

SELENA-PERM

International Financial Reporting
Standards Combined Financial
Statements

31 December 2010

CONTENTS

BOARD OF DIRECTORS AND OTHER OFFICERS.....	3
REPORT OF THE BOARD OF DIRECTORS	4-5
INDEPENDENT AUDITOR'S REPORT	8
COMBINED FINANCIAL STATEMENTS	
Combined Statement of Financial Position.....	7
Combined Income Statement	8
Combined Statement of Comprehensive Income	9
Combined Statement of Changes in Net Assets Attributable to Participants	10
Combined Statement of Cash Flows	11
NOTES TO THE COMBINED FINANCIAL STATEMENTS	
1 Selena-Perm and Its Operations.....	12
2 Operating Environment of the Group.....	12
3 Summary of Significant Accounting Policies.....	13
4 Critical Accounting Estimates and Judgments in Applying Accounting Policies.....	18
5 New Accounting Pronouncements.....	19
6 Property, Plant and Equipment.....	21
7 Inventories	21
8 Accounts Receivable and Prepayments	22
9 Cash and Cash Equivalents.....	22
10 Net Assets Attributable to Participants.....	22
11 Borrowings.....	23
12 Income Taxes	23
13 Asset Retirement Obligations	25
14 Accounts Payables and Accruals.....	26
15 Other Taxes Payable.....	26
16 Revenue	26
17 Cost of Sales	26
18 General and Administrative Expenses.....	27
19 Finance Income / (Expenses), net.....	27
20 Other Income.....	27
21 Contingencies and Commitments.....	27
22 Financial Risk Management.....	28
23 Management of Capital.....	29
24 Balances and Transactions with Related Parties.....	30
25 Events After the Reporting Period	30

Selena-Perm

BOARD OF DIRECTORS AND OTHER OFFICERS

Selena-Neft LLC

From 9 July 2009 General Director Sergei Uhtlyarov

From 26 November 2010 General Director Dmitry Jermakov

Selena-Perm LLC

From 17 October 2007 General Director Victor Perov

From 3 May 2011 General Director Dmitry 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 spun-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 Popovs.

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

Operations

Total production volume in 2010 amounted to 12,926 tons representing a 26.1% increase as compared to production volume in 2009.

In 2010 8,031 tons of oil were produced in Vysokovskoye deposit which was by 28.1% more than in 2009. Azinskoye and Dubrovinskoye deposits produced 3,760 tons and 1,135 tons of oil respectively which was 26.4% and 13.2% respective increase against 2009. The volumes of production increased as the result of less downtime in well maintenance. Well renovations and further drilling have been planned for 2011 and 2012 to increase production, due to the increased price.

No enhanced recovery methods were used in 2010, but hydro fracturing has been planned for the Azinskoye field in 2011.

In 2010 the Group sold 3,207 tons of third party oil under commission and re-sale arrangements.

Investments

Total capital expenditure amounted to USD 345 thousand in 2010.

Financial performance

Sales amounted to USD 3,237 thousand in 2010 representing an increase of 22.2% against prior year. The increase mainly related to the increase in average sales price of crude oil which was by 11.6% higher than in 2009. All sales of the Group's crude oil in 2010 were to the local market. In terms of volumes sold the Group sold 12,900 tons of own crude oil produced which was a increase of 27.5% as compared to 2009.

The result of operations was an operating loss in the amount of USD 465 thousand resulting in a negative operating margin of 14.4% as compared to negative operating margin of 8.3% in 2009. Earnings before interest, corporate income tax, depreciation and amortization (EBITDA) amounted to USD 144 thousand and EBITDA margin was 4.5% which was a decrease from 7.3% margin in 2009.

Selena-Perm

The decrease in profitability related to the cost of measures started in the end of 2010 directed towards increase of the production volumes in 2011. In addition, mineral extraction tax in terms of percentage of sales increased from 28.1% in 2009 to 38.3% in 2010.

Net result was a loss of USD 350 thousand as compared to a net loss of USD 96 in 2009.

Financial position

Total assets of the Group amounted to USD 6,132 thousand as of 31 December 2010 representing a decrease of 7.6% as compared to the beginning of the year.

As the result of capital expenditure property plant and equipment balance decreased slightly by 3.7% and amounted to USD 5,380 thousand.

Working capital decreased as the result of reaching of an optimal level of debtor balance and stock.

Total equity amounted to USD 3,612 thousand. Loans and borrowings of the Group amounted to USD 909 thousand, including a bank loan in the amount of USD 831 thousand. The loan is provided by OJSC Sberbank and is an amortizing facility with the final maturity on 20 September 2012 and interest rate of 15.75% p.a.

Employees

As of 31 December 2010 the Group employed 93 employees (31 December 2009: 93 employees).

Subsequent events

New gas license acquisition

Komarinhinskoye 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 Komarinhinskoye 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 Komarinhinskoye gas field with the infrastructure of Visokovskoye field.

Outlook 2011

The objectives for the Group for 2011 includes increase of the production of the current fields as the result of measures started in the end of 2010 as well as further actions initiated by the management. Furthermore, the Group intends to attract a financing for further capital expenditure needs with the objective to improve the production of the current oil fields as well as newly acquired 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 and LLC Selona-Neft (collectively "Selena-Perm"), which comprise the combined statement of financial position as at 31 December 2010, 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

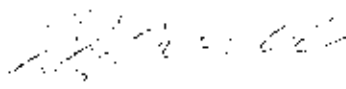
Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Victor Smirnov
Partner

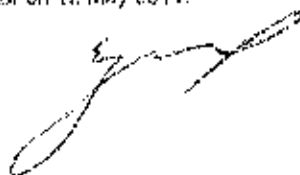
12 May 2011
ZAO BDO

Solena-Farm
Combined Statement of Financial Position as at 31 December 2010

<i>In thousands of US dollars</i>	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	8	5,360	5,567
Deferred income tax asset	12	328	270
Other non-current assets		2	4
Total non-current assets		5,690	5,841
Current assets			
Inventories	7	98	251
Accounts receivable and prepayments	8	82	170
Loans issued to related parties	24	258	375
Cash and cash equivalents	9	2	2
Total current assets		442	798
TOTAL ASSETS		6,132	6,639
LIABILITIES			
NET ASSETS ATTRIBUTABLE TO PARTICIPANTS			
	10	3,612	3,867
Non-current liabilities			
Deferred tax liability	12	43	31
Non-current borrowings	11	422	-
Asset retirement obligations	13	477	445
Total non-current liabilities		942	476
Current liabilities			
Current debt and current portion of non-current debt	11	487	1,383
Accounts payable and accruals	14	729	549
Other taxes payable	15	362	364
Total current liabilities		1,578	2,296
TOTAL LIABILITIES		5,152	6,639

Approved for issue and signed on behalf of General Director on 12 May 2011.

General Director



Dmitry Jernakov

Selona-Perm
Combined Income Statement for the year ended 31 December 2010

<i>In thousands of US dollars</i>	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	16	3,237	2,648
Cost of sales	17	(2,899)	(2,185)
Gross profit		338	463
Selling, general and administrative expenses	18	(803)	(666)
Operating loss		(465)	(203)
Finance income	19	7	437
Finance expense	19	(53)	(339)
Other income / (expense)	20	116	(2)
Loss before income tax		(395)	(107)
Income tax credit	12	65	11
Loss for the year		(350)	(96)

Selena-Perm
Combined Statement of Comprehensive Income for the year ended 31 December 2010

<i>In thousands of US dollars</i>	Note	Year ended 31 December 2010	Year ended 31 December 2009
Loss for the year		(350)	(96)
Currency translation		(28)	(122)
Total comprehensive loss for the year		(378)	(218)

Selena-Perm
Combined Statement of Changes in Net Assets Attributable to Participants for the year ended 31 December 2010

<i>In thousands of US dollars</i>	Share capital	Additional paid-in capital	Currency translation	Retained earnings	Total
As at 1 January 2009	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	(176)
As at 31 December 2009	921	-	(987)	3,933	3,867
Loss for the year	-	-	-	(350)	(350)
Currency translation	-	-	(28)	-	(28)
Total comprehensive loss for 2010	-	-	(28)	(350)	(378)
Contribution from the participant (Note 10)	-	123	-	-	123
As at 31 December 2010	921	123	(1,015)	3,583	3,612

Seena-Perm
Combined Statement of Cash Flows for the year ended 31 December 2010

<i>In thousands of US dollars</i>	Note	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(395)	(107)
Adjustments for:			
Depreciation, depletion and amortization	17, 18	482	389
Provision for impairment of trade and other receivables	8	52	21
Finance income	19	(7)	(437)
Finance costs	19	68	308
Other finance (income) / expense	19	(6)	31
Gain from loan forgiveness	20	(110)	-
Gain on disposal of other assets		-	(34)
Net foreign exchange losses		62	67
Operating cash flows before working capital changes		146	248
Change in accounts receivable		34	1,027
Change in inventories		151	(363)
Change in other assets		2	(1)
Change in accounts payable and accruals		295	1,378
Change in tax payable other than income tax		1	(212)
Income tax paid		(5)	-
Net cash generated by operating activities		624	2,077
CASH FLOWS FROM INVESTING ACTIVITIES			
Issuance of loans		(182)	(1,371)
Repayment of loans		6	686
Proceeds from sale of property, plant and equipment		12	72
Purchase of property, plant and equipment		(287)	(908)
Interest received		73	-
Net cash used in investing activities		(378)	(1,521)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		400	114
Repayment of borrowings		(482)	(338)
Repayment of interest		(164)	(328)
Distributed to the participants	10	-	(5)
Net cash used in financing activities		(246)	(555)
Net increase in cash and cash equivalents		-	1
Cash and cash equivalents at the beginning of the year		2	1
Cash and cash equivalents at the end of the year		2	2

The accompanying notes are an integral part of these combined financial statements

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 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 spun-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 with 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 Combined Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") and related interpretations adopted by the International Accounting Standards Board (hereinafter referred to as "IASB") 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 combined 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 Group 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 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.

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 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 recognized through other comprehensive income as a separate component of equity.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769 (31 December 2009: USD 1 = RR 30.2442; 31 December 2008: USD 1 = RR 29.3804). The principal average rate of exchange used for translating income and expenses for 2010 was USD 1 = RR 30.3766 (2009: USD 1 = RR 31.7669).

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 Group'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 deductible 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

Adoption of New or Revised Standards and Interpretation

Certain new standards, interpretations and amendments to the existing standards, as disclosed in the combined financial statements for the year ended 31 December 2009, became effective for the Group from 1 January 2010. 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.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

IFRS 3, Business Combinations (revised 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). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations.

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.

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). The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

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). The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.

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). The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

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). The improvements consist of a mixture of substantive changes and clarifications in the above standards and interpretations.

New accounting pronouncements

The following new standards, interpretations and amendments to standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in October 2010; effective from 1 January 2013, early adoption is permitted).
- Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 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.

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Notes to the Combined Financial Statements for the year ended 31 December 2010

6 Property, Plant and Equipment

<i>In thousands of US dollars</i>	Oil and gas properties	Buildings and constructions	Machinery and equipment	Other fixed assets	Construction in progress	Total
Cost						
Balance at 1 January 2009	9,307	1,168	387	201	243	11,286
Additions	97	2	4	-	809	912
Transfers	280	-	-	11	(281)	-
Disposals	(8)	-	(169)	(146)	(50)	(364)
Currency translation	(249)	(33)	(19)	(18)	16	(304)
Balance at 31 December 2009	9,428	1,137	183	48	726	11,530
Additions	177	-	-	-	188	345
Transfers	34	18	2	4	(58)	-
Disposals	(17)	(2)	-	-	(17)	(36)
Currency translation	(73)	(8)	(1)	-	(4)	(86)
Balance as at 31 December 2010	9,547	1,145	194	52	815	11,753
Accumulated depreciation						
Balance at 1 January 2009	(5,304)	(309)	(239)	(65)	-	(5,917)
Charge for the period	(307)	(42)	(43)	(7)	-	(399)
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)
Charge for the period	(432)	(35)	(10)	(6)	-	(492)
Disposals	16	-	-	-	-	16
Currency translation	41	4	1	-	-	46
Balance as at 31 December 2010	(5,842)	(374)	(147)	(30)	-	(6,393)
Net book value as at 1 January 2009	4,003	859	128	136	243	5,369
Net book value as at 31 December 2009	3,959	794	64	24	726	5,567
Net book value as at 31 December 2010	3,705	771	47	22	816	5,360

At 31 December 2010 property, plant and equipment carried at USD 455 thousand (31 December 2009: USD 511 thousand) have been pledged to third parties as collateral for borrowings (Note 20).

7 Inventories

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Materials	48	58
Crude oil	53	193
Total inventories	99	251

8 Accounts Receivable and Prepayments

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Trade accounts receivable	58	17
Provision for impairment	(16)	(1)
Total financial accounts receivable	42	16
Advances issued	20	8
VAT prepaid	5	132
Other accounts receivable	15	14
Total accounts receivable and prepayments	82	170

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

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Provision for impairment	22	280
Provision for impairment	62	21
Corporate restructuring (Note 10)	-	(259)
Currency translation	-	(20)
Provision for impairment	74	22

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

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Cash at banks	1	-
Cash on hand	1	2
Total cash and cash equivalents	2	2

All cash and cash equivalents are denominated in Russian Roubles.

10 Net Assets Attributable to Participants

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 Vyaokoskoye oil and gas deposit 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 Financial Statements as distribution to participants.

Contribution from participant. In 2010 the Group received contribution from its shareholder, Nadezhda Popova, of USD 123 thousand for repayment of loan facility

11 Borrowings

The structure of non-current borrowings is as follows:

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Bank loans	831	1,223
Less current portions of bank loans	(409)	(1,223)
Total non-current borrowings	422	-

The Group's non-current borrowings mature within one-two years.

The structure of current borrowings is as follows:

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Current portion of non-current bank loans	409	1,223
Current loans from banks	-	132
Loans from non-financial institutions	49	20
Loans from related parties	29	8
Total current borrowings	487	1,383

The Group's borrowings are denominated in Russian Roubles.

On 23 November 2005 LLC PKF-Selena obtained long-term loan from OJSC Sberbank to finance development of Dubrovinskoye and Vysokovskoye deposits as well as access point to Transneft pipeline Malaya Purga. The amount of financing was RUB 80 million (USD 2,777 thousand). The interest rate was 14.3%. The facility was to be payable in installments by 20 September 2010. In 2009 the financing was ceded to LLC Selena-Neft. As of 31 December 2009 the Group was in breach of loan settlement schedule.

Therefore, on 20 January 2010 the Group renegotiated the settlement schedule till 20 September 2012. The interest rate increased to 15.75%. On 21 June 2010 the Group further renegotiated the settlement schedule, the final maturity and interest rate were not adjusted.

As at 31 December 2010 borrowings of USD 831 thousand were secured with oil and gas properties pledged as collateral (as at 31 December 2009: USD 1,223 thousand).

Net book value of oil and gas properties pledged as collateral for borrowings as at 31 December 2010 amounts to USD 455 thousand (as at 31 December 2009: USD 511 thousand). Refer to Note 21.

As at 31 December 2010 the effective interest rate on borrowings ranged between 8.5% p.a. and 16.75% p.a. (31 December 2009: the effective interest rate on borrowings ranged between 10.0% p.a. and 17.0% 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:

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Current tax expense	(4)	-
Deferred tax credit	49	11
Income tax credit	45	11

Selena-Perm**Notes to the Combined Financial Statements for the year ended 31 December 2010**

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.

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 2010 and 31 December 2009.

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:

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Loss before tax	(395)	(107)
Estimated tax credit at statutory rates	79	21
Tax effect of items which are not deductible or assessable for taxation purposes	(34)	(10)
Income tax credit for the year	45	11

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 those temporary differences is detailed below and is recorded at the rate of 20% (16.5% for assets of Selena-Perm LLC located in Perm region).

<i>In thousands of US dollars</i>	1 January 2010	Currency translation difference	Credited/ (charged) to income /expenses	31 December 2010
Tax effect of temporary differences:				
Trade and other accounts receivable	7	-	(1)	6
Tax loss carried forward	107	(1)	131	237
Asset retirement obligation	49	(1)	44	92
Finished goods	1	-	(2)	(1)
Trade and other accounts payable	15	-	8	23
Property, plant and equipment	59	(1)	(122)	(64)
Borrowings	-	-	(10)	(10)
Taxes payable	1	-	1	2
Recognised deferred tax asset	239	(3)	49	285

<i>In thousands of US dollars</i>	1 January 2009	Currency translation difference	Corporate restructuring	Credited/ (charged) to Income /expenses	31 December 2009
Tax effect of temporary differences:					
Trade and other accounts receivable	98	(8)	(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 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 offset 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 2010 the Group's asset retirement obligations in respect of decommissioning of oil and gas wells amount to USD 477 thousand (31 December 2009: USD 445 thousand). The liability has been calculated based on discount rate of 7.98%.

<i>In thousands of US dollars</i>	
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
Accruals charged to profit and loss account	35
Currency translation	(3)
Book value as for 31 December 2010	477

Selena-Perm**Notes to the Combined Financial Statements for the year ended 31 December 2010****14 Accounts Payables and Accruals**

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Trade payables	636	455
Payable to personnel	59	52
Other financial payables	1	8
Total financial payables	696	515
Advances received	33	34
Trade accounts payable and accruals	729	549

The fair value of financial payables approximates their carrying value.

15 Other Taxes Payable

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Mineral extraction tax	175	225
VAT	147	53
Property tax	23	42
Social taxes	12	26
Other taxes	5	18
Total other taxes payable	362	364

16 Revenue

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Sales of crude oil	3,125	2,280
Other revenue	112	368
Total revenue	3,237	2,648

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

17 Cost of Sales

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Taxes other than income tax	1,240	754
Depreciation, depletion and amortization	481	303
Materials and supplies	426	352
Wages and salaries	409	359
Operating lease expenses	114	133
Third party services	79	113
Other costs	150	56
Total cost of sales	2,899	2,186

18 General and Administrative Expenses

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Wages and salaries	289	210
Transport	174	117
Taxes other than income tax	118	155
Impairment of accounts receivable and prepayments (Note 8)	52	21
Rent	48	7
Fines and penalties	20	16
Consulting services	37	88
Depreciation, depletion and amortization	10	6
Other expenses	75	46
Total general and administrative expenses	803	666

19 Finance income / (Expenses), net

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	7	437
Interest expenses	(68)	(308)
Gain / (Loss) on discounting	15	(31)
Total net finance (expenses) / income	(46)	98

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 Other Income

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Gain from loan forgiveness	110	-
Other	6	(2)
Total other income / (expenses)	116	(2)

21 Contingencies and Commitments

Assets pledged and restricted. At 31 December 2010 and 31 December 2009 the Group has the following assets pledged as collateral:

<i>In thousands of US dollars</i>	31 December 2010		31 December 2009	
	Assets pledged	Related liabilities	Assets pledged	Related liabilities
Oil and gas properties (Note 6)	455	831	511	1,223
Total	455	831	511	1,223

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:

<i>In thousands of US dollars</i>	31 December 2010	31 December 2009
Not later than 1 year	25	25
Later than 1 year and not later than 5 years	126	119
Later than 5 years	305	341
Total operating lease commitments	456	485

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:

<i>In thousands of US dollars</i>	Note	31 December 2010	31 December 2009
Loans issued to related parties	24	250	375
Accounts receivable	8	42	10
Cash and cash equivalents	9	2	2
Total maximum credit risk		303	393

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.

<i>In thousands of US dollars</i>	Due in 1 year	From 1 to 2 years	Due between 2 and 3 years	More than 3 years
At 31 December 2009				
Borrowings	1,383	-	-	-
Accounts payable	515	-	-	-
Total at 31 December 2009	1,898	-	-	-
At 31 December 2010				
Borrowings	487	422	-	-
Accounts payable	666	-	-	-
Total at 31 December 2010	1,153	422	-	-

The Group did not have unused credit lines as at 31 December 2010 and 31 December 2009.

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 participants 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 2010 was USD 3,612 thousand (31 December 2009: USD 3,887 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 net assets attributable to equity participants, as shown in the Combined Statement of Financial Position. Gearing ratio was 0.25 as at 31 December 2010 (31 December 2009: 0.36).

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 2010 and 31 December 2009 the outstanding balances with related parties were as follows:

<i>In thousands of US dollars</i>	31 December 2010		31 December 2009	
	Participants	Companies under common control	Participants	Companies under common control
Trade receivables	6	-	-	-
Loans issued	23	236	153	222
Trade payables	33	30	4	7
Loans received	29	-	5	3

The income and expense items with related parties for the years ended 31 December 2010 and 31 December 2009 were as follows:

<i>In thousands of US dollars</i>	Year ended 31 December 2010	Year ended 31 December 2009
Operating expenses	122	116
Interest income	7	232
Interest expenses	3	33
Other income	233	224

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

For the year ended 31 December 2010, the total remuneration, Wages and Salaries, paid to the Group's key management amounted to USD 60 thousand (for the year ended 31 December 2009: USD 40 thousand). The number of the Group's key management as at 31 December 2010 was 2 people (31 December 2009: 2).

25 Events After the Reporting Period

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

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.

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.