SELENA-PERM

International Financial Reporting Standards Combined Financial Statements

31 December 2009

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BOARD OF DIRECTORS AND OTHER OFFICERS

Selena-Neft LLC

From 9 July 2009General Director Sergei Uhtiyarov

From 26 November 2010 General Director Dmitry Jermakov

Selena-Perm LLC

From 17 October 2007 General Director Victor Perov

From 3 May 2011General DirectorDmitry Jermakov

REPORT OF THE BOARD OF DIRECTORS

Background Information

The management report for the combined financial statements of Selena-Perm has been prepared with the reference to combination of the stand-alone operational results of Selena-Perm LLC, Selena-Neft LLC and PKF Selena LLC (together referred to as "the Group").

The registered office of LLC Selena-Perm is at AKB-2, Prombaza, Nagorny, Kungur, Perm region, 617473, Russia.

The Group is primarily engaged in oil and gas exploration and production in the Russian Federation.

Historical reorganization and principal activities

LLC Selena-Perm was spinned-off from LLC PKF Selena on 17 October 2007. As a result of spin-off, LLC Selena-Perm gained license for Vysokovskoye deposit and property, plant and equipment related to development of the deposit.

LLC Selena-Neft was spin-off from LLC PKF Selena on 9 July 2009. As a result of spin-off, LLC Selena-Neft gained licenses for Azinskoye and Dubrovinskoye deposits and all the related property, plant and equipment.

On 11 January 2011 LLC Selena-Neft was merged into LLC Selena-Perm.

Participants

As of 31 December 2008 and 31 December 2009 LLC Selena-Perm and LLC Selena-Neft were controlled by Oleg and Nadezhda Popovy.

As of 31 December 2010 LLC Selena-Perm and LLC Selena-Neft were controlled by Selena Oil & Gas (previously Altare AB). The ultimate shareholders of Selena Oil & Gas AB as of 31 December 2010 were Oleg and Nadezhda Popovy.

Operations

Total production volume in 2009 amounted to 10,249 tons representing a 27.1% decrease as compared to production volume in 2008.

In 2009 6,271 tons of oil were produced in Vysokovskoye deposit which was by 35.1% less than in 2008. Azinskoye and Dubrovinskoye deposits produced 2,975 tons and 1,003 tons of oil respectively which was a 9.3% and 10.9% respective decrease against 2009. The volumes of production in Azinskoye and Dubrovinskoye deposits decreased as the result of higher level of maintenance work than in 2008.

Due to low oil prices no significant actions to increase production in 2009 was taken.

Investments

Total capital expenditure amounted to USD 912 thousand in 2009.

Financial performance

Sales amounted to USD 2,681 thousand in 2009 representing a decrease of 65.2% against prior year. The decrease mainly related to the decrease in average sales price of crude oil. All sales of the Group's crude oil in 2009 was to the local market. In terms of volumes sold the Group sold 10,168 tons of own crude oil produced which was a decrease of 28.6% as compared to 2008.

The result of operations was an operating loss in the amount of USD 170 thousand resulting in a negative operating margin of 6.3% as compared to negative operating margin of 4.9% in 2008. Earnings before interest, corporate income tax, depreciation and amortization (EBITDA) amounted to USD 226 thousand and EBITDA margin was 7.3% which was an increase from 6.3% margin in 2008.

Net result was a loss of USD 96 thousand as compared to a net loss of USD 626 thousand in 2008.

Financial position

Total assets of the Group amounted to USD 6,639 thousand as of 31 December 2009 representing a decrease of 35.5% as compared to the beginning of the year.

As the result of depreciation charge for the period the property plant and equipment balance decreased slightly by 3.7% and amounted to USD 5,567 thousand.

Working capital decreased significantly as the result of one-off debtors balance recovery. As at 31 December 2008 other accounts receivable included liability claimed in court by LLC PKF Selena from tax authorities of USD 1,889 thousand. In 2008 the company paid the amount upon ruling of tax audit and claimed in court for reimbursement. In 2009 upon court decision the tax authorities repaid the amount to the company and reimbursed interest of USD 205 thousand.

Total equity amounted to USD 3,867 thousand. Loans and borrowings of the Group amounted to USD 1,383 thousand, including bank loans in the amount of USD 1,355 thousand.

Employees

As of 31 December 2009 the Group employed 93 employees (31 December 2008: 103 employees).

Subsequent events

Prolongation of loan facility

On 20 January 2010 the Group renegotiated the settlement schedule under borrowing facility with OJSC Sberbank till 20 September 2012. On 21 June 2010 the Group further renegotiated the settlement schedule, the final maturity remained 20 September 2012.

New gas license acquisition

Komarihhinskoye gas field was acquired by the Group on 24 February 2011 in the course of a public auction and the subsoil license to Selena-Perm LLC in respect of Komarihhinskoye Gas Field was issued on 30 March 2011. The amount of 1P gas reserves is 147 bln m3, 2P is 322 bln m3 and P3 is 402 bln m3 as per latest reserve estimation report by DeGolyer and MacNaughton from 19 May 2011. The field is located 40 km from Visokovskoye field and 4 km from nearest Gazprom pipeline. The Group anticipates the integration of operations of Komarihhinskoye gas field with the infrastructure of Visokovskoye field.

Independent Auditor's Report

To the Participants and Management of Selena-Perm

We have audited the accompanying combined financial statements of LLC Selena-Perm, LLC Selena-Neft and LLC PKF Selena (collectively "Selena-Perm"), which comprise the combined statement of financial position as at 31 December 2009, and the combined statement of comprehensive income, combined statement of changes in net assets attributable to participants and combined statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

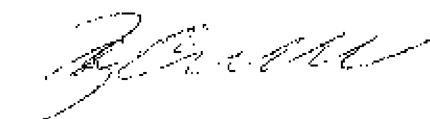
Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Selena-Perm as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Victor Smirnov
Partner

12 May 2011

ZAO BDO

In thousands of US dollars	Note	31 December 2009	31 December 2008	1 January 2008
ASSETS				
Non-current assets				
Property and equipment	6	5,587	5,369	7,145
Deferred income tax assets	12	270	703	755
Other non-current assets		4	16	11
Total non-current assets		5,841	6,088	7,911
Current assets				
Inventories	7	251	86	307
Accounts receivable and prepayments	8	170	2,050	280
Loans issued to related parties	24	375	2,061	93
Cash and cash equivalents	9	2	1	49
Total current assets		798	4,197	729
TOTAL ASSETS		6,639	10,285	8,640
LIABILITIES				
NET ASSETS ATTRIBUTABLE TO PARTICIPANTS	10	3,867	4,263	3,538
Non-current liabilities				
Non-current borrowings	11	-	1,037	1,955
Deferred income tax liabilities	12	31	86	118
Asset retirement obligations	13	445	424	470
Total non-current liabilities		476	1,547	2,543
Current liabilities				
Current debt and current portion of non-current debt	11	1,383	2,799	1,294
Accounts payable and accruals	14	549	955	867
Current income tax payable		-	-	11
Other taxes payable	15	364	721	387
Total current liabilities		2,296	4,475	2,559
TOTAL LIABILITIES		6,639	10,285	8,640

Approved for issue and signed on behalf of General Director on 3 May 2011.

General Director

Dmitry Jermakov

In thousands of US dollars	Note	Year ended 31 December 2009	Year ended 31 December 2008
Revenue	16	2,648	7,709
Cost of sales	17	(2,185)	(6,893)
Gross profit		**463**	**816**
Selling, general and administrative expenses	18	(666)	(1,191)
Operating loss		**(203)**	**(375)**
Finance income	19	437	178
Finance expense	19	(339)	(478)
Other (expense) / income		(2)	12
Loss before income tax		**(107)**	**(663)**
Income tax credit	12	11	37
Loss for the year		**(96)**	**(626)**

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Loss for the year	(96)	(626)
Currency translation	(122)	(1,004)
Total comprehensive loss for the year	(218)	(1,630)

In thousands of US dollars	Share capital	Currency translation	Retained earnings	Total
As at 1 January 2008	**67**	**4**	**3,467**	**3,538**
Loss for the year	-	-	(626)	(626)
Currency translation	-	(1,004)	-	(1,004)
Total comprehensive loss for 2008	-	(1,004)	(626)	(1,630)
Contributions from participants (Note 10)	2,355	-	-	2,355
As at 31 December 2008	**2,422**	**(1,000)**	**2,841**	**4,263**
Loss for the year	-	-	(96)	(96)
Currency translation	-	(122)	-	(122)
Total comprehensive loss for 2009	-	(122)	(96)	(218)
Corporate restructuring (Note 10)	(1,501)	135	1,188	(178)
As at 31 December 2009	**921**	**(987)**	**3,933**	**3,867**

In thousands of US dollars	Note	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(107)	(663)
Adjustments for:			
Depreciation, depletion and amortization	17,18	389	830
Provision for impairment of trade and other receivables	8	21	-
Finance income	19	(437)	(178)
Finance costs	19	308	444
Other finance expense	19	31	34
Gain on disposal of other assets		(34)	19
Net foreign exchange losses / (gains)		67	(88)
Operating cash flows before working capital changes		**248**	**398**
Change in accounts receivable		1,027	(2,771)
Change in inventories		(363)	203
Change in other assets		(1)	(8)
Change in accounts payable and accruals		1,378	221
Change in tax payable other than income tax		(212)	458
Income tax paid		-	(62)
Net cash generated by / (used in) operating activities		**2,077**	**(1,561)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Issuance of loans		(1,371)	(2,724)
Repayment of loans		686	714
Proceeds from sale of property, plant and equipment		72	37
Purchase of property, plant and equipment		(908)	(285)
Interest received		-	22
Net cash used in investing activities		**(1,521)**	**(2,236)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		114	3,098
Repayment of borrowings		(338)	(1,305)
Repayment of interest		(326)	(399)
Distributed to participants	10	(5)	-
Contributions from participants	10	-	2,355
Net cash (used in) / generated by financing activities		**(555)**	**3,749**
Net increase / (decrease) in cash and cash equivalents		**1**	**(48)**
Cash and cash equivalents at the beginning of the year		**1**	**49**
Cash and cash equivalents at the end of the year		**2**	**1**

1 Selena-Perm and its Operations

These combined financial statements of Selena-Perm are prepared based on the combination of the stand-alone accounts of Selena-Perm LLC, Selena-Neft LLC and PKF Selena LLC (together referred to as "the Group") and have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards (IFRSs)* and basis of combination provided in Note 3.

Selena-Perm LLC, Selena-Neft LLC and PKF Selena LLC are primarily engaged in oil and gas exploration and production in the Russian Federation.

The registered office of LLC Selena-Perm is at AKB-2, Prombaza, Nagorny, Kungur, Perm region, 617473, Russia.

Historical reorganization and principal activities

LLC Selena-Perm was spinned-off from LLC PKF Selena on 17 October 2007. LLC PKF-Selena was established in 1999. The primary activity of LLC PKF Selena was oil and gas exploration and production in the Perm and Udmurtia regions, Russian Federation. In 2000-2007 LLC PKF-Selena gained licenses for oil and gas exploration and production for 2 oil deposits, including Azinskoye deposit and Dubrovinskoye deposit, and 1 oil and gas deposit, Vysokovskoye deposit.

As a result of spin-off, LLC Selena-Perm gained license for Vysokovskoye deposit and property, plant and equipment related to development of the deposit.

LLC Selena-Neft was spin-off from LLC PKF Selena on 9 July 2009. As a result of spin-off, LLC Selena-Neft gained licenses for Azinskoye and Dubrovinskoye deposits and all the related property, plant and equipment.

On 11 January 2011 LLC Selena-Neft was merged into LLC Selena-Perm.

Participants. As of 1 January 2008, 31 December 2008 and 31 December 2009 LLC Selena-Perm and LLC Selena-Neft were controlled by Oleg and Nadezhda Popovy.

As of 1 January 2008 and 31 December 2008 LLC PKF Selena was controlled by Oleg and Nadezhda Popovy. On 5 December 2009 the Popovs disposed of LLC PKF Selena to a third party.

As of 31 December 2010 LLC Selena-Perm and LLC Selena-Neft were controlled by Altare AB (renamed to Selena Oil&Gas AB in 2011). The ultimate shareholders of Altare AB as of 31 December 2010 were Oleg and Nadezhda Popovy.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the Russian economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

Statement of compliance. These financial statements (hereinafter, the "financial statements") have been prepared following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards (IFRSs)*, and basis of combination provided below.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

Basis of combination. These financial statements have been prepared using combination method. Under this method, financial statement items for each entity are combined as if they had been from the earliest period, the result being a combination of share capital and reserves in addition to all assets and liabilities. All transactions and balances between the companies are eliminated on combination. No non-controlling interest is shown in respect of entities that have been accounted for using combination accounting. The combined financial statements are based on the financial statements of the individual entities which have been drawn up using the same accounting policies. All entities have the same reporting date, 31 December. The combined financial statements include the following entities listed below:

- Selena-Perm LLC;
- Selena-Neft LLC;
- PKF Selena LLC (until disposal to a third party on 5 December 2009).

Functional and presentation currency. The United States dollar ("US dollar or USD 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.

Foreign currency. In preparing the financial statements of the individual companies, transactions in currencies other than the entities functional currency are recorded at the exchange rates prevailing at the date of the transactions. At each reporting date monetary assets and liabilities denominated in foreign currencies are re-measured at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction.

Non-monetary items carried at fair value are translated at the exchange rate prevailing at the date on which the most recent fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the re-measurement of monetary items, are recognized in the combined income statement in the period.

Translation to presentation currency. The Group's 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.

(ii) Income and expenses are translated 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.

At 31 December 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.2442 (31 December 2008: USD 1 = RR 29.3804; 1 January 2008: USD 1 = RR 24.4387). The principal average rate of exchange used for translating income and expenses for 2009 was USD 1 = RR 31.7669 (2008: USD 1 = RR 24.8739).

Property, plant and equipment. Property, plant and equipment are recorded at historical cost of acquisition 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, unless directly attributable to properties capable of commercial development. 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 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 DeGolyer and MacNaughton, the Group's independent reservoir engineers in 2011.

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

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 (losses)/gains – net' in the combined income statement.

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.

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 combined 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 combined income statement 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 combined statement of financial position, with a corresponding amount being recorded as part of property, plant and equipment in accordance with IAS 16.

Operating leases. Where the Group' company is a lessee in a lease, which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group' company, the total lease payments including those on expected termination are charged to profit or loss on straight-line basis over the period of the lease.

Where the Group' company is a lessor in an operating lease (substantially all risks and rewards incidental to ownership are retained by the Group' company), the total lease payments are recognised on a straight line basis over the lease term.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

A non-cancellable lease is a lease that is cancellable only:

- Upon the occurrence of some remote contingency;
- With permission of the lessor;
- If the lessee enters into a new lease for the same or equivalent asset with the same lessor; or
- Upon a payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

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).

Inventories. Inventories of extracted crude oil, materials and supplies and construction materials are valued at the lower of the weighted-average cost and net realisable value. 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 combined income statement.

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 combined cash flow statement. 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 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 yield 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.

Net assets attributable to participants. Net assets attributable to participants are measured at the IFRS carrying value of the Company's net assets and presented as liabilities.

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

Income taxes. Income taxes related to the Group's operations in the Russian Federation have been provided for in the combined financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge or benefit comprises current tax and deferred tax and is recognised in the combined income statement unless it relates to transactions that are recognised, in the same or a different period, 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 calculated at rates enacted or substantively enacted by the reporting date, using the balance sheet liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from depreciation on property, plant and equipment, provisions and other fair value adjustments to long-term items, and expenses which are charged to the combined income statement before they become deductible for tax purposes.

Deferred income tax assets attributable to deducible temporary differences, unused tax losses and credits are recognised only to the extent that it is probable that future taxable profit or taxable temporary differences will be available against which they can be utilised.

Deferred income tax assets and liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities, when deferred tax balances relate to the same regulatory body, and when they relate to the same taxable entity.

The Group's uncertain tax positions are reassessed by management at every reporting date. 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 reporting date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Employee benefits. Wages, salaries, 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 makes required contributions to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed or capitalized to inventories on a basis consistent with the associated salaries and wages.

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 inventory.

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. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that economic benefits will flow to the entity, typically when crude oil or refined products are dispatched to customers and title has transferred. Gross revenues include export duties and excise taxes but exclude value added taxes.

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 one geographic segment, which is the Russian Federation.

Comparatives. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities are outlined below.

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.

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 combined 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 for the year.

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.

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 licence term where management considers that licences will be renewed. Assumptions related to renewal of licences can involve significant judgment of management.

Going Concern. These combined financial statements have been prepared on the basis that the Group will continue as a going concern. Preparation of the combined financial statements on a basis other than going concern can have a significant impact on the balances recorded in respect of assets and liabilities.

5 New Accounting Pronouncements

Certain new standards, interpretations and amendments to the existing standards became effective for the Group from 1 January 2009. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IFRS 8, Operating Segments *(effective for annual periods beginning on or after 1 January 2009).* IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

IAS 23, Borrowing Costs *(revised in March 2007).* The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The Group previously capitalised borrowing costs, this revision had no significant impact on the Group's financial statements.

IAS 1, Presentation of Financial Statements *(revised in September 2007 and effective for annual periods beginning on or after 1 January 2009).* The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a separate income statement and a statement of comprehensive income. The revised IAS 1 had an impact on the presentation of the Group's Combined Financial Statements, but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards *(issued in May 2008).* In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

IFRIC 13, Customer Loyalty Programmes *(issued in June 2007).* IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

IFRIC 15, Agreements for the Construction of Real Estate *(issued in July 2008).* The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment *(issued in May 2008).* The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures *(issued in March 2009).* The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (i) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (ii) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 *(issued in March 2009).* The amendments clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation *(amended in April 2009).* The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

The International Financial Reporting Standard for Small and Medium-sized Entities *(issued in July 2009)* is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's Combined Financial Statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).
- IAS 27, Consolidated and Separate Financial Statements and consequential amendments to IAS 28, Investments in associates (revised in January 2008; effective for annual periods beginning on or after 1 July 2009).

- IFRS 3, Business Combinations (revised in January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).
- Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2009, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010).
- Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).
- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in October 2010; effective from 1 January 2013, early adoption is permitted).
- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010).
- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011).
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).
- Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).

The Group does not expect the new accounting pronouncements to have material impact on the Combined Financial Statements.

6 Property, Plant and Equipment

In thousands of US dollars	Oil and gas properties	Buildings and constructions	Machinery and equipment	Other fixed assets	Construction in progress	Total
Cost						
Balance at 1 January 2008	11,108	1,395	446	270	183	13,402
Additions	207	-	-	-	189	396
Transfers	10	4	13	63	(90)	-
Disposals	(167)	-	(21)	(91)	-	(299)
Currency translation	(1,831)	(231)	(71)	(41)	(39)	(2,213)
Balance at 31 December 2008	9,307	1,168	367	201	243	11,286
Additions	97	2	4	-	809	912
Transfers	280	-	-	11	(291)	-
Disposals	(9)	-	(159)	(148)	(50)	(384)
Currency translation	(249)	(33)	(19)	(16)	15	(304)
Balance as at 31 December 2009	9,426	1,137	193	48	726	11,530
Accumulated depreciation						
Balance at 1 January 2008	(5,865)	(303)	(68)	(21)	-	(6,257)
Charge for the period	(481)	(65)	(217)	(67)	-	(830)
Disposals	5	-	2	9	-	16
Currency translation	1,037	59	44	14	-	1,154
Balance as at 31 December 2008	(5,304)	(309)	(239)	(65)	-	(5,917)
Charge for the period	(307)	(42)	(43)	(7)	-	(398)
Disposals	6	-	141	46	-	193
Currency translation	138	8	12	2	-	160
Balance as at 31 December 2009	(5,467)	(343)	(129)	(24)	-	(5,963)
Net book value as at 1 January 2008	5,243	1,092	378	249	183	7,145
Net book value as at 31 December 2008	4,003	859	128	136	243	5,369
Net book value as at 31 December 2009	3,959	794	64	24	726	5,567

At 31 December 2009 property, plant and equipment carried at USD 511 thousand (31 December 2008: USD 567 thousand) have been pledged to third parties as collateral for borrowings (Note 21).

7 Inventories

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Materials and supplies	58	39	66
Crude oil	193	46	241
Total inventories	251	85	307

8 Accounts Receivable and prepayments

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Trade accounts receivable	16	43	157
Total financial accounts receivable	**16**	43	157
Advances issued	8	31	78
VAT prepaid	132	13	1
Other accounts receivable	14	1,963	44
Total accounts receivable	170	**2,050**	**280**

As at 31 December 2008 other accounts receivable include liability claimed in court by LLC PKF Selena from tax authorities of USD 1,889 thousand. In 2008 the company paid the amount upon ruling of tax audit and claimed in court for reimbursement. In 2009 upon court decision the tax authorities repaid the amount to the company and reimbursed interest of USD 205 thousand (Note 19).

Movements in the provision for impairment of accounts receivable are as follows:

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Provision for impairment	280	336
Provision for impairment	21	-
Corporate restructuring (Note 10)	(259)	-
Currency translation	(20)	(56)
Provision for impairment	22	280

The Group's accounts receivable are not collateralised.

The fair value of the Group's accounts receivable approximates their carrying value.

9 Cash and Cash Equivalents

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Cash at banks	-	1	48
Cash on hand	2	-	1
Total cash and cash equivalents	**2**	1	49

All cash and cash equivalents are denominated in Russian Roubles.

10 Net Assets Attributable to Participants

Contributions from participants. In 2008 participants to LLC PKF Selena contributed RR 55,000 million (USD 2,355 thousand) to the company.

Corporate restructuring. On 9 July 2009 LLC Selena-Neft was spinned-off from LLC PKF Selena. On 5 December 2009 LLC PKF Selena was disposed to a third party. LLC PKF Selena transferred to LLC Selena-Neft and LLC Selena-Perm the licenses for development of Azinskoye, Dubrovinskoye and Vysokoskoye oil and gas deposits as well as all related property, plant and equipment. The net assets left with LLC PKF Selena upon spin-off represented mainly current assets and liabilities with net value of USD 178 thousand. The transaction have been accounted for in the Combined Financial Statements as distribution to participants.

11 Borrowings

The structure of non-current borrowings is as follows:

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Bank loans	1,223	1,708	2,947
Loans from related parties	-	220	-
Less current portion of bank loans	(1,223)	(891)	(992)
Total non-current borrowings	-	1,037	1,955

The structure of current borrowings is as follows:

In thousands of US dollars	31 December 2009	31 December 2008	1 Janury 2008
Current portion of bank loans	1,223	891	992
Current loans from banks	132	1,872	
Loans from companies	20	-	302
Loans from related parties	8	36	-
Total current borrowings	1,383	2,799	1,294

The Group's borrowings are denominated in Russian Roubles.

Loan from Sberbank OJSC. On 23 November 2005 LLC PKF-Selena obtained long-term loan from Sberbank OJSC to finance development of Dubrovinskoye and Vysokovskoye deposits as well as access point to Transneft pipeline Malaya Purga. The amount of financing was RR 80 million (USD 2,777 thousand). The interest rate was 14.3%. The facility was to be payable in installments by 20 September 2010.

Loan from New Moscow Bank LLC. On 21 July 2008 Selena-Perm LLC obtained short-term loan from New Moscow Bank LLC in the amount of RR 55 million (USD 2,371 thousand) to finance working catpital. The Interest rate was 17%, maturity – 20 July 2009. The loan was repaid in full in 2010. Liability outstanding as of 31 December 2009 amounted to USD 132 thousand (31 December 2008: USD 1,872 thousand).

As at 31 December 2009 borrowings of USD 1,223 thousand were secured with oil and gas properties pledged as collateral (as at 31 December 2008: USD 1,702 thousand).

Net book value of oil and gas properties pledged as collateral for borrowings as at 31 December 2009 amounted to USD 511 thousand (as at 31 December 2008: USD 567 thousand). Refer to Note 21.

As at 31 December 2009 the effective interest rate on borrowings denominated in RR ranged between 10.0% p.a. and 17.0% p.a. (31 December 2008: the effective interest rate on borrowings denominated in RR ranged between 10% p.a. and 17% p.a.).

The Group does not apply hedge accounting and did not hedge its risks arising from currency liabilities or interest rate risks.

The estimated fair value of borrowings at approximates their carrying value.

12 Income Taxes

Income tax credit comprises the following:

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Current tax expense	-	(51)
Deferred tax credit	11	88
Income tax credit	**11**	**37**

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net combined tax loss.

Tax rate used to calculate deferred tax assets and liabilities as at 1 January 2008 was 24%.

From 1 January 2009 the income tax rate for Russian companies has been reduced to 20 percent. This rate has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2009 and 31 December 2008.

The tax rates for the Group's subsidiaries are currently 20% in the Russian Federation. Selena-Perm LLC has income tax benefit of 3.5% for the assets located in Perm region.

A reconciliation between the estimated and the actual taxation charge is provided below:

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Loss before tax	(107)	(663)
Estimated tax credit at statutory rates	21	133
Change in tax rate	-	(104)
Tax effect of items which are not deductible or assessable for taxation purposes	(10)	8
Income tax credit	11	37

Differences between IFRS and the statutory taxation regulations give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their income tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% as of 31 December 2009 and 31 December 2008 and 24% as of 1 January 2008 (16,5% for assets of Selena-Perm LLC located in Perm region).

In thousands of US dollars	1 January 2009	Currency translation difference	Corporate reorganisation (Note 10)	Credited/ (charged) to income /expenses	31 December 2009
Tax effect of temporary differences:					
Trade and other accounts receivable	98	(6)	(71)	(14)	7
Tax loss carried forward	353	(21)	(327)	102	107
Asset retirement obligation	83	(5)	-	(29)	49
Finished goods	-	-	-	1	1
Trade and other accounts payable	8	-	-	7	15
Taxes payable	3	-	-	(2)	1
Property, plant and equipment	72	4	37	(54)	59
Recognised deferred tax asset	**617**	**(28)**	**(361)**	**11**	**239**

In thousands of US dollars	1 January 2008	Currency translation difference	Credited/ (charged) to income /expenses	31 December 2008
Tax effect of temporary differences:				
Trade and other accounts receivable	267	(22)	(147)	98
Tax loss carried forward	174	(67)	246	353
Asset retirement obligation	111	(17)	(11)	83
Finished goods	(18)	-	18	-
Trade and other accounts payable	-	(1)	9	8
Taxes payable	-	(1)	4	3
Property, plant and equipment	103	-	(31)	72
Recognised deferred tax asset	**637**	**(108)**	**88**	**617**

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 combined tax loss. Therefore, deferred tax assets and liabilities are offect only when they are identified with the same taxable taxpayer.

The management has reviewed and confirmed that the deferred tax assets will be recovered against future taxable profits of the Group.

The tax loss carried forward can be utilized over the period of ten years.

13 Asset Retirement Obligations

As at 31 December 2009 the Group's asset retirement obligations in respect of decommissioning of oil and gas wells amount to USD 445 thousand (31 December 2008: USD 424 thousand). The liability has been calculated based on discount rate of 7.98%.

In thousands of US dollars	
Book value as for 1 January 2008	**470**
Accruals charged to profit and loss account	37
Currency translation	(83)
Book value as for 31 December 2008	**424**
Accruals charged to profit and loss account	31
Currency translation	(10)
Book value as for 31 December 2009	**445**

14 Accounts Payables and Accruals

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Trade payables	455	802	787
Payable to personnel	52	32	77
Other financial payables	8	42	2
Total financial payables	515	876	866
Advances received	34	79	1
Trade accounts payable and accruals	549	955	867

The fair value of financial payables approximates their carrying value.

15 Other Taxes Payable

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Mineral extraction tax	225	361	228
VAT	53	261	89
Property tax	42	62	43
Social taxes	26	23	15
Other taxes	18	14	12
Total other taxes payable	364	721	387

16 Revenue

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Sales of crude oil	2,280	7,289
Other revenue	368	420
Total revenue	2,648	7,709

Other revenue includes agency fee from sales of third parties crude oil, fees for granting access to Transneft access point owned by the Group, crude oil storage services and crude oil preparation services.

17 Cost of Sales

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Taxes other than income tax	754	2,069
Depreciation, depletion and amortization	383	814
Materials and supplies	362	3,036
Wages and salaries	359	500
Rent	138	75
Third party services	113	162
Other costs	66	237
Total cost of sales	2,165	6,893

18 General and Administrative Expenses

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Wages and salaries	210	383
Taxes other than income tax	155	188
Transport	117	263
Consulting services	88	210
Impairment of accounts receivable and prepayments (Note 8)	21	-
Fines and penalties	16	4
Lease	7	16
Depreciation, depletion and amortization	6	16
Other expenses	46	111
Total general and administrative expenses	**666**	**1,191**

19 Finance Income / (Expense), net

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	437	178
Interest expense	(308)	(444)
Loss on discounting	(31)	(34)
Total net finance income / (expense)	**98**	**(300)**

Interest income for the year ended 31 December 2009 includes interest received by PKF Selena LLC from the tax authorities for taxes overpaid in 2008 in the amount of USD 205 thousand.

20 First-Time Adoption of International Financial Reporting Standards

The Group did not prepare combined financial statements under statutory accounting rules as at 31 December 2009 and 31 December 2008. Information on data reconciliation and quantitative assessment of the impact of transfer from aggregated statutory accounting rules numbers to IFRS as at 1 January 2008, 31 December 2008 and 31 December 2009 and for the years ended 31 December 2009 and 31 December 2008 is as follows:

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Net assets attributable to participants under statutory accounting rules (aggregated)	**4,624**	**5,761**	**5,910**
IFRS adjustments:			
Capitalization of subscription bonus	1,035	1,101	1,349
Income taxes	233	384	744
Capitalisation of interest	71	30	-
Vacation accrual	(19)	(13)	-
Impairment of accounts receivable	(22)	(280)	(335)
Write-off of cost of construction in progress	(52)	(103)	(123)
Write-off of capitalized exploration costs	(13)	(213)	(776)
Accrual of asset retirement obligation	(143)	(79)	-
Remeasurement of Property, plant and equipment	(1,872)	(2,286)	(3,219)
Other adjustments	25	(39)	(12)
Total net assets attributable to participants under IFRS	**3,867**	**4,263**	**3,538**

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Net loss for the period under statutory accounting rules (aggregated)	(382)	(1,154)
IFRS adjustments:		
Remeasurment of Property, plant and equipment	285	476
Write-off of capitalized exploration costs	131	515
Write-off of cost of construction in progress	46	-
Capitalisation of Interest	44	30
Vacation accrual	(6)	(15)
Capitalization of subscription bonus	(32)	(31)
Impairment of accounts receivable	(21)	-
Accrual of asset retirement obligation	(64)	(93)
Income taxes	(69)	(279)
Other adjustments	(28)	(75)
Net loss for the period under IFRS	(96)	(626)

The key adjustments for the differences between statutory accounts prepared in accordance with RSA and IFRS were attributable to the following:

Capitalization of subscription bonus. In accordance with RSA the Group expenses subscription bonus paid to the local authorities upon receipt of license for oil and gas deposits. In accordance with IFRS, the cost has been capitalized and included into Oil and gas properties category of Property, plant and equipment.

Income taxes. This adjustment reflects the effect of transition to IFRS calculated in accordance with IAS 12, Income Taxes.

Capitalization of Interest. In accordance with IFRS the Group early adopted adjustments to IAS 23, Borrowing Costs, and capitalises interest within the cost of assets that meet capitalisation criteria. These assets primarily include construction in progress.

Vacation accrual. In accordance with IFRS the Group provides for probable liabilities related to unused vacation payments of its personnel.

Impairment of accounts receivable. This adjustment reflects impairment to accounts receivable, which are overdue.

Write-off of construction-in-progress. This adjustment reflects impairment of construction-in-progress, which is not expected to bring sufficient future economic benefits to the Group.

Write-off of capitalized exploration costs. Under accounting police in accordance with IFRS the Group writes-off certain exploration costs and cost of carrying and retaining undeveloped properties.

Accrual of asset retirement obligation. This adjustment reflects accrual of asset retirement obligation related to abandonment of the oil and gas wells owned by the Group.

Remeasurement of Property, plant and equipment. In accordance with IAS 29, Financial Reporting in Hyperinflationary Economies, the Group inflated cost of Property, plant and equipment constructed prior to 1 January 2003 based on consumer price indexes. In addition, the Group has accounted for depreciation and depletion of oil and gas properties under units of production method, while in accordance with RSA the straight line method is used.

21 Contingencies and Commitments

Assets pledged and restricted. At 31 December 2009 and 31 December 2008 the Group has the following assets pledged as collateral:

In thousands of US dollars	31 December 2009 Assets pledged	31 December 2009 Related liabilities	31 December 2008 Assets pledged	31 December 2008 Related liabilities
Oil and gas properties (Note 6)	511	1,223	567	1,702
Total	**511**	**1,223**	**567**	**1,702**

Insurance. The Group has limited insurance policies with respect to assets, operations, third party liabilities and other insured risks. Therefore, the Group may be exposed to the risks that were not insured.

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 the provision currently booked in the combined financial statements.

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.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

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.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of US dollars	31 December 2009	31 December 2008	1 January 2008
Not later than 1 year	25	35	29
Later than 1 year and not later than 5 years	119	114	140
Later than 5 years	341	384	498
Total operating lease commitments	**485**	**533**	**667**

The Group leases land where its property, plant and equipment is located. The land is leased from local authorities. The leases are renewable and do not provide for the Group's right to repurchase the land upon completion of the lease term.

22 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures of the Group to minimise these risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sale of crude oil and provision of services on the terms of lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets includes the following:

In thousands of US dollars	Note	31 December 2009	31 December 2008	1 January 2008
Loans issued to related parties	24	375	2,061	93
Accounts receivable	8	16	43	157
Cash and cash equivalents	9	2	1	49
Total maximum credit risk		**393**	**2,105**	**299**

Although settlement of receivables is exposed to economic factors the management believes that there is no significant risk of losses exceeding the provision for impairment of receivables that was booked by the Group.

The Group follows the policy of doing business only with solvent clients and continually monitors transactions exposed to credit risk. The Group's management conducts ageing analysis of trade receivables and follows up past due balances.

Cash is deposited with financial institutions with minimum default risk at the moment of account opening.

The Group does not have significant risk arising from issued loans, all loans are issued to related companies.

No collateral is provided to the benefit of the Group with regard to its exposure to credit risk.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Group is not exposed to currency risk since all operations are effected in Russian Roubles.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group's loans issued and borrowings obtained are under fixed interest rates. The Group does not have a policy of hedging interest rate risk.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Reasonable liquidity risk management includes maintaining certain level of adequacy of cash and liquid securities. Most of the financial liabilities of the Group are short-term.

To manage liquidity risk the Group applies the policy that provides for holding financial assets for which there is an active market and which can be readily converted in case of necessity to maintain liquidity. The maturity analysis of liabilities of the Group is provided below. The outstanding amount in the table represents contractual undiscounted cash flows.

In thousands of US dollars	Due in 1 year	From 1 to 2 years	Due between 2 and 3 years	More than 3 years
At 1 January 2008				
Borrowings	1,284	1,038	917	-
Accounts payable	867	-	-	-
Total at 31 December 2008	**2,161**	**1,038**	**917**	-
At 31 December 2008				
Borrowings	2,799	1,307	-	-
Accounts payable	876	-	-	-
Total at 31 December 2008	**3,675**	**1,037**	-	-
At 31 December 2009				
Borrowings	1,383	-	-	-
Accounts payable	515	-	-	-
Total at 31 December 2009	**1,898**	-	-	-

The Group did not have unused credit lines as at 31 December 2009 and 31 December 2008.

23 Management of Capital

The Group's objectives in respect of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2009 was USD 3,867 thousand (as at 31 December 2008: USD 4,263 thousand; as at 1 January 2008: USD 3,538 thousand).

Consistent with others in the energy industry, the Group monitors capital on the basis of a gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Combined Statement of Financial Position. Total capital is equal to the total equity, as shown in the Combined Statement of Financial Position. Gearing ratio was 0.36 as at 31 December 2009 (as at 31 December 2008: 0.90; as at 1 January 2008: 0.92) .

24 Balances and Transactions with Related Parties

The definition of related parties is provided in IAS 24 "Related Party Disclosures". Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial and economic decisions or exercise general control over its operations. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Information on the principal shareholders of the Group is disclosed in Note 1.

Below is a description of relations with related parties, with which the Group has significant transactions or significant balances.

At 31 December 2009 and 31 December 2008 the outstanding balances with related parties were as follows:

In thousands of US dollars	31 December 2009		31 December 2008	
	Participants	Companies under common control	Participants	Companies under common control
Trade receivables	-	-	1	-
Loans issued	153	222	1,773	288
Trade payables	4	7	152	44
Borrowings	5	3	249	7

In thousands of US dollars	31 December 2008		1 January 2008	
	Participants	Companies under common control	Participants	Companies under common control
Trade receivables	1	-	-	145
Loans issued	1,773	288	8	82
Trade payables	152	44	-	-
Borrowings	249	7	-	-

The income and expense items with related parties for the years ended 31 December 2009 and 31 December 2008 were as follows:

In thousands of US dollars	Year ended 31 December 2009	Year ended 31 December 2008
Operating expenses	116	44
Interest income	232	177
Interest expenses	33	27
Other revenue	224	1

The transactions with the related parties are made on an arm's length basis.

For the year ended 31 December 2009, the total remuneration, Wages and Salaries, paid to the Group's key management amounted to USD 40 thousand (for the year ended 31 December 2008: USD 47 thousand). The number of the Group's key management as at 31 December 2009 was 2 people (31 December 2008: 2).

25 Events after the Reporting Period

Renegotiation of borrowing facility. On 20 January 2010 the Group renegotiated the settlement schedule under borrowing facility with OJSC Sberbank till 20 September 2012. On 21 June 2010 the Group further renegotiated the settlement schedule, the final maturity remained 20 September 2012.

Merger of LLC Selena-Perm and LLC Selena-Neft. On 11 January 2011 LLC Selena-Neft was merged into LLC Selena-Perm.

Acquisition of mineral interest. On 24 February 2011 LLC Selena-Perm acquired license for Komarichinskoye gas deposit for RR 38,500 thousand (USD 1,314 thousand). The term of the license is 20 years.

Loan financing. On 11 January 2011 LLC Selena-Perm obtained zero interest loan from its parent company, Altare AB (subsequently renamed to Selena Oil and Gas AB), for the amount of RR 70,200 thousand (USD 2,392 thousand). RR 31,400 thousand (USD 1,070 thousand) was repaid by Selena-Perm LLC as of the date of this report. The remaining loan balance matures on 20 January 2016.