumers of its export sales.

(presented in US$ thousands)

19 Segment information

Operating segments are defined as components of the Group where separate financial information is available and reported regularly to the chief operating decision maker (hereinafter referred to as "CODM", represented by the Board of Directors of the Company), which decides how to allocate resources and assesses operational and financial performance using the information provided.

The CODM receives monthly IFRS based financial information for its production entities. There were two production entities in both 2014 and 2013. Management has determined that the operations of these production entities are sufficiently homogenous and therefore the operating segments display similar economic characteristics to be aggregated for the purpose of IFRS 8. The Group has other entities that engage as either head office / corporate or as holding companies. Consequently, management has concluded that due to the above aggregation criteria there is only one reportable segment.

Geographical information. The Group operates in two major geographical areas of the world. In the Russian Federation, its home country, the Group is mainly engaged in the exploration, development, extraction and sales of crude oil, and refining and sale of oil products. Activities outside the Russian Federation are restricted to sales activities where title passes upon tanker loading. Sales are made to Europe (sales of crude oil). Information on the geographical location of the Group's revenues is set out below.

For the year ended 31 December 2014:

	Russian Federation	**Europe**	**Total**
Crude oil	2,108	17,883	19,991
Petroleum (refined) products	37,890	-	37,890
Other sales	323	-	323
Total proceeds from sales	**40,321**	**17,883**	**58,204**
Less: excise taxes	(4,729)	-	(4,729)
Less: export duties	-	(8,994)	(8,994)
Revenues after excise taxes and export duties	**35,592**	**5,703**	**44,481**

For the year ended 31 December 2013:

	Russian Federation	**Europe**	**Total**
Crude oil	3,096	21,607	24,703
Petroleum (refined) products	39,802	-	39,802
Other sales	339	-	339
Total proceeds from sales	**43,237**	**21,607**	**64,844**
Less: excise taxes	(4,385)	-	(4,385)
Less: export duties	-	(10,192)	(10,192)
Revenues after excise taxes and export duties	**38,852**	**11,415**	**50,267**

Revenue from external customers is based on the geographical location of customers although all revenues are generated by assets in the Russian Federation. Substantially all of the Group's assets are located in the Russian Federation. Excise taxes relate to petroleum products, export duties – to crude oil.

Major customers. For the year 2014, the Group has one major customer to whom individual revenues represent 31 percent of total external revenues (2013: one major customer that represented 33 percent).

(presented in US$ thousands)

20 Cost of Sales

	Year ended 31 December	
	2014	**2013**
Unified production tax	13,158	15,798
Wages and salaries (including payroll taxes of $1.6 million and $2.0 million for the years ended 31 December 2014 and 2013, respectively)	7,405	9,376
Depreciation, depletion and amortisation	6,179	5,939
Materials	4,823	5,939
Oil treating, storage and other services	2,017	1,761
Rent	451	439
Other taxes	358	447
Utilities and repair services	288	327
Other	247	278
Change in finished goods	851	(2,460)
Total cost of sales	**35,777**	**37,844**

21 Selling, General and Administrative Expenses

	Year ended 31 December	
	2014	**2013**
Wages and salaries (including payroll taxes of $0.3 million and $0.3 million for the years ended 31 December 2014 and 2013, respectively)	2,820	2,384
Transport and shipment services	1,808	2,362
Professional consultancy fees	1,219	1,102
Charge of provision for doubtful accounts receivable	913	990
Office rent	557	659
Trip expenses and communication services	290	345
Loading services	274	467
Audit fees	230	230
Office expenses	155	191
Other expenses	406	583
Total selling, general and administrative expenses	**8,672**	**9,313**

The professional services stated above include fees of $30 thousand (for the year ended 31 December 2013: $59 thousand) charged by the Company's statutory audit firm, fees of $3 thousand (for the year ended 31 December 2013: $3 thousand) for tax consultancy services, $4 thousand (for the year ended 31 December 2013:$4 thousand) for other assurance services.

Directors' fees for the years ended 31 December 2014 and 2013 were $83 thousand and $100 thousand, respectively, and do not include amounts related to share-based payments provided to the Group's directors (Note 17, 25).

22 Foreign currency loss

	Year ended 31 December	
	2014	**2013**
Foreign currency (loss)/gain:		
- Operating	808	(87)
- Financial	(18,466)	(3,603)
Total foreign currency loss	**(17,658)**	**(3,690)**

Financial foreign currency loss related mainly to USD short-term debts obtained from Petraco (Note 15).

(presented in US$ thousands)

23 Contingencies, Commitments and Operating Risks

Operating environment. Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the Central Bank of Russian Federation (CBRF) exchange rate fluctuated between RR 32.6587 and RR 67.7851 per USD;
- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an overnight increase from 10,5% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 1 443 and 791(1 January and 31 December 2014);
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor’s cut it to BB+, putting it below investment grade for the first time in a decade. Moody’s Investors Service and Fitch Ratings still have Russia as investment grade. However, all these rating agencies indicated a negative outlook, meaning further downgrades are possible.
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates; and
- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 11.5% p.a.

These events may have a further significant impact on the Group’s future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group’s operations may differ from management’s current expectations.

Cyprus. The Cyprus economy has been adversely affected from the crisis in the Cyprus banking system in conjunction with the inability of the Republic of Cyprus to borrow from international markets. As a result, the Republic of Cyprus entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the “Troika”), for financial support, which resulted into an agreement and the Eurogroup decision of 25 March 2013. The decision included the restructuring of the two largest banks in Cyprus through “bail in”. During 2014 the Cyprus economy contracted further with a decrease in the Gross Domestic Product.

Following the positive outcome of the reviews of Cyprus's economic programme by the European Commission, the European Central Bank and the International Monetary Fund during 2013 and 2014, the Eurogroup endorsed the disbursement of the scheduled tranches of financial assistance to Cyprus. On the basis of the evaluation performed, the Company's management has concluded that no provisions or impairment charges are necessary.

The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

Oilfield licenses. The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oil field licenses. Management of the Group corresponds with governmental authorities to agree on remedial actions, if necessary, to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties or license limitations, suspension or revocations. Management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group. Management believes that proved reserves should include quantities that are expected to be produced after the expiry dates of the Group’s production licenses. These licenses expire between 2037 and 2067.

The principal licenses of the Group and their expiry dates are:

Field	License holder	License expiry date
Okruzhnoye	Petrosakh	December 2037
Peschanozerskoye	Arcticneft	December 2067

23 Contingencies, Commitments and Operating Risks (continued)

Management believes the licenses may be extended at the initiative of the Group and management intends to extend such licenses for properties expected to produce subsequent to their license expiry dates.

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was introduced from 1999 and was amended with effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy used in 2014 and preceding years is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given the specifics of TP rules, impact of any challenge of the Group's transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Management regularly reviews the Group's taxation compliance with applicable legislation, laws and decrees as well as interpretations published by the authorities in the jurisdictions in which the Group has operations. However, from time to time potential exposures and contingencies are identified and at any point in time a number of open matters exist, management believes that its tax positions are sustainable. Management estimates possible tax exposures that probability is higher than remote but for which no liability is required to be recognised under IFRS, could be up to $3.4 million. These exposures primarily relate to the fact that tax authorities may challenge deductibility of certain expenses and application of certain tax regimes. This estimation is provided for the IFRS requirement for disclosure of possible taxes and should not be considered as an estimate of the Group's future tax liability.

Restoration, rehabilitation and environmental costs. The Group companies have operated in the upstream and refining oil industry in the Russian Federation for many years, and their activities have had an impact on the environment. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated at present, but could be material. Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group.

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

(presented in US$ thousands)

23 Contingencies, Commitments and Operating Risks (continued)

The Alleged "Debt Repayment Agreement"

In October 2013 the Company received a notification informing it of the existence of a "Debt Repayment Agreement" (the "Alleged Agreement") claiming that the Company is liable to pay a party the sum of the US$41.7 million by 15 December 2013, representing collateral allegedly provided by the Company in relation to the party's 8,010,000 pledged shares to Finfund (see Note 13).

On 26 December 2014 the Company signed a comprehensive settlement agreement with Mr V Rovneiko, a former Director of the Company, on all outstanding litigation and pending or threatened disputes. All parties to the dispute are pleased to bring it, and all other related or unrelated allegations, to a full and final resolution. As part of the overall settlement, Mr Rovneiko has agreed to withdraw his claim for US$41.7 million arising out of the disputed Alleged Agreement (Note 25).

Other capital commitments. At 31 December 2014, the Group had no significant contractual commitments for capital expenditures.

24 Financial Risk Management

The accounting policies for financial instruments have been applied to the line items below:

	At 31 December	
	2014	**2013**
Financial assets		
Loans and receivables: current assets		
Loans issued	791	464
Cash and cash equivalents	3,617	5,207
Trade and other accounts receivable	413	1,120
Total loans and receivables: current assets	**4,821**	**6,791**
Loans and receivables: non-current assets		
Loans issued: non-current	-	292
Total loans and receivables: non-current assets	**-**	**292**
Financial liabilities		
Measured at amortized cost: current liabilities		
Trade and other payables	676	2,371
Total current liabilities measured at amortized cost	**676**	**2,371**
Measured at amortized cost: non-current liabilities		
Long-term finance lease obligations	790	1,461
Total long-term liabilities measured at amortized cost	**790**	**1,461**

Financial risk management objectives and policies. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, credit risk, liquidity risk, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market price may create volatility in the Group's financial results. As an entity focused upon the exploration and development of oil and gas properties, the Group's overriding strategy is to maintain a strong financial position by securing access to capital to meet its capital investment needs.

The Group's principal risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

24 Financial Risk Management (continued)

Market risk. Market risk is the risk that changes in market prices and rates, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures. The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, gas condensate, petroleum products and natural gas (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to the US dollar. Foreign exchange risk arises primarily from commercial transactions, and recognized assets and liabilities when such transactions, assets and liabilities are denominated in a currency other than the functional currency. The Group's overall strategy is to have no significant net exposure in currencies other than the Russian ruble or the US dollar. The carrying amounts of the Group's financial instruments are denominated in the following currencies (all amounts expressed in thousands of US dollars at the appropriate 31 December 2014 and 2013 exchange rates):

At 31 December 2014	**Russian ruble**	**US dollar**	**Total**
Financial assets			
Current			
Loans issued	-	791	791
Cash and cash equivalents	1,343	2,274	3,617
Accounts receivable	413	-	413
Financial liabilities			
Non-current			
Long-term finance lease obligations	(790)	-	(790)
Current			
Accounts payable and accrued expenses	(648)	(28)	(676)
Net exposure at 31 December 2014	**318**	**3,037**	**3,355**

At 31 December 2013	**Russian ruble**	**US dollar**	**Total**
Financial assets			
Non-current			
Loans issued	-	292	292
Current			
Loans issued to related parties	-	464	464
Cash and cash equivalents	5,182	25	5,207
Accounts receivable	1,120	-	1,120
Financial liabilities			
Non-current			
Long-term finance lease obligations	(1,461)	-	(1,461)
Current			
Accounts payable and accrued expenses	(2,194)	(177)	(2,371)
Net exposure at 31 December 2013	**2,647**	**604**	**3,251**

(presented in US$ thousands)

24 Financial Risk Management (continued)

In accordance with IFRS requirements, the Group has provided information about market risk and potential exposure to hypothetical loss from its use of financial instruments through sensitivity analysis disclosures. The sensitivity analysis depicted in the table below reflects the hypothetical income (loss) that would occur assuming a 30% change in exchange rates and no changes in the portfolio of instruments and other variables held at 31 December 2014 and 2013, respectively.

		Year ended 31 December	
Effect on pre-tax profit	**Increase in exchange rate**	**2014**	**2013**
$/RUS	30%	911	182

The effect of a corresponding 30% decrease in exchange rate is approximately equal and opposite.

(b) Commodity price risk

The Group’s overall commercial trading strategy in crude oil and related products is centrally managed. Changes in commodity prices could negatively or positively affect the Group’s results of operations.

The Group sells all its crude oil and petroleum products under spot contracts. Crude oil sold internationally is based on benchmark reference crude oil prices of Brent dated, plus or minus a discount for quality and on a transaction-by-transaction basis for volumes sold domestically. As a result, the Group’s revenues from the sales of liquid hydrocarbons are subject to commodity price volatility based on fluctuations or changes in the crude oil benchmark reference prices. Presently, the Group does not use commodity derivative instruments for trading purposes to mitigate price volatility.

(c) Cash flow and fair value interest rate risk

To the degree possible, the Group centralizes the cash requirements and surpluses of controlled subsidiaries and the majority of their external financing requirements, and applies, on its consolidated net debt position, a funding policy to optimize its financing costs and manage the impact of interest-rate changes on its financial results in line with market conditions.

Credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations.

Credit risk is managed on a Group level and arises from cash and cash equivalents, including short-term deposits with banks, loans issued as well as credit exposures to customers, including outstanding trade receivables and committed transactions. Cash and cash equivalents are deposited only with banks that are considered by the Group at the time of deposit to minimal risk of default. Based on Moody's rating, the credit quality of Open Joint-Stock Company Promsvyazbank in which the Group mostly held its cash and cash equivalents as at 31 December 2014 and 2013 is BB-.

The Group’s domestic trade and other receivables consist of a large number of customers, spread across diverse industries mainly on Sakhalin Island. All of the Group’s export crude oil sales are made to one customer, Petraco, with whom the Group was trading for the past several years (see Note 18). A majority of domestic sales of petroleum products are made on a prepayment basis. Although the Group does not require collateral in respect of trade and other receivables, it has developed standard credit payment terms and constantly monitors the status of trade receivables and the creditworthiness of the customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset exposed to credit risk. As the majority of customers pay in advance (including Petraco currently) credit risk related to trade debtors is not considered to be significant.

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

The Group prepares various financial and operational plans (monthly, quarterly and annually) to ensure that the Group has sufficient cash on demand to meet expected operational and administrative expenses.

(presented in US$ thousands)

24 Financial Risk Management (continued)

The following tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

At 31 December 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Debt at fixed rate – *Leasing obligations*	165	165	495	742	1,567
Accounts payable and accrued expenses	676	-	-	-	676
Total financial liabilities	**841**	**165**	**495**	**742**	**2,243**

At 31 December 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Debt at fixed rate – *Leasing obligations*	284	284	852	1,560	2,980
Accounts payable and accrued expenses	2,371	-	-	-	2,371
Total financial liabilities	**2,655**	**284**	**852**	**1,560**	**5,351**

Capital management. The primary objectives of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain investor, market and creditor confidence to support its business activities.

The capital as defined by management at 31 December 2014 and 2013 was as follows:

	2014	**2013**
Total borrowings	-	-
Less cash and cash equivalents	(3,617)	(5,207)
Net debt	(3,617)	(5,207)
Total equity	59,742	102,601
Debt to equity ratio	(0.06)	(0.05)

Management considers capital to represent net debt and total equity. Management does not use a specific target debt to equity or gearing ratio when managing the business

For the capital management, the Group manages and monitors its liquidity on a corporate-wide basis to ensure adequate funding to sufficiently meet group operational requirements. The Group controls all external debts at the Parent level, and all financing to Group entities for the operating and investing activity is facilitated through inter-company loan arrangements, except for the specific project financing, which are taken on the subsidiary level.

There were no changes to the Group's approach to capital management during the year.

(presented in US$ thousands)

25 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.

Substantially all related party balances at 31 December 2014 and 2013 relate to balances with a shareholder and former director of the Company.

	Year ended 31 December	
	2014	**2013**
Transactions with related parties		
Interest income (Note 15)	894	1,037
Impairment of loans issued to a shareholder and interest receivable from a shareholder (Note 8)	818	990
Balances with related parties		
Loans issued to other related parties	-	355
Interest receivable from other related parties	-	401
Total of loans and interest receivable from related parties	-	756
Provision on claims (Note 13)	911	2,519

As of 31 December 2013 the Group had an impairment provision against a loan to a related party of $7.3 million. This amount relates to a loan to a shareholder and former member of management of the Group Mr Rovneiko. Management formally demanded repayment of the full amount by 20 May 2011. By 20 May 2011 management did not receive any response from the related party. Considering that according to the loan agreement all disputes shall finally be resolved by arbitration under the Rules of Arbitration of the London Court of International Arbitration (the LCIA) the Company filed a claim to the LCIA in June 2011. This arbitration has confirmed the Company's legal rights, vindicated its position and issued a final award that the sum in the amount of US$6.3 million (including loan amount and interest) and legal cost in the amount of US$1.3 million must be repaid to Urals Energy together with a daily accumulating interest. As of 31 December 2013 the Group had an impairment provision against other receivables from the shareholder of $1.2 million.

On 26 December 2014 the Company signed a comprehensive settlement agreement with Mr V Rovneiko, a former Director of the Company, on all outstanding litigation and pending or threatened disputes. All parties to the dispute are pleased to bring it, and all other related or unrelated allegations, to a full and final resolution (Note 23). As part of the overall settlement, the Company has agreed to terminate its recognition and collection efforts on the Arbitration Award, waive its rights and release Mr Rovneiko from any obligation thereunder. As a result of these non-cash transactions the Group wrote-off the loan and other receivables from the shareholder using provision for impairment of trade and other receivables in the amount of $9.3 million (Note 8).

As of 31 December 2014 loans receivable include $0.8 million (2013: $0.8 million) receivables from OAO Komineftegeophysica. The loans are short-term due on 31 December 2015 at an interest rate 10% and are not secured. OAO Komineftegeophysica has been a related party of Group till 5 June 2014 when representatives of Group resigned from the Board of OAO Komineftegeophysica (Note 11).

Balances and transactions with Petraco – Other related party

Balances and transactions with Petraco represent sales (Note 18) and interest charge (Note 15). On 16 December 2014 a representative of Petraco resigned from the Board of Directors of Urals Energy. Since 16 December 2014 Petraco hasn’t considered to be related party. Sales to Petraco, disclosed in Note 18 were made before 16 December 2014.

(presented in US$ thousands)

25 Balances and transactions with Related Parties (continued)

***Compensation to senior managem*ent**. The Group's senior management team compensation totaled $1.8 million and $1.5 million for the years ended 31 December 2014 and 31 December 2013, respectively, including salary, social tax, bonuses, housing allowances, private travel allowances and severance payments of $0.4 million and nil, respectively. In 2014 and in 2013 senior management team stock compensation was nil and nil, respectively.

Directors' fees. Directors' fees for the years ended 31 December 2014 and 2013 were $83 thousand and $100 thousand (Note 21), respectively, and do not include amounts related to share-based payments provided to the Group's directors (Note 17).

	Year ended 31 December	
	2014	**2013**
Senior management		
A. Maximov	899	570
L. Dyachenko	323	360
A. Ogarev	320	352
S. Uzornikov	227	261
Directors fees		
A. Shrager	53	32
S. Buscher	30	34
T. Ranta	-	34
I. Srenger	-	-
Total compensation to senior management and directors' fees	**1,852**	**1,643**

26 Events after the reporting period

In May 2015 Company obtained a short-term secured loan from Petraco in the amount of US$6.0 million at an interest rate of six 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 six month Libor plus 2% per annum. Company pledged its 100% shares in Arcticneft and 17 thousand tons of crude oil stored at Arcticneft warehouse under the loan agreement with Petraco.