ZOLTAV resources

ANNUAL REPORT 2019

INTRODUCTION

Directors and Advisers 1
Chairman's Statement 2
Review of Operations 6
Financial Review 8
Board and Senior Management Biographies 10
Directors' Report 12
Corporate Governance 14

FINANCIAL INFORMATION

Auditor's Report 16
Financial Statements 20
Notes to the Accounts 24

BOARD OF DIRECTORS

Lea Verny
Independent Non-executive Chairman

Alexander Gorodetsky
Independent Non-executive Director

Andrey Immel
Non-executive Director

AUDIT COMMITTEE

Lea Verny (Chairman)
Andrey Immel

NOMINATION AND REMUNERATION COMMITTEE

Alexander Gorodetsky (Chairman)
Lea Verny

CORPORATE ADMINISTRATOR

CO Services Cayman Limited
P.O. Box 10008, Willow House, Cricket Square,
Grand Cayman KY1-1001, Cayman Islands

REGISTERED OFFICE

PO Box 10008, Willow House, Cricket Square,
Grand Cayman KY1-1001, Cayman Islands

BANKERS

Barclays Private Clients International Limited
39-41 Broad Street, St Helier,
Jersey, JE4 8PU, Channel Islands

Deutsche Bank International Limited
St Paul's Gate, New Street, St Helier,
Jersey, JE4 8ZB, Channel Islands

NOMINATED ADVISER & BROKER

SP Angel Corporate Finance LLP
Prince Frederick House, 35-39, Maddox Street,
London, W1S 2PP, United Kingdom

SOLICITORS

Berwin Leighton Paisner
Adelaide House, London Bridge, London,
EC4R 9HA, United Kingdom

INDEPENDENT AUDITOR

Ernst & Young LLC
Sadovnicheskaya nab., 77, bld. 1, Moscow, 115035, Russia

REGISTRAR

Computershare Investor Services (Cayman) Limited
R&H Trust Co. Ltd, Windward 1,
Regatta Office Park, West Bay Road,
Grand Cayman KY1-1103, Cayman Islands

"We expect to be able to sustainably reverse the declining production profile on West Bortovoy during 2020"

Production through Zoltav's Western Gas Plant on the Bortovoy Licence, Saratov declined by 26% to 4,321 boepd in 2019 as the natural production decline from existing well stock on the West Bortovoy fields continued at a steeper rate than in preceding periods.

The Western Gas Plant continued to be operated efficiently throughout 2019 with no shutdowns. Operations at the plant have continued throughout the COVID-19 global pandemic without interruption. The Company has introduced measures to mitigate the risk of infection at its operations including additional cleaning and personal protective equipment.

As a result of the natural production decline, the Group's revenues in 2019 decreased by 25% to RUB 1.2 billion, compared to RUB 1.6 billion in 2018.

Throughout 2019 and 2020 to date, Zoltav has been engaged in a development drilling programme on the West Bortovoy fields in order to bring the Western Gas Plant back up to capacity. The programme initially comprised four side-track wells on existing well stock, two of which, on the Zhdanovskoye field, were successful and have been put on production in August 2019 and January 2020, and two of which, on the Karpenskoye field, encountered water cut and will require additional investment in order to have the potential of being put on production in the future. Although the two successful wells are now contributing one third of gas production and more than half of liquid products, the side-track well programme overall was insufficient to reverse the natural production decline from the currently producing West Bortovoy fields. Accordingly, two new standalone vertical wells were planned and drilled in 2020 on the Zhdanovskoye field. The first of these wells was put on production in August 2020, together with the construction of a 7.2 km looping pipe in order to avoid bottlenecks, and the second is due to be put on production imminently.

A combination of lower revenues, higher operational and G&A costs, and a substantial impairment charge to non-current assets of RUB 2.8 billion as a result of the disappointing side-track drilling results on the Karpenskoye field, led to a loss before tax of RUB 3.12 billion in 2019, compared to a profit before tax of RUB 156 million in 2018.

Zoltav continued the East Bortovoy feasibility study throughout 2019 and into 2020. Well operations and technical analysis have now been completed and the project has been successfully reviewed by an independent technical consulting firm. Progress continues to be made in a number of areas including pipeline design, procurement, well design and gas plant capacity extension. A project final investment decision will be taken subject to financing.

The Company has invested substantially in the West Bortovoy development drilling programme and the East Bortovoy feasibility study and this, together with the impact of reduced cash flow from production, necessitated an injection of capital. This came in the form of a revolving loan facility, announced in July 2020, from ARA Capital Holdings Limited, a substantial shareholder, under which ARA Capital Holdings Limited has provided up to US $9,000,000 in support of operational activities. The Company appreciates the support of its substantial shareholder.

2019 was a challenging year operationally but, looking ahead, we expect to be able to sustainably reverse the declining production profile on the West Bortovoy fields during the course of 2020 with the two new standalone vertical wells drilled on the Zhdanovskoye field. On East Bortovoy, a project final investment decision is subject to successful negotiations of a financing package including agreeing binding terms for project finance from major Russian banks and other funding to support the project finance. Management remains in discussions with prospective providers of such finance and we will provide further updates when appropriate.

I would like to commend all the staff of our operating company, Diall Alliance, on the continued safe and efficient operation of the Western Gas Plant and our drilling activities, particularly in light of the challenges resulting from the COVID-19 global pandemic.

Léa Verny

Lea Verny
Non-executive Chairman

29 September 2020

"The East Bortovoy feasibility study has been completed and the project has been successfully reviewed by an independent technical consulting firm."

Production

Production through Zoltav's Western Gas Plant on the Bortovoy Licence, Saratov, averaged 4,321 boepd (589 toepd) during 2019, a 26% decline when compared to 5,802 boepd (792 toepd) in 2018. The natural production decline from existing well stock on the West Bortovoy fields continued at a steeper rate in 2019 than in preceding periods.

Average net daily production (sold to customers) during 2019 was 24.5 mmcf/d (0.69 mmcm/d) of gas and 246 bbls/d (31 t/d) of oil and condensate (2018: 33 mmcf/d (0.94 mmcm/d) of gas and 301 bbls/d (38 t/d) of oil and condensate).

Overall, in 2019, the Company produced approximately:

- Natural gas: 9.0 bcf (253 mmcm) or 1.5 mmboe (203 mtoe) (2018: 12.0 bcf (341 mmcm) or 2.0 mmboe (274 mtoe))
- Oil and condensate: 89,618 bbls (11,416 t) (2018: 109,807 bbls (13,988 t))

The Western Gas Plant continued to operate efficiently throughout 2019 with no shutdowns. Operations at the plant have continued throughout the COVID-19 global pandemic without interruption. The Company has introduced measures to mitigate the risk of infection at its operations including additional cleaning and personal protective equipment.

Development

West Bortovoy

The well stock producing from the two currently producing Permian fields (Zhdanovskoye and Karpenskoye) consists of 13 gas wells and one oil well working via artificial lift. The well stock is in natural production decline. A development drilling programme is ongoing to reverse this production decline.

The development drilling programme, which began in May 2019 following a four-month delay to the original schedule due to the changing of drilling contractors, has to date seen a total of four side-track wells being drilled on existing well stock:

- Zhdanovskoye Well 103 was spudded in May 2019 as the first well in the programme of sidetracks. The well was completed successfully and put on production at the end of August 2019.
- Karpenskoye Well 5D was spudded in September 2019 and was completed in November 2019. The well encountered water cut and will require intervention. An additional horizon to the target horizon was successfully tested in this well, although the gas contains higher mercaptan content than usual and will necessitate additional modernisation of the Western Gas Plant in order to meet Gazprom quality standard (these works are scheduled for 2021)
- Zhdanovskoye Well 8 was spudded in November 2019 and put on production in January 2020.
- Karpenskoye Well 19 was spudded in January 2020 and was completed in February 2020. The well encountered water cut and will require intervention.

The two successful wells on the Zhdanovskoye field are now contributing one third of gas production and more than half of liquid products. The two unsuccessful wells on the Karpenskoye field will require additional investment in order to have the potential to be put on production in the future. The Company is testing a range of squeeze treatment technologies to isolate water although it should be noted that such intervention carries a relatively low success rate.

The West Bortovoy development drilling programme in 2020 to date consists of two standalone vertical wells on the Zhdanovskoye field and the construction of a 7.2 km looping pipe in order to avoid bottlenecks from Zhdanovskoye production. Zhdanovskoye Well 106 was spudded in May 2020 and was put on production in July 2020; and Zhdanovskoye Well 105 was spudded in August 2020, completed in September 2020 and is expected to be put on production imminently. Both wells and looping, combined with the impact of the 2019 work programme, are expected to enable the Company to sustainably reverse the declining production profile on the West Bortovoy fields during the course of 2020.

East Bortovoy

The Company continued to conduct throughout 2019 and into 2020 a feasibility study on the East Bortovoy fields. The Company has expended approximately RUB 550 million towards this feasibility study, including a re-entry programme and pipeline design. This includes substantial budget overrun due mainly to the technical condition encountered in Nepriyakhinskoye Well 1 (as announced on 30 September 2019) and the requirement to undertake further well re-entries on the Pavlovskoye field in order to gain additional confidence over the project's future production profile. This resulted in a significant delay to the feasibility study and to the independent technical analysis necessary to procure project financing.

Well operations and technical analysis have now been completed and the project has been successfully reviewed by an independent technical consulting firm. A project final investment decision is subject to successful negotiations of binding terms for project finance from major Russian banks and the ability to secure a necessary equity contribution to support the project finance. Management remains in discussions with prospective providers of project finance.

Meanwhile, significant progress is being made on other aspects of project development including pipeline design, procurement, well design and gas plant capacity extension in order to enhance the prospects of a timely and positive final investment decision subject to financing.

Koltogor

The Koltogor Licences in the Khantiy Mansisk Autonomous Okrug, Western Siberia are not currently a focus of investment, however, management continues to seek out potential routes to monetise these licences.

Tigran Tagvoryan
Chief Executive Officer

29 September 2020

GROUP RESERVES UNDER PRMS AS PER LATEST REPORT OF DEGOLYER AND MACNAUGHTON (MAY 2014):

		Proved	Probable	Proved + Probable	Possible
Bortovoy Licence					
Gas	bcf	352.9	396.8	749.7	640.0
Oil & liquids	mmbbls	2.0	1.8	3.8	2.4
Gas, oil and liquids	mmboe	62.0	69.2	131.2	111.2
Koltogor Licences					
Gas	bcf	0.5	23.5	24.0	55.7
Oil	mmbbls	1.6	73.5	75.1	174.0
Gas & oil	mmboe	1.7	77.5	79.2	183.5
Total					
Gas	bcf	353.4	420.3	773.7	695.7
Oil & liquids	mmbbls	3.6	75.3	78.9	176.4
Gas, oil and liquids	mmboe	63.7	146.7	210.4	294.7

Note on conversion rates

Tonnes of crude oil produced are translated into barrels using conversion rates reflecting oil density from each of the fields. Crude oil and liquid hydrocarbons expressed in barrels are translated from tonnes using a conversion rate of 7.85 barrels per tonne. Translations of cubic feet to cubic metres are made at the rate of 35.3 cubic feet per cubic metre. Translations of barrels of crude oil and liquid hydrocarbons into barrels of oil equivalent ("boe") are made at the rate of 1 barrel per boe and of cubic feet into boe at the rate of 290 cubic feet per boe.

Revenue

The Group's revenues in 2019 decreased by 25% to RUB 1.2 billion, compared to RUB 1.6 billion in 2018.

80.5% of revenues were derived from gas sold to Mezhregiongaz, a Gazprom subsidiary, at the transfer point on entry to the Central Asia - Centre gas pipeline system. The gas prices are fixed in a contract with Mezhregiongaz and are subject to indexation. The Russian Government approved a 1.4% gas price increase and accordingly the Company signed an addendum to its contract with Mezhregiongaz resulting in an average price in 2019 of RUB 3,911 per mcm compared to RUB 3,857 per mcm in 2018.

The remaining revenue was from oil and condensate sold directly at the Western Gas Plant through a tender process to a small number of different buyers. Oil and condensate prices were RUB 2,554/bbl (RUB 20,049/t) in 2019 compared to RUB 2,891/bbl (RUB 22,691/t) in 2018.

Cost of sales and G&A costs

The Group's operational and G&A costs increased by 16% to RUB 241.6 million (2018: RUB 208 million), mostly driven by hiring senior geotechnical personnel, buying licences for geological software and hiring new senior management.

Total cost of sales was RUB 1.065 billion (2018: RUB 1.119 billion). This comprised RUB 285 million of mineral extraction tax (2018: RUB 343 million), RUB 419 million of depreciation and depletion of assets (2018: RUB 438 million) and RUB 361 million of other cost of sales (2018: RUB 338 million).

Other expenses increased significantly to RUB 118 million (2018: RUB 15 million) due to bringing the decommissioning and environmental restoration provision up to date and recognising the loss on damaged equipment which has been replaced.

Operating profit

A combination of lower revenues and higher operational and G&A costs led to an operating loss for 2019 of RUB 180 million, compared to an operating profit of RUB 313 million in 2018. Additionally, disappointing drilling results on the Karpenskoye field led to a non-current assets impairment charge being taken in the amount of RUB 2.8 billion – overall resulting in a RUB 2.98 billion operating loss.

EBITDA decreased by 68% to RUB 239 million (2018: RUB 751) due to production decline, increased gas plant maintenance needs and the hiring of development staff.

Finance costs of RUB 155 million (2018: RUB 177 million) are mainly represented by decreased interest on the refinanced debt of RUB 1.32 billion with PromSvyazbank.

Profit before tax

Zoltav generated a loss before tax of RUB 3.12 billion, compared to a profit before tax of RUB 156 million in 2018, due mainly to the impairment of non-current assets.

Taxation

Production based tax for the period was RUB 285 million (2018: RUB 343 million) which is recognised in the cost of sales. The MET tax formula is based on multi-component gas composition, average gas prices and reservoir complexity and maturity. The effective MET rate applicable for the period is of RUB 30/mcf or RUB 1,069/mcm (2018: RUB 27/mcf or RUB 955/mcm).

The Company had an income tax benefit for the year of RUB 242 million (2018: RUB 65 million income tax expense).

Net loss

Zoltav generated a net loss of RUB 2.9 billion (RUB 640 million net loss excluding the non-current assets impairment charge) (2018: net profit of RUB 90 million).

Cash

Net cash generated from operating activities was RUB 276 million (2018: RUB 613 million).

The Bortovoy Licence operating subsidiary, Diall Alliance, successfully serviced its credit facility with PJSC Sberbank and repaid a further RUB 141 million of the principal amount prior to refinancing the whole debt with Promsvyazbank on 13 May 2019 with the following terms:

- RUB 1.32 billion limit
- Floating rate of Russian Central Bank rate + 1.6%
- Six-month grace period (aligned with the Company's West Bortovoy drilling schedule) on principal repayment

Diall Alliance successfully serviced its credit facility with Promsvyazbank. The loan facility contains a technical covenant requiring 2.6 bcf (75 mmcm) of natural gas production per quarter. The covenant does not contain any penalties and provides legal grounds for the bank to have a formal discussion with the Company's management regarding a breach. The Company breached the production covenant for Q2-Q4 2019 due to the delay in the development drilling programme on West Bortovoy. The bank accepted the Company's explanation on the covenant breach.

Total cash at the end of the period was RUB 4 million (2018: RUB 261 million).

On 14 July 2020, the Company announced that it has entered into a loan agreement with ARA Capital Holdings Limited under which ARA Capital Holdings Limited has provided a revolving loan facility for up to US $9,000,000 (the "Loan"). ARA Capital Holdings Limited is the parent company of ARA Capital Limited - both entities combined own 44.1 percent of the issued share capital of the Company.

The Loan has been made available for drawdown in two instalments of:

(1) US$ 2,000,000, which is provided unconditionally and has been drawn down by the Company; and
(2) US $7,000,000, which is secured against the shares of Royal Atlantic Energy (Cyprus) Limited (of which Diall Alliance, which holds and operates the Bortovoy Licence, is a wholly owned subsidiary) and has been drawn down by the Company.

The Loan is currently due for repayment by 31 December 2020 unless otherwise extended or converted into equity by mutual agreement, and, in the case of conversion, subject to shareholder approval. The Loan is interest-free save for in the event of a failure to repay on time, in which circumstances the Loan will accrue interest at a rate of 15 percent per annum.

Proceeds from the Loan are being used for general working capital purposes and in support of operational activities, including the development drilling programme ongoing at West Bortovoy and the East Bortovoy project. In the event the Company takes a positive final investment decision on the East Bortovoy project in due course, it is currently envisaged that the Loan would be restructured in order to facilitate any required equity contribution or a part thereof.

Tigran Tagvoryan
Chief Executive Officer

29 September 2020

LEA VERNY
Independent Non-executive Chairman/Senior Independent Director

Lea Verny was appointed as a non-executive director in December 2016 and subsequently as non-executive chairman in March 2017. She has significant and high level corporate finance experience, with particular expertise in Russia. Since 2008, Lea Verny has acted as an independent financial adviser on cross-border transactions. Prior to becoming an independent consultant, Lea Verny served as a private banker with Banque Pictet, Switzerland, where she was responsible for developing the bank's activities in Russia, following a career of more than a decade with HSBC. From 2001 to 2007, Lea Verny was Head of Investment Banking for HSBC Bank plc in Moscow, during which time she advised on structured transactions for large Russian and CIS corporations including Lukoil, Rostelekom, Eastern Oil Company and Rosbank. Between 1997 and 2001, Ms Verny was a representative of HSBC Investment Bank plc in Russia, where she was responsible for establishing the bank's presence in the country and developing opportunities specifically within the oil and gas sector. Lea Verny holds a Bachelor's degree in Statistics and International Relations from the Hebrew University in Jerusalem as well as an MBA from INSEAD in France.

ALEXANDER GORODETSKY
Independent Non-executive Director

Alexander Gorodetsky was appointed as a non-executive director in September 2015. He is currently the general partner of Strategy Capital Advisor Limited, a private equity fund established in 2009 with a mandate to invest in projects, including within the oil and gas sector, across the former Soviet Union. Prior to Strategy Capital Advisor Limited, Alexander Gorodetsky was first deputy to the chairman of East One Group, an international investment advisory group providing strategic and investment management services. During his time at East One Group, he assisted in the strategic development of over 25 portfolio companies including GEO ALLIANCE Group, one of the leading independent oil and gas exploration and production groups in Ukraine. From 2000-2006, Alexander Gorodetsky was president/business unit leader for TNK BP Ukraine. He contributed significantly to the increased brand awareness of TNK-BP in the Ukrainian market, where it is among the leading oil and gas companies. He began his career in 1995 within Alfa-Eco, a leading gas and oil trading business in Russia.

ANDREY IMMEL
Non-executive Director

Andrey Immel was appointed as a non-executive director in September 2015. He is an experienced Russian corporate lawyer. He has, since 2012, been the head of the legal department of Moscow-based Contact-Service LLC, a real estate company, where his responsibilities include corporate governance and the provision of legal support for transactions. From 2008-2012, Andrey Immel worked for Himuglemet, a manufacturer of conveyer band and other components for coal mines, both as legal counsel and as a corporate and tax lawyer. His responsibilities included legal due diligence and support for corporate transactions.

"We appointed new and highly experienced individuals to our senior management team in 2019"

SENIOR MANAGEMENT (NON-BOARD)

TIGRAN TAGVORGAN
Chief Executive Officer

Tigran Tagvorgan joined Zoltav in November 2018, initially as Deputy Chief Executive Officer, prior to his appointment as Chief Executive Officer in April 2019. He has significant senior level project development, finance, management and infrastructure experience within Russian supermajor oil and gas businesses. From 2013 to 2019, Tigran led the Russian gas business development and strategy divisions of Rosneft, where he led the development and implementation of its rapid gas production growth strategy. From 2002 until its acquisition by Rosneft in 2013, Tigran held various senior positions with TNK-BP, including Deputy Director General of OAO East Siberia Gas Company, a regional gasification joint venture project with the Irkutsk Oblast Administration. Tigran holds a BSc in Business and Management from the University of Maryland University College and a higher degree with excellence in Management from Irkutsk State University.

YURI KRASNEVSKY
Director for Geology and Field Development

Yuri Krasnevsky joined Zoltav in May 2019. He has over 30 years of experience in geological exploration and production in Russia. He has held senior technical positions with major energy businesses including with NK Novyi Potok and Bashneft, prior to which Yuri worked at both TNK-BP and Rosneft. As Vice President for Geology and Field Development at Bashneft, Yuri gained significant geological experience in carbonate and terrigenous rocks of Carboniferous and Devonian formations in the Bashkortostan and Orenburg regions. He also was involved in the exploration and development of Devonian carbonates on the Trebs and Titov oil fields in the Nenets Autonomous Okrug. As Director for Geology and Field Development at Zoltav, Yuri is overseeing the further development of Zoltav's assets. Yuri is a graduate of the Gomel State University and has a degree in geological engineering and hydrogeology.

The Directors of the Company present their annual report together with the audited consolidated financial statements for the year ended 31 December 2019.

Principal activities

The principal activities of the Company and its subsidiaries (the "Group") are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Russian Federation.

Business review

A review of the business for the year and of future developments is given in the Chairman's Report.

Results

The results of the Company are as shown on page 20.

Dividends

The Directors do not recommend the payment of a final dividend and no interim dividend was paid during the year.

Share capital

No movements in share capital occurred in 2019.

Directors

The membership of the Board who served during the year and up to the date of approving the financial statements is set out on page 10.

Going concern

The breach of bank covenants constitutes a significant liquidity risk for the Group which causes a material uncertainty and casts significant doubt on the Group's ability to continue as a going concern, however the Group has mitigating factors, described in Note 2.2 of the consolidated financial statements. Considering these factors and plans of the Group, management believes that a going concern basis for preparing these consolidated financial statements is appropriate.

Directors' interests

Directors have not owned shares of the Company during the years ended 31 December 2019 and 2018.

Substantial shareholdings

The interests in excess of 3% of the issued share capital of the Company which have been notified to the Company as at 31 December 2019 were as follows:

Name	Number of ordinary shares	Percentage of existing share capital
Bandbear Limited	56,243,076	39.62%
Ara Capital Limited	56,243,075	39.62%
Ara Capital Holdings Limited	6,353,568	4.48%
Drentru Services Ltd.	6,353,568	4.48%

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

AIM Rules for Companies require the Directors to prepare financial statements for each financial year. Under those Rules the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

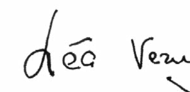
Financial risk management objectives and policies

Details of the financial risk management objectives and policies are provided in note 28 to the financial statements.

Independent auditor

Ernst & Young LLC were appointed as the Company's independent auditor on and have expressed their willingness to continue in office.

For and on behalf of the Board:



Lea Verny
Non-executive Chairman

29 September 2020

Introduction

The Board's overriding objective is to ensure that the Group delivers long-term capital appreciation for its shareholders.

Compliance

The Company complies with elements of the Smaller Company provisions of the UK Corporate Governance Code ("the Code") albeit as an AIM-listed company and Cayman Island incorporated company it is not required to. The Board of Directors is committed to developing and applying high standards of corporate governance appropriate to the Company's size and its future prospects. The Board seeks to comply with the Quoted Company Alliance's Corporate Governance Code (details of which are available on the Company's website, www.zoltav.com).

This statement sets out measures taken by the Board to apply the principles of the Code to the year ended 31 December 2019 and to the date of the Directors' report.

Board of directors

Role of the Board

The Board's role is to provide leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims and ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management's performance in meeting these objectives. The Board sets and monitors the Group's values and standards and ensures that the Group's obligations to shareholders and other stakeholders are understood and met.

The Board has a formal schedule of matters reserved for its approval, including:

- strategic and policy considerations;
- annual budget, including capital expenditure;
- interim and final financial statements;
- management structure and appointments;
- mergers, acquisitions, disposals;
- capital raising;
- significant changes in accounting policies;
- appointment or removal of Directors or the Company Secretary;
- pay and rewards.

Board composition

The Board currently comprises two non-executive independent directors and one non-executive director:

- Lea Verny – Non-executive Chairman, Independent Non-executive Director;
- Alexander Gorodetsky – Independent Non-executive Director;
- Andrey Immel – Non-executive Director.

Board balance and independence

Under the provisions of the UK Corporate Governance Code as a Smaller Company the Company meets the requirements to have at least two independent non-executives on the Board.

The Board meets at least several times per year to discuss opportunities available to the Company as a whole.

The Company maintains insurance for Directors and Officers of the Company.

The Chairman of the Board is non-executive and is responsible for the leadership and effective running of the Board and for ensuring that the Board is kept appropriately informed about the business activities of the Company. The Chairman also seeks to ensure effective communication with shareholders and other stakeholders.

The Board has access to the Company's advisers to notify them on financial, governance and regulatory matters. Any Director wishing to do so in the furtherance of his or her duties may take independent professional advice at the Company's expense. This also applies to any Director in his or her capacity as a member of the Audit, Remuneration or Nomination committees. Through the Chairman the Directors also have access to the Company Secretary, CO Services Cayman Limited.

The Board is supported by specialised committees ensuring that sound governance procedures are followed. The Corporate Governance section of the Company's website includes the terms of reference of the Audit and Remuneration and Nomination Committees.

Board Committees

The Audit Committee

The Audit Committee currently comprises Lea Verny and Andrey Immel, with Lea Verny as Chairman. The Board is satisfied that collectively the Audit Committee has sufficient, recent and relevant financial experience.

The duties of the Audit Committee are to review the financial information of the Company, to oversee the Company's financial reporting processes and internal control systems, and to manage the relationship with the Company's external auditor. The Audit Committee also has primary responsibility for making recommendations on the appointment, re-appointment and removal of the external auditor, and for approving any significant non-audit services provided by the external auditor to ensure that objectivity and integrity are safeguarded. The Audit Committee reports its work, findings and recommendations to the Board after each meeting.

The Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Alexander Gorodetsky and Lea Verny with Alexander Gorodetsky as Chairman.

The principal functions of the Remuneration and Nomination Committee include recommending to the Board the policy and structure for the remuneration of the Chairman, Non-executive Directors and (as determined by the Board) senior management, determining the remuneration packages of the Chairman, the Non-executive Directors and senior management, reviewing and approving performance-based remuneration and compensation for loss or termination of office payable to Non-executive Directors and senior management, ensuring that no Director is involved in deciding his own remuneration, approving the service contracts of Directors and senior management and leading the process for appointments to the Board and make recommendations to the Board based on their evaluation of the balance of skills, knowledge and experience on the Board.

Attendance at Board and Committee Meetings

The Board held three in person board meetings during 2019. These were attended by all the directors appointed at the time who were able to attend.

The table below sets out the total number of meetings of the Board and its committees during the year and attendance by members at those meetings.

	Board	Audit committee	Nomination and Remuneration
Meetings held during the year	3	2	1
Meetings attended during the year:			
Lea Verny	3	2	1
Alexander Gorodetsky	3	–	1
Andrey Immel	3	2	–

Internal control

The Board is responsible for maintaining a strong system of internal control and risk management to safeguard shareholders' investments and the Company's assets. The system of internal control is designed, taking into account the Company's business objectives and strategy, to provide reasonable, but not absolute, assurance against material misstatement or loss.

The criteria the Board uses to assess the effectiveness of the system of internal control include:

- the nature and extent of the risks facing the Company;
- the extent and categories of risk that the Board regards as acceptable for the Company to bear;
- the likelihood of the risks materialising and the financial impact of the risks;
- the Company's ability to reduce the incidence and impact on the business of risks that do materialise; and
- the costs of operating particular controls relative to the benefit thereby obtained.

The Board has considered the need for an internal audit function but has decided, after taking into account the current status of the Company, such a function is not at present justified.

Relations with Shareholders

The Company believes that effective communication with shareholders is of utmost importance. It has an established cycle for communicating trading results at the interim and year end stages and, as appropriate, of providing business updates via the Regulatory News Service and press releases.

The Company makes information available through regulatory announcements and its interim and annual reports. Copies of all such communications can be found on the Company website, www.zoltav.com.

Report on remuneration

The Board recognises that Directors' and employees' remuneration is of legitimate concern to shareholders, and is committed to following good practice and to ensuring that the interests of the Directors and employees are aligned with those of shareholders.

Policy on remuneration

The Company aims to set levels of remuneration that are sufficient to attract, retain and motivate Directors and senior management of the quality required to run the Company successfully, whilst ensuring that the interests of Directors and employees are aligned with those of shareholders. The Company operates within a competitive environment in which the Company's performance depends on the individual contributions of the Directors.

When determining annual salaries and performance-based remuneration the Company takes into account the following factors:

- direct and indirect contribution towards the Company's current profitability;
- the development of businesses or transactions that may help achieve the Company's objective in future years;
- the quality of earnings, in the context of market conditions, as well as the quantity of earnings;
- vision and innovation;
- remuneration levels and practices in other firms engaged in similar activities; and
- incentive to continue to contribute to the Company's objectives.

Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2019 is shown in the table below.

	Lea Verny	Alexander Gorodetsky	Andrey Immel	Total
	RUB'000	RUB'000	RUB'000	RUB'000
Salary	6,446	1,975	-	8,421
Share based compensation	-	-	-	-
2019 total	**6,446**	**1,975**	**-**	**8,421**
Salary	6,291	2,005	-	8,296
Share based compensation	-	-	-	-
2018 total	**6,291**	**2,005**	**-**	**8,296**

To the Shareholders and Board of Directors of Zoltav Resources Inc.

Qualified opinion

We have audited the consolidated financial statements of Zoltav Resources Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for 2019 in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

Because we were appointed auditors of the Group during 2020, we were unable to observe the counting of physical inventories at 31 December 2019 or satisfy ourselves concerning those inventory quantities by alternative means. Since inventory balances at the end of the period affect the gross profit, we were unable to determine whether adjustments are required for the Group's gross profit for 2019 and the accumulated losses at 31 December 2019.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material uncertainty related to going concern

We draw attention to Note 2.2 Going concern in the consolidated financial statements, which indicates that the Group incurred a net loss of 2,881,608 thousand Russian rubles during the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by 1,405,272 thousand Russian rubles. As stated in Note 2.2, these events or conditions, along with other discussed matters, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matters described in the Basis for Qualified Opinion section and in Material uncertainty related to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS

Impairment of non-current assets

Due to the existence of impairment indicators in respect of non-current assets attributable to the Western part of Bortovoy license field cash generating unit ("CGU") as of 31 December 2019, the Group performed impairment testing of this CGU.

The impairment testing of property, plant and equipment and exploration and evaluation assets attributable to the Western part of Bortovoy license field CGU was one of the most significant matters in our audit because the property, plant and equipment and exploration and evaluation assets balance of this CGU forms a significant part of the Group's assets at the reporting date, and because management's assessment of the value-in-use is complex and largely subjective and is based on assumptions, in particular, on discount rate, projected gas exploration volumes and prices, projected inflation, as well as operating and capital expenditures that depend on the expected future market or economic conditions in the Russian Federation.

Information on the results of the impairment analysis of non-current assets is disclosed by the Group in Note 13 to the consolidated financial statements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

As part of our audit procedures, we assessed the assumptions and methodologies applied by the Group, in particular, those relating to projected oil and gas exploration volumes at the Western part of Bortovoy license field, gas prices, inflation, operating and capital expenditures and discount rates. We tested the arithmetic accuracy of the model used to determine the recoverable amount in the impairment test of property, plant and equipment and exploration and evaluation assets. We involved our valuation specialists to analyze the model used to determine the recoverable amount in the impairment test of property, plant and equipment and exploration and evaluation assets. We evaluated the Group's disclosures of assumptions on which the results of impairment testing largely depend.

KEY AUDIT MATTERS

Estimation of gas reserves and resources at Bortovoy license field

This matter to be one of most significance in the audit, because the estimate of gas reserves at Bortovoy license field has a significant impact on depreciation, depletion and amortization (DD&A) charges, impairment of property, plant and equipment and exploration and evaluation assets test results and decommissioning provision calculation. As the last external estimation of gas reserves for Bortovoy license field was made in 2014, the estimation of gas reserves as of the end of 2019 required significant management's estimation.

Information about estimation of gas reserves and resources is disclosed in note 3.4 of the notes to the consolidated financial statements, section critical accounting estimates and judgements.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We assessed the assumptions used by the Group to estimate volumes of gas reserves and resources at Bortovoy license field and compared them with current macroeconomic forecasts and the Group's plans. We also compared gas production, for which the Group adjusts its gas reserves to calculate DD&A with internal production reports and sales volumes. We compared gas estimation report data with information used by the Group to analyze non-current assets for impairment, to calculate DD&A and updated estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and decommissioning provision.

Other information included in Annual Report of Zoltav Resources Inc. for 2019

Other information consists of the information included in the Annual Report of Zoltav Resources Inc. for 2019, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Board of Directors for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee of Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee of Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee of Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is T.L. Okolotina.

T.L. Okolotina
Partner
Ernst & Young LLC

29 September 2020

Details of the audited entity
Name: Zoltav Resources Inc.
Record made in the Registar of Companies, Cayman Islands on 18 November 2003, Registration Number 130605.
Address: PO Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands.

Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulatory organization of auditors Association "Sodruzhestvo". Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 12006020327.

Consolidated statement of comprehensive income for the year ended 31 December 2019
(in '000s of Russian rubles, unless otherwise stated)

	Note	2019	2018
Revenue from contracts with customers	5	1,218,879	1,614,809
Cost of sales	6	(1,065,441)	(1,118,827)
Gross profit		**153,438**	**495,982**
Administrative and selling expenses	7	(241,634)	(207,785)
Other income	9	26,017	39,525
Other expenses	9	(117,611)	(14,963)
Impairment of non-current assets	12,13,26	(2,801,914)	–
Operating (loss)/profit		**(2,981,704)**	**312,759**
Finance income	10	12,194	20,178
Finance costs	10	(154,553)	(177,399)
(Loss)/profit before tax		**(3,124,063)**	**155,538**
Income tax benefit/(expense)	11	242,455	(65,409)
(Loss)/profit for the year attributable to owners of the parent being total comprehensive income		**(2,881,608)**	**90,129**
		RUB	**RUB**
(Loss)/earnings per share attributable to owners of the parent			
Basic	20	(20.30)	0.63
Diluted	20	(20.30)	0.63

Tigran Tagvorgan
Chief Executive Officer

29 September 2020

The accompanying notes on pages 24-56 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2019
(in '000s of Russian rubles, unless otherwise stated)

	Note	As at 31 December 2019	As at 31 December 2018
ASSETS			
Non-current assets			
Exploration and evaluation assets	12	3,510,216	3,477,513
Property, plant and equipment	13	1,110,275	3,666,836
Right-of-use assets	26	15,043	–
Total non-current assets		**4,635,534**	**7,144,349**
Current assets			
Inventories	14	24,556	23,469
Trade and other receivables	15	159,811	176,498
Other current non-financial assets	15	43,550	14,389
Cash and cash equivalents	16	3,629	260,636
Total current assets		**231,546**	**474,992**
TOTAL ASSETS		**4,867,080**	**7,619,341**
EQUITY AND LIABILITIES			
Share capital	17	970,218	970,218
Share premium		5,498,009	5,498,009
Other reserves		1,343,566	1,343,566
Accumulated losses		(5,331,861)	(2,450,253)
Total equity		**2,479,932**	**5,361,540**
Non-current liabilities			
Borrowings	22	–	692,498
Decommission provision	23	591,558	390,428
Other payables	25	73,841	68,081
Lease liabilities	26	21,634	–
Deferred tax liabilities	24	63,297	316,329
Total non-current liabilities		**750,330**	**1,467,336**
Current liabilities			
Trade and other payables	25	262,849	97,405
Contract liabilities		4,431	7,274
Other taxes payables	19	79,467	96,281
Borrowings	22	1,256,457	570,400
Lease liabilities	26	**4,081**	**–**
Income tax payable		**29,533**	**19,105**
TOTAL CURRENT LIABILITIES		**1,636,818**	**790,465**
TOTAL LIABILITIES		**2,387,148**	**2,257,801**
TOTAL EQUITY AND LIABILITIES		**4,867,080**	**7,619,341**

The accompanying notes on pages 24-56 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019
(in '000s of Russian rubles, unless otherwise stated)

	Note	2019	2018
Cash flows from operating activities			
(Loss)/profit before tax		**(3,124,063)**	**155,538**
Adjustments for:			
Depreciation and depletion	12,13	429,279	445,263
Impairment of non-current assets	12,13,26	2,801,914	–
Finance costs	10	154,553	177,399
Finance income	10	(12,194)	(20,178)
Loss on disposal of property, plant and equipment, net of income from sale of property, plant and equipment	9	38,005	(3,465)
Expected credit loss	9	101	4,010
Change in the estimates of decommissioning and environmental restoration provision	10	67,254	(25,964)
Other income and expenses		(790)	(2,073)
Operating cash inflows before working capital changes		**354,059**	**730,530**
Change in inventories		3,339	(410)
Change in trade and other receivables and other current non-financial assets		(14,726)	(29,429)
Change in trade and other payables and contract liabilities		46,741	28,540
Change in other taxes payable		(16,814)	6,900
Net cash flows from operating activities before income tax and interests		**372,599**	**736,131**
Interest received		14,345	18,684
Interest paid	22,26	(110,536)	(140,835)
Income tax paid		(149)	(811)
Net cash flows from operating activities		**276,259**	**613,169**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,442	7,927
Capital expenditure on exploration and evaluation activities		(225,439)	(224,669)
Purchase of property, plant and equipment		(295,784)	(121,619)
Net cash used in investing activities		**(519,781)**	**(338,361)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities	26	(3,309)	–
Repayment of obligations under finance leases		–	(1,892)
Proceeds from borrowings	22	1,320,000	–
Repayment of borrowings	22	(1,329,548)	(300,000)
Net cash flows used in financing activities		**(12,857)**	**(301,892)**
Net change in cash and cash equivalents		**(256,379)**	**(27,084)**
Net foreign exchange difference		(628)	966
Cash and cash equivalents at the beginning of the year		260,636	286,754
Cash and cash equivalents at the end of the year	16	**3,629**	**260,636**

The accompanying notes on pages 24-56 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019
(in '000s of Russian rubles, unless otherwise stated)

		Attributable to owners of the Parent					
	Note	Share capital	Share premium	Other reserve	Employee share-based compensation reserve	Accumulated losses	Total equity
At 1 January 2018		**970,218**	**5,498,009**	**1,343,566**	**22,606**	**(2,562,988)**	**5,271,411**
Employee share-based compensation	21	–	–	–	(22,606)	22,606	–
Transactions with owners		–	–	–	**(22,606)**	**22,606**	–
Profit for the year		–	–	–	–	90,129	**90,129**
Total comprehensive income		–	–	–	–	**90,129**	**90,129**
At 31 December 2018		**970,218**	**5,498,009**	**1,343,566**	–	**(2,450,253)**	**5,361,540**
At 1 January 2019		**970,218**	**5,498,009**	**1,343,566**	–	**(2,450,253)**	**5,361,540**
Loss for the year		–	–	–	–	(2,881,608)	**(2,881,608)**
Total comprehensive loss		–	–	–	–	**(2,881,608)**	**(2,881,608)**
At 31 December 2019		**970,218**	**5,498,009**	**1,343,566**	–	**(5,331,861)**	**2,479,932**

The accompanying notes on pages 24-56 are an integral part of these consolidated financial statements.

1. Background

1.1 The Company and its operations

Zoltav Group (the Group) comprises Zoltav Resources Inc. (the Company), together with its subsidiaries:

Name	Place of incorporation	Function	Share of the Company in a subsidiary as of 31 December 2019 and 2018
CenGeo Holdings Limited (hereinafter "CenGeo Holdings")	Cyprus	Holding company	100%
CJSC SibGeCo (hereinafter "SibGe-Co")	Russia	Operating company	100%
Royal Atlantic Energy (Cyprus) Limited (hereinafter "Royal")	Cyprus	Holding company	100%
Diall Alliance LLC (hereinafter "Diall")	Russia	Operating company	100%
Zoltav Resource LLC	Russia	Management company	100%

The Company was incorporated in the Cayman Islands on 18 November 2003. The principal activities of the Company and its subsidiaries is the acquisition, exploration, development and production of hydrocarbons in the Russian Federation. The Company's shares are listed on the Alternative Investment Market of the London Stock Exchange.

1.2 Russian business environment

The Group's operations are primarily located in the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. This resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

The effect of COVID-19 is described in Note 31.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Going concern

As of 31 December 2019 the Group's current liabilities exceed its current assets by 1,405,272. The Group incurred a net loss in the amount of 2,881,608 in 2019. The main factor that negatively affected the Group's financial performance in 2019 was the impairment of non-current assets (see Note 13). The net working capital deficit was mainly caused by the fact that the Group breached a covenant, stipulated in the loan agreement (see Note 22). In accordance with a loan agreement terms, in case of a covenant breach the bank can demand for a settlement of a full amount due ahead of schedule, stated in the loan agreement. This circumstance constitutes a significant liquidity risk for the Group which causes a material uncertainty and casts significant doubt on the Group's ability to continue as a going concern, and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In assessing whether the going concern basis for preparing the financial statements is still appropriate given the above circumstances, the management has considered the following factors:

- As of the date of these consolidated financial statements issue the bank has not demanded settlement of a full amount due ahead of schedule. The Group expects that no ahead of schedule settlement will take place and all loan repayments will be made in accordance with the loan agreement schedule. The management of the Group is in the constant contact with the bank, providing it with all necessary explanations and supporting documentation;
- As described in Note 31, during 2020 the Group received a loan amounted USD 9 million. The loan is due on 31 December 2020, the Group plans to extend the term at least up to 31 December 2021. The Group considers the possibility of amendment is high;
- The Group generated net cash inflow from operating activities in 2019 and budgeted net cash inflow from operating activities for 2020.

Considering the above factors and plans of the Group, management believes that a going concern basis for preparing these consolidated financial statements is appropriate.

2.3 Disclosure of impact of new and future accounting standards

Adoption of new and amended standards

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied previously, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New/revised standards and Interpretations adopted as of 1 January 2019	Effective for annual periods beginning on or after
IFRS 16 *Leases*	1 January 2019
Amendments to IFRS 9: *Prepayment Features with Negative Compensation*	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*	1 January 2019
Annual improvements to IFRSs 2015-2017 cycle	1 January 2019

Except for IFRS 16, new standards and amendments applied for the first time in 2019 did not have a material impact on the consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases − Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees − leases of 'lowvalue' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee recognises a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees is required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees is also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee generally recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group adopted IFRS 16 using the modified retrospective approach. Under this approach the comparatives are not be restated. Lease liabilities and right of-use assets were recognised at the date of transition to IFRS 16. Modified retrospective approach assumes recognition of lease liability discounted using incremental borrowing rate at the date of transition. The Group elected to measure right-of-use assets on lease-by-lease basis at an amount equalled to liability (adjusted for accruals and prepayments).

The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group therefore does not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	As at 1 January 2019
Assets	
Property, plant and equipment (right-of-use assets)	13,576
Liabilities	
Lease liabilities (non-current)	12,554
Lease liabilities (current)	1,022

The Group has lease contracts for various items of buildings, land, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.20 Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group elected to use the exemptions proposed by the standard:

- On lease contracts for which the lease terms ends within 12 months as of the date of initial application;
- On lease contracts for which the underlying asset is of low value;
- On initial application initial direct costs will be excluded from the measurement of the right-of-use asset;
- For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	As at 1 January 2019
Operating lease commitments as at 31 December 2018	**48,346**
Effect of discounting at the incremental borrowing rate on the date of first adoption	(24,641)
Discounted operating lease commitments as at 1 January 2019	23,705
Less:	
Commitments relating to leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources	(16,282)
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	6,154
Lease liabilities as at 1 January 2019	**13,576**

Weighted average incremental borrowing rate as at 1 January 2019 − 9.90%.

New accounting pronouncements

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Standards issued but not yet effective in the European Union	Effective for annual periods beginning on or after
IFRS 17 *Insurance Contracts* (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)*	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date*	1 January 2023
Amendments to • IFRS 3 Business Combinations*; • IAS 16 Property, Plant and Equipment*; • IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, • Annual Improvements 2018-2020*	1 January 2022
Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19*	1 January 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2*	1 January 2021
Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions*	1 June 2020
Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020
*Subject to EU Endorsement	

These new and amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities and components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.5 Acquisitions, asset purchases and disposals

Transactions involving the purchases of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involved the transfer of the field interests directly or the transfer of an incorporated entity. Accordingly, no goodwill or deferred tax gross up arises. The purchase consideration is allocated to the assets and liabilities purchased on an appropriate basis. Proceeds from the disposal are applied to the carrying amount of the specific intangible asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in the statement of comprehensive income.

2.6 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.7 Segment reporting

Segment reporting follows the Group's internal reporting structure.

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

The CODM receives monthly IFRS-based financial information for the Group and its development and operating entities. The Group has other entities that engage as either head office or in a corporate capacity, or as holding companies. Management has concluded that, due to the application of aggregation criteria, separate financial information for segments is not required. No geographic segmental information is presented, as all of the companies' operating activities are based in the Russian Federation.

Management has therefore determined that the operations of the Group comprise one operating segment and the Group operates in only one geographic area − the Russian Federation.

2.8 Foreign currency translation

a) Functional and presentation currency

The functional currency of the Group entities is the Russian ruble ("RUB"), the currency of the primary economic environment in which the Group operates.

The presentation currency is RUB, which the Board considers more representative for users of these consolidated financial statements to better assess the performance of the Group.

b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.
Differences arising on the settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

c) Group companies

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of foreign operation and translated at the spot rate of exchange at the reporting date.

The period-end exchange rates and the average exchange rates for the respective reporting periods are indicated below.

	2019	2018
RUB/USD as at 31 December	61.9057	69.4706
RUB/USD average for the year ended 31 December	64.7362	62.7078

2.9 Exploration and evaluation assets

The Company and its subsidiaries apply the successful efforts method of accounting for Exploration and Evaluation ("E&E") costs, in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Costs are accumulated on a field-by-field basis.

a) Drilling, seismic and other costs

Costs directly associated with an exploration well, including certain geological and geophysical costs, and exploration and property leasehold acquisition costs, are capitalised until the reserves are evaluated. If it is determined that a commercial discovery has not been achieved, these costs are charged to expense after the conclusion of appraisal activities. Exploration costs such as geological and geophysical that are not directly related to an exploration well are expensed as incurred.

Capital expenditure is recognised as property, plant and equipment or intangible assets in the financial statements in accordance with the nature of the expenditure and the stage of development of the associated field, i.e. exploration, development, or production. Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development property, plant and equipment or intangible assets. No depreciation or amortisation is charged during the exploration and evaluation phase.

b) Sub-soil licences

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in profit or loss. Costs incurred on the acquisition of a licence interest are initially capitalised on a licence by licence basis and are capitalised within exploration and evaluation assets and held un-depleted until the exploration phase of the licence is complete or commercial reserves have been discovered at which time the costs are transferred to development assets as part of property, plant and equipment − oil and gas assets.

2.10 Property, plant and equipment

i) Property, plant and equipment – oil and gas assets

Oil and gas assets are stated at cost less accumulated depletion or accumulated depreciation and, where relevant, impairment costs.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms and pipelines, as well as on the drilling of development wells into commercially proved reserves, is capitalised within property, plant and equipment. When development is completed on a specific field, it is transferred to producing assets within property, plant and equipment. No depreciation or amortisation is charged during the development phase.

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 into production, together with E&E expenditures incurred in finding commercial reserves and transferred from intangible E&E assets as described above. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, any costs directly attributable to bringing the asset into operation, and the cost of recognising provisions for future restoration and decommissioning, if any.

Major facilities may be capitalised separately if they relate to more than one field or to the licence area as a whole. Subsequent expenditure is capitalised only if it either enhances the economic benefits of the development/production asset or replaces part of the existing development/ production asset. Any costs remaining associated with the part replaced are expensed. Directly attributed overheads are capitalised where they relate to specific exploration and development activities.

ii) Depletion

Oil and gas properties in production, including wells and directly related pipeline costs, are depreciated using the unit-of-production method. Sub-soil licences and other licences capitalised as part of oil and gas properties in production are amortised also using the unit-of-production method. Unit-of-production rates are based on proved reserves of the field concerned, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date.

iii) Depreciation

Major oil and gas facilities that have a shorter useful life than the lifetime of the related fields are depreciated on a straight-line basis over the expected useful life of the facility. Depreciation of items of such assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Buildings and constructions	15-30 years;
Machinery and equipment	5 years.

The asset's residual values and useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period.

iv) Property, plant and equipment – other business and corporate assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and to the location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The gain or loss arising from a retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognised in the income statement.

Depreciation is provided on buildings and facilities, motor vehicles, office equipment and furniture at rates calculated to write off the cost, less estimated residual value, evenly over the asset's expected useful life.

For depreciation purposes, useful lives are estimated as follows:

Other equipment and furniture	5 years;
Motor vehicles	5 years.

2.11 Impairment of non-current assets

i) Impairment indicators

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

ii) Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

iii) Cash generating units

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

For the purposes of assessing impairment, exploration and evaluation assets subject to testing are grouped with existing cash generating units of production fields that are located in the same geographical region. For development and production assets the cash generating unit applied for impairment test purposes is generally the field. For shared infrastructure a number of field interests may be grouped together where surface infrastructure is used by several fields in order to process production for sale.

iv) Reversals of impairment

An impairment loss is reversed to the extent that the factors giving rise to the impairment charge are no longer prevalent. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, depreciation or amortisation, if no impairment loss had been recognised.

2.12 Inventories

Unsold natural gas and hydrocarbon liquids and sulphur in storage are stated at the lower of cost of production or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Materials and supplies inventories include chemicals necessary for production activities and spare parts for the maintenance of production facilities. Materials and supplies inventories are recorded at cost and are carried at amounts which do not exceed the expected recoverable amount from use in the normal course of business. Cost of inventory is determined on a weighted average basis. Cost of finished goods comprises direct materials and, where applicable, direct labour plus attributable overheads based on a normal level of activity and other costs associated in bringing inventories to their present location and condition, but excludes borrowing costs.

2.13 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Group classifies all of its financial assets based on the business model for managing the assets and the assets contractual terms, measured at either: amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost

This category is the only relevant to the Group as of 31 December 2019. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, cash and cash equivalents.

Impairment of financial assets

At each balance sheet date, the Group recognises a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost. The loss allowance for financial asset at amortised cost is recognised in profit or loss in correspondence with a balance sheet account reducing the carrying amount of the financial asset.

Expected credit losses for cash in banks are determined based on banks' credit rating and relevant probability of default. For receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the only category relevant to the Group as of 31 December 2019. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

A provision for decommissioning is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding item of property, plant and equipment is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure attributable to changes in the estimates of the cash flow or the current estimate of the discount rate used are reflected as an adjustment to the provision and the property, plant and equipment. The unwinding of the discount is recognised as a finance cost.

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be insignificant.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.15 Share capital, share premium and capital reserves

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from the share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction. Any discount on the issue of ordinary shares is deducted from the share premium account.

The share premium is recognised on the difference between the par value of a share and its selling price.

The capital reserve brought forward arose on the disposal of all the subsidiaries to its former holding company (Crosby Capital Limited), reverse acquisition of Crosby Capital Limited and on a group reorganization during the years ended 31 December 2010, 31 December 2004 and 31 December 2000 respectively.

2.16 Revenue recognition

The Group is in the business of exploration and sale of natural gas and oil products. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

i) Sale of goods

Revenue from the sale of gas and oil condensate is recognised at the point in time when control of the asset is transferred to the customer. The normal credit term is 30 days.

ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

iii) Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.17 Mineral extraction tax (MET)

In the Russian Federation MET is payable on the extraction of hydrocarbons, including natural gas, crude oil and condensate, and is levied based on quantities of natural resources extracted multiplied by the applicable MET rate for the product and field in question. MET is a production based tax (as opposed to income) and is accrued as a tax on production and recorded within cost of sales.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

Retirement benefit schemes

No pension contributions were payable in the year. The Group participated only in defined contribution pension schemes and paid contributions to independently administered funds on a mandatory or contractual basis. The assets of these schemes are held separately from those of the Group in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant company. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense on an accrual basis.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans to remunerate its Directors and key management.

All services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the fair value of the share options and warrants awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in the statement of comprehensive income unless it qualifies for recognition as an asset, with a corresponding credit to the employee share-based compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than vested.

Upon exercise of share options or warrants the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital and the amount previously recognised in the employee share-based compensation reserve will be transferred out with any excess being recorded as share premium.

When the share options or warrants have vested and then lapsed, the amount previously recognised in the employee share-based compensation reserve is transferred to retained earnings or accumulated losses.

Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Social obligations

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave, sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

Valuations of share options or warrants granted

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the share option or appreciation right, volatility and dividend yield, and making assumptions about them. The fair value of share options or warrants granted was calculated using the Black-Scholes Pricing Model, which requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the Directors of the Group the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in Note 21 to the financial statements.

2.20 Leases (Policy applicable before 1 January 2019)

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2.21 Leases (Policy applicable as of 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for shortterm leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings	3 to 10 years;
Motor vehicles	3 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and buildings (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

3. Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

3.1 Income taxes

The Group is subject to income and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of tax legislation of the Russian Federation. The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, as well as official pronouncements and court decisions which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Deferred tax assets are recognised to the extent that it is probable for each subsidiary to generate enough taxable profits to utilise deferred income tax recognised. Significant management judgement is required to determine the amount of deferred tax assets recognised, based upon the likely timing and the level of future taxable profits. Management prepares cash-flow forecasts to support the recoverability of deferred tax assets. Cash flow models are based on a number of assumptions relating to oil prices, operating expenses, production volumes, etc. These assumptions are consistent with those used by independent reserve engineers. Management also takes into account uncertainties related to future activities of the subsidiaries and going concern considerations. When significant uncertainties exist, deferred tax losses are not recognised even if the recoverability of these is supported by cash flow forecasts.

3.2 Provision for decommissioning and environmental restoration

This provision is significantly affected by changes in technology, laws and regulations which may affect the actual cost of decommissioning and environmental restoration to be incurred at a future date. The estimate is also impacted by the discount rates used in the provisioning calculations. The discount rates used are the Russian government bond rates.

Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts which are already accrued and which would have a material adverse effect on the financial position of the Group.

The Group's exploration, development and production activities involve the use of wells, related equipment and operating sites. Generally, licences and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Group is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Group's estimates of these obligations are based on current regulatory or licence requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects risk free rate. The Group adjusts specific cash flows for a risk.

3.3 Impairment of assets

Exploration and evaluation

An impairment exercise will be performed at the end of the exploration and evaluation process.

When, at the end of the exploration and evaluation stage, commercial reserves are determined to exist in respect of a particular field, the Group performs an impairment test in relation to costs capitalised. Where reserves are determined in sufficient quantity to justify development, the associated assets are transferred to property, plant and equipment.

If no potentially commercial hydrocarbons are discovered, the exploration asset is written off through the statement of profit or loss and other comprehensive income as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an exploration and evaluation asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons. Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as an exploration and evaluation asset.

Development and production

When the fields enter the production phase, the recoverable amounts of cash-generating units and individual assets will be determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations will require the use of estimates and assumptions. It is reasonably possible that the market oil price (and related natural gas price) assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of non current assets.

The Group monitors internal and external indicators of impairment relating to its tangible and exploration and evaluation assets. The Group identified impairment indicators for one of its cash generating unit as of 31 December 2019 (see Note 13).

3.4 Evaluation of reserves and resources

Estimates of proved reserves are used in determining the depletion and amortization charge for the period and assessing whether any impairment charge or reversal of impairment is required for development and producing assets. As of 31 December 2019 and 2018 proved reserves were estimated by reference to an independent international oil and gas engineering firm report dated 22 May 2014, by reference to available geological and engineering data, and only include volumes of extraction for which access to market is assured with reasonable certainty.

When the fields enter the development and production phase, estimates of reserves are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information such as results of the drilling of additional wells and changes in economic factors, including product prices, contract terms or development plans. Changes to the Group's estimates of proved reserves affect prospectively the amounts of the depletion and amortization charge, decommissioning assets and provisions where changes in reserve estimates cause the estimated useful lives of assets to be revised.

Depletion is provided for based on the production profile on a field by field basis, which may exceed the existing licence period. Licence extensions are generally awarded by the licence authorities in Russia as a matter of course, provided that production plans demonstrate that additional time is required to economically produce at the field and that the development and production requirements of the initial licence grant have been met.

3.5 Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

4. Determination of fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Other receivables

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of the non-derivative financial assets is disclosed below.

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy of assets and liabilities of the Group not measured at fair value are as follows:

	31 December 2019		31 December 2018	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets				
Trade and other receivables	159,811	159,811	176,498	176,498
Total assets	**159,811**	**159,811**	**176,498**	**176,498**
Financial liabilities				
Borrowings	1,243,576	1,256,457	1,270,477	1,262,898
Trade and other payables	262,849	262,849	97,405	97,405
Other non-current payables	73,745	73,841	68,679	68,081
Total liabilities	**1,580,170**	**1,593,147**	**1,436,561**	**1,428,384**

The fair value of borrowings and other non-current payables is based on cash flows discounted using a market rate of 8.33% (2018: 9.33%). The fair values of borrowings and other non-current payables are within level 2 of the fair value hierarchy. The fair value of trade and other receivables is within level 3 hierarchy.

5. Revenue from contracts with customers

The Group's operations comprise one class of business being oil and gas exploration, development and production and all revenues are from one geographic region, the Saratov Region in the Russian Federation. Companies incorporated outside of Russia provide support to the operations in Russia.

Revenue from contracts with customers comprises sale of the following products:

	2019	2018
Gas sales	981,640	1,287,680
Condensate sales	91,880	160,976
Oil sales	137,003	156,426
Sulphur sales	8,356	9,727
Total revenue from contracts with customers	**1,218,879**	**1,614,809**

All gas sales are made to one customer, Gazprom Mezhregiongaz Saratov LLC, under a long-term contract effective until 31 December 2020 with terms reviewed annually. Condensate and oil are sold to local buyers. The sales of all products are denominated in RUB.

6. Cost of sales

	2019	2018
Depreciation and depletion	418,819	438,213
Mineral extraction tax	285,419	342,676
Wages and salaries	100,908	111,877
Materials and supplies	80,897	61,890
Other taxes and charges	54,519	61,536
Repair and maintenance	39,690	37,009
Compensation benefits to operating personnel	28,235	16,539
Other	56,954	49,087
Total cost of sales	**1,065,441**	**1,118,827**

7. Administrative and selling expenses

	2019	2018
Wages and salaries including director's fee	158,244	137,515
Accountancy, legal and consulting services	22,928	34,185
Depreciation	10,460	7,050
Audit services	10,923	6,142
Rent expense	1,155	4,991
Travelling	3,784	3,058
Insurance	2,870	2,206
Office expenses	1,515	1,030
Field development costs	9,989	619
Computers and software	2,273	579
Other	17,493	10,410
Total administrative, selling expense	**241,634**	**207,785**

8. Salaries and other employee benefits

	2019	2018
Salaries and other employee benefits	287,387	265,931
Total	**287,387**	**265,931**

Salaries and other employee benefits are included in other cost of sales and operating, administrative and selling expenses.

Average monthly number of employees for the year (including executive directors):

	2019 Employees	2018 Employees
Administrative	67	55
Operating	174	177
Total	**241**	**232**

9. Other income and expenses

	2019	2018
Change in decommissioning and environmental restoration provision	–	25,964
Net income from sale of property, plant and equipment	1,371	4,917
Net foreign exchange difference	548	–
Income from services	23,936	3,783
Write-off of accounts payables and other current liabilities	–	3,342
Other	162	1,519
Other income	**26,017**	**39,525**
Change in decommissioning and environmental restoration provision	(67,254)	–
Write-off of accounts receivable and other current assets, ELC accrual	(101)	(5,616)
Charitable contributions	(2,660)	(2,417)
Penalties accrued	(6,009)	(2,412)
Loss on disposal of property, plant and equipment	(39,376)	(1,452)
Bank charges	(77)	(899)
Net foreign exchange difference	–	(409)
Other	(2,134)	(1,758)
Other expenses	**(117,611)**	**(14,963)**

10. Finance income and finance costs

	2019	2018
Finance income		
Interest on bank deposits	12,194	20,178
Total finance income	**12,194**	**20,178**
Finance costs		
Interest on borrowings (Note 22)	(111,176)	(141,547)
Unwinding of the discount on decommissioning and environmental restoration provision (Note 23)	(35,150)	(29,841)
Unwinding of the discount on recognition non-current payables	(5,760)	(5,311)
Interest on lease liabilities (Note 26)	(2,467)	–
Other finance costs	–	(700)
Total finance costs	**(154,553)**	**(177,399)**

11. Income tax benefit/(expense)

The tax charge for the year comprises:

	2019	2018
Deferred tax benefit/(expense)	253,032	(45,493)
Current tax expense	(149)	(811)
Tax risk provisions	(10,428)	(19,105)
Total income tax benefit/(expense)	**242,455**	**(65,409)**

Reconciliation between theoretical and actual taxation charge is provided below.

	2019	2018
(Loss)/profit before income tax	**(3,124,063)**	**155,538**
Theoretical tax benefit/(charge) at applicable income tax rate of 20% (2018: 20%)	**624,813**	**(31,108)**
Effect of different foreign tax rates	(4,662)	(5,390)
Effect of unrecognised deferred tax assets	(361,195)	(5,246)
Tax effect of expenses not deductible for tax purposes	(6,073)	(4,560)
Tax risk provisions	(10,428)	(19,105)
Total income tax benefit/(expense)	**242,455**	**(65,409)**

The Group's income was subject to tax at the following tax rates:

	2019	2018
The Russian Federation	20.0%	20.0%
The Republic of Cyprus	12.5%	12.5%
Cayman Islands	0%	0%

The Group is subject to Cayman income tax, otherwise the majority of the Group's operations are located in the Russian Federation. Thus 20% tax rate is used for theoretical tax charge calculations.

12. Exploration and evaluation assets

	Sub-soil licences	Exploration and evaluation works capitalised, including seismic works	Total
Balance at 1 January 2018	**1,037,728**	**2,221,625**	**3,259,353**
Additions	–	216,252	**216,252**
Change in the estimates of decommissioning provision	–	3,138	**3,138**
Amortization	(218)	(1,012)	**(1,230)**
Balance at 31 December 2018	**1,037,510**	**2,440,003**	**3,477,513**
Additions	–	228,891	**228,891**
Transfer from property, plant and equipment	–	8,544	**8,544**
Change in the estimates of decommissioning provision	–	3,815	**3,815**
Impairment	(1,325)	(205,159)	**(206,484)**
Amortization	(218)	(1,845)	**(2,063)**
Balance at 31 December 2019	**1,035,967**	**2,474,249**	**3,510,216**

In management's opinion, as at 31 December 2019 there were no non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group.

The impairment is described in Note 13.

13. Property, plant and equipment

	Oil and gas assets	Motor vehicles	Other equipment and furniture	Construction work in progress	Total
Cost at 1 January 2018	**5,202,044**	**18,075**	**7,963**	**68,582**	**5,296,664**
Additions	86,230	3,085	2,157	31,965	**123,437**
Reclassification	28,002	–	–	(28,002)	**–**
Transfer to current assets	–	–	–	(9,849)	**(9,849)**
Change in the estimates of decommissioning provision	(5,559)	–	–	–	**(5,559)**
Disposals	(7,456)	(4,274)	(299)	(1,475)	**(13,504)**
Cost at 31 December 2018	**5,303,261**	**16,886**	**9,821**	**61,221**	**5,391,189**
Additions	13,653	3,583	2,132	390,993	410,361
Reclassification	128,660	–	–	(128,660)	**–**
Transfer to exploration and evaluation assets	–	–	–	(8,544)	**(8,544)**
Transfer to current assets	–	–	–	(4,381)	**(4,381)**
Change in the estimates of decommissioning provision	94,115	–	–	–	**94,115**
Disposals	(83,130)	(2,807)	(607)	(3,169)	**(89,713)**
Cost at 31 December 2019	**5,456,559**	**17,662**	**11,346**	**307,460**	**5,793,027**
Accumulated depreciation, depletion and impairment					
Balance at 1 January 2018	**(1,268,777)**	**(15,488)**	**(5,097)**	**–**	**(1,289,362)**
Depreciation and depletion	(440,673)	(2,775)	(585)	–	**(444,033)**
Disposals	4,537	4,231	274	–	**9,042**
Balance at 31 December 2018	**(1,704,913)**	**(14,032)**	**(5,408)**	**–**	**(1,724,353)**
Depreciation and depletion	(418,748)	(3,523)	(877)	–	**(423,148)**
Impairment	(2,420,298)	(1,920)	(2,968)	(160,331)	**(2,585,517)**
Disposals	**46,886**	**2,807**	**573**	**–**	**50,266**
Balance at 31 December 2019	**(4,497,073)**	**(16,668)**	**(8,680)**	**(160,331)**	**(4,682,752)**
Net book value at 1 January 2018	**3,933,267**	**2,587**	**2,866**	**68,582**	**4,007,302**
Net book value at 31 December 2018	**3,598,348**	**2,854**	**4,413**	**61,221**	**3,666,836**
Net book value at 31 December 2019	**959,486**	**994**	**2,666**	**147,129**	**1,110,275**

The gross carrying amount of fully depreciated property, plant and equipment that is still in use at 31 December 2019 was 266,186 (2018: 112,217).

Impairment

In 2019 the Group determined its development strategy of Bortovoy licence field. The main focus of this strategy became the exploration of the Eastern part of Bortovoy licence field, while no further development of the Western part of Bortovoy licence field is planned. This and drop in gas volumes extraction in 2019 became a trigger to analyse the Western part of Bortovoy gas field for impairment. As a result of this analysis the impairment of the Western part of Bortovoy gas field cash-generating unit (CGU) was recognised. The impairment was allocated between Exploration and evaluation assets (Note 12), Property, plant and equipment and Right-of-use assets (Note 26) of the CGU.

In assessing the impairment amount, the carrying value of the CGU is compared with its recoverable amount. The recoverable amount used in assessing the impairment charges described below is fair value less costs of disposal (FVLCD). The Company generally estimates FVLCD using the income approach, specifically the discounted cash flow ("DCF") method. Discounted cash flows of the Western part of Bortovoy licence field were built based on the long-term business plan the Group. The period: 2020-2027.

As of 31 December 2019 the recoverable amount of the Western part of Bortovoy licence field comprised 722,096. The future cash flows were discounted to their present values using a discount rate of 15.23% (pre-tax), that reflects current market assessments of the time value of money and the risks specific to the asset. Increasing discount rate on 1% would result in additional impairment charge of 18,486.

The following key assumptions were used to determine the recoverable amount of the Western part of Bortovoy licence field:

- Volumes of gas extractions for the period 2020-2027: 1,588 mln of m3;
- Inflation in the Russian Federation for the period 2021-2027: within 3.7-3.6%;
- Capital expenditure for the period 2020-2027 in nominal prices: 1,219,366.

14. Inventories

	31 December 2019	31 December 2018
Natural gas and hydrocarbon liquids	4,432	10,107
Materials and supplies	20,124	13,362
Total inventories	**24,556**	**23,469**

Materials and supplies mainly comprised of liquid feedstock and maintenance spare parts.

15. Trade and other receivables and other current non-financial assets

	31 December 2019	31 December 2018
Trade receivables, gross	161,281	175,672
Other accounts receivable, gross	939	3,222
Expected credit loss	(2,409)	(2,396)
Total trade and other receivables	**159,811**	**176,498**
Prepayments	30,329	13,065
VAT receivable	10,000	782
Other taxes prepaid	3,221	542
Total other current non-financial assets	**43,550**	**14,389**

Trade and other receivables are non-interest bearing and are generally on settlement terms of 3045 days. In 2019, 13 (2018: 1,480) was recognised as provision for expected credit losses on trade and other receivables.

Prepayments are advance payments for services to be rendered within the next twelve months.

Current VAT receivable is expected to be recovered within the next twelve months.

Set out below is the movement in the allowance for expected credit losses of trade and other receivables:

	2019	2018
The opening balance in the provision for expected credit losses on 1 January under IFRS 9	**(2,396)**	**(916)**
Charge for the period	(13)	(1,480)
As at 31 December	**(2,409)**	**(2,396)**

The information about the credit exposures are disclosed in Note 27.

16. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and the majority of cash held is denominated in RUB.

The Group's exposure to credit risk and impairment losses related to cash and cash equivalents are disclosed in Note 27.

17. Share capital

At 31 December 2019 and 2018	Number of ordinary shares, pieces	Nominal value, USD'000	Nominal value, RUB'000
Authorised (par value of USD 0.20 each)	250,000,000	50,000	1,708,672
Issued and fully paid (par value of USD 0.20 each)	141,955,386	28,391	970,218

18. Dividends

In accordance with the relevant legislation applicable to the Group, the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards. No dividends were declared or paid in 2019 and 2018.

19. Other taxes payable

	31 December 2019	31 December 2018
VAT	25,239	53,296
Mineral extraction tax	34,150	21,271
Property tax	7,364	8,598
Other taxes	12,714	13,116
Total	**79,467**	**96,281**

20. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 December 2018 share options have an antidilutive effect on the loss per share. As of 31 December 2018 all share options have expired and do not have any effect on the loss per share as of 31 December 2019.

	2019	2018
Profit/(loss) attributable to owners of the Company − basic and diluted	(2,881,608)	90,129

	Number of shares	Number of shares
Weighted average number of shares for calculating basic earnings per share	141,955,386	141,955,386
Antidilutive potential ordinary shares − share options	−	6,103
Weighted average number of shares for calculating diluted earnings per share	141,955,386	141,961,489

	RUB	RUB
Basic (loss)/earnings per share	(20.30)	0.63
Diluted earnings/(loss) per share	(20.30)	0.63

21. Share-based payments

21.1 Share options

All share options expired as of 31 December 2018.

21.2 Initial share options

The Company adopted an employee Share Option Scheme on 4 March 2005 (the "Share Option Scheme") in order to incentivise key management and staff at that time. The following share options were granted to former employees and directors of the Company under the Initial Share Option Scheme adopted on 4 March 2005 ("Initial Share Options") and are still in existence:

	2019		2018	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at 1 January	–	–	202,500	445
Expired	–	–	202,500	445
Outstanding at 31 December	**–**	**–**	**–**	**–**

Share options granted under the Initial Share Option Scheme were exercisable as follows:

- The first 30% of the options between the first and tenth anniversary of the grant date;
- The next 30% of the options between the second and tenth anniversary of the grant date; and
- The remaining options between the third and tenth anniversary of the grant date.

Equity-settled share-based payments are measured at fair value (excluding the effect of nonmarket-based vesting conditions) as determined through use of the binomial option pricing model, at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

The binomial option pricing model is applied to the granting of share options in respect of calculating the fair values. Key inputs to the model are as follows:

	Share options			
	11 January 2005	23 March 2006	23 February 2007	11 January 2008
Share price at grant	20.75p	93.25p	36.25p	22.25p
Option exercise price	21.15p	95.20p	32.65p	22.25p
Expected life of option	10 years	10 years	10 years	10 years
Expected volatility	60-65%	60-65%	60-65%	60-65%
Expected dividend yield	5.0%	5.0%	5.0%	5.0%

Volatility has been based on the historical trading performance of the Company and comparable companies. The risk-free rate has been determined based on 10-year government bonds.

22. Borrowings

	2019	2018
Non-revolving credit facility with Sberbank PJSC – liability, as at 1 January	**1,262,898**	**1,562,186**
Including current liability	570,400	309,172
Interest accrued	40,352	141,547
Interest paid	(45,702)	(140,835)
Repayment	(1,257,548)	(300,000)
Non-revolving credit facility with Sberbank PJSC – as at 31 December	**–**	**1,262,898**
Including current liability	–	570,400

In 2014, the Group entered into non-revolving credit facility agreement with Sberbank of Russia PJSC with a maximum facility amount of 2,400,000. The contractual currency is RUB. The facility was drawn down in full in 2014. The maturity date is 30 April 2021. During 2019 the Group repaid the loan ahead of schedule.

On 13 May 2019 the Group signed a credit line agreement with Promsvyasbank PJSC. The credit line limit is 1,320,000. The purpose of the credit line was the refinancing of the loan from Sberbank PJSC and financing of current activities. The interest rate equals Russian Key rate plus 1.6%. Payment terms depend on the amount of the credit line used, and the final payment is no later than 29 April 2024.Under the agreement the Group has pledged its property, plant and equipment items amounted 600,398 to secure the loan. The agreement contains certain loan covenants. The Group was not in compliance with a few covenants as 31 December 2019 and reclassified the long-term portion of the loan amounted 960,000 to short-term.

	2019	2018
Credit facility with Promsvyazbank PJSC – liability, as at 1 January	**–**	**–**
Including current liability	–	–
Interest accrued	70,824	–
Interest paid	(62,367)	–
Proceeds	1,320,000	–
Repayment	(72,000)	–
Credit facility Promsvyazbank PJSC – liability, as at 31 December	**1,256,457**	**–**
Including current liability	1,256,457	–

23. Decommission provision

The decommissioning and environmental restoration provision represents the net present value of the estimated future obligations for abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the gas and oil fields which is estimated to be within 20 years.

	2019	2018
Provision as at 1 January	**390,428**	**386,152**
Additions	796	2,820
Unwinding of discount	35,150	29,841
Change in estimate of decommissioning and environmental restoration provision	165,184	(28,385)
Provision as at 31 December	**591,558**	**390,428**

This provision has been created based on the Group's internal estimates. Assumptions based on the current economic environment have been made which the directors believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary dismantlement works required, which will reflect market conditions at the relevant time. Furthermore, the timing is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil prices and future operating costs, which are inherently uncertain.

The provision reflects two liabilities: one is to dismantle the property, plant and equipment assets and the other is to restore the environment. The decommissioning part of the provision is reversed when an oil well is abandoned and corresponding capitalised costs are expensed. The environmental part of the provision is reversed when the expenses on restoration are actually incurred.

The provision is reversed when the corresponding capitalised costs directly attributable to an exploration and evaluation asset are expensed as it is determined that a commercial discovery has not been achieved and the restoration of the corresponding environment has been completed.

The Group reviews the application of inflation rates used for the provision estimation each half-year end. The inflation rate used in the estimation of the provision as of 31 December 2019 was 4.20% in 2020, decreasing to 4.10% in 2036 (as of 31 December 2018: 5.28% in 2018, decreasing to 3.64% in 2036). The discount rates used to determine the decommissioning and environmental restoration provision are based on Russian government bond rates. As of 31 December 2019, the discount rate varies from 6.34% to 6.52% (as of 31 December 2018: from 8.72% to 8.75%) depending on expected period of abandonment and site restoration for each gas and oil fields.

24. Deferred tax liabilities

Movements in temporary differences during the year:

	31 December 2019	Recognised in profit or loss	31 December 2018
Property, plant and equipment	184,668	184,668	–
Decommissioning provision	70,488	23,871	46,617
Other current assets and liabilities	26,408	10,884	15,524
Tax loss carry-forwards	27,948	(289,417)	317,365
Deferred tax assets	**309,532**	**(69,974)**	**379,506**
Exploration and evaluation assets	(372,829)	29,732	(402,561)
Property, plant and equipment	–	292,574	(292,574)
Borrowings	–	700	(700)
Deferred tax liabilities	**(372,829)**	**323,006**	**(695,835)**
Net deferred tax liabilities	**(63,297)**	**253,032**	**(316,329)**

	31 December 2018	Recognised in profit or loss	31 December 2017
Decommissioning provision	46,617	1,235	45,382
Other current assets and liabilities	15,524	4,089	11,435
Tax loss carry-forwards	317,365	18,187	299,178
Deferred tax assets	**379,506**	**23,511**	**355,995**
Exploration and evaluation assets	(402,561)	(46,777)	(355,784)
Property, plant and equipment	(292,574)	(22,924)	(269,650)
Borrowings	(700)	697	(1,397)
Deferred tax liabilities	**(695,835)**	**(69,004)**	**(626,831)**
Net deferred tax liabilities	**(316,329)**	**(45,493)**	**(270,836)**

Deferred income tax assets are not fully recognised for impairment of exploration and evaluation assets and tax losses to the extent that the utilisation of the related tax benefit through future taxable profits is not probable. The Group has not recognised deferred income tax assets of 962,228 (2018: 601,033). The Group has tax losses that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets for deductible temporary differences arising from investments in subsidiaries are not recognised by the Group, as it is not probable that the temporary difference will reverse in the foreseeable future, since the Group has no intention of selling its subsidiaries. The Group has not recognised deferred tax assets of 517,024 (2018: 458,937).

Management assessed that recognised deferred tax assets will be fully offset against future taxable profits in 2020-2026.

25. Trade and other payables

	31 December 2019	31 December 2018
Current trade payables	217,133	46,850
Payables to employees	30,920	40,173
Accrued expenses	14,796	10,382
Total current payables	**262,849**	**97,405**
Non-current other payables	73,841	68,081
Total non-current payables	**73,841**	**68,081**

26. Leases

The Group has lease contracts for various items of buildings and motor vehicles. Leases of buildings generally have lease terms between 3 and 10 years, while motor vehicles generally have lease terms between 3 and 5 years.

The Group also has certain leases of machinery and buildings with lease terms of 12 months or less and equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Buildings	Motor vehicles	Other	Total
Cost at 1 January 2019	**13,576**	**–**	**–**	**13,576**
Additions	9,900	822	4,726	**15,448**
Cost at 31 December 2019	**23,476**	**822**	**4,726**	**29,024**
Accumulated depreciation, depletion and impairment balance at 1 January 2019	–	–	–	**–**
Depreciation	(3,187)	(14)	(867)	**(4,068)**
Impairment	(9,913)	–	–	**(9,913)**
Accumulated depreciation, depletion and impairment balance at 31 December 2019	(13,100)	(14)	(867)	**(13,981)**
Net book value at 1 January 2019	13,576	–	–	**–**
Net book value at 31 December 2019	**10,376**	**808**	**3,859**	**15,043**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019
Balance as at 1 January	**13,576**
Additions	15,448
Interest expense	2,467
Payments	(5,776)
Balance as at 31 December	**25,715**
Current	4,081
Non-current	21,634

The following are the amounts recognised in profit or loss:

	2019
Depreciation expense of right-of-use assets	4,068
Interest expense on lease liabilities	2,467
Expense relating to leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (included in cost of sales)	5,281
Expense relating to leases of low-value or short-term assets (included in administrative and selling expenses)	1,155
Total amount recognised in profit or loss	**12,971**

27. Changes in liabilities arising from financing activities

	Current interest-bearing borrowings	Current lease liabilities	Non-current interest-bearing borrowings	Non-current lease liabilities
As of 1 January 2019	**570,400**	**1,022**	**692,498**	**12,554**
Cash changes				
Proceeds from borrowings	1,320,000	–	–	–
Repayment of borrowings	(1,329,548)	–	–	–
Payment of principal portion of lease liabilities	–	(3,309)	–	–
Interest paid	(108,069)	(2 467)	–	–
Total cash changes	**(117,617)**	**(5,776)**	**–**	**–**
Non-cash changes				
Finance costs	111,176	2,467	–	–
New leases	–	2,783	–	12,665
Reclass from non-current to current	692,498	3,585	(692,498)	(3,585)
Total	**803,674**	**8,835**	**(692,498)**	**9,080**
As of 31 December 2019	**1,256,457**	**4,081**	**–**	**21,634**

	Current interest-bearing borrowings	Current finance lease liability	Non-current interest-bearing borrowings	Non-current finance lease liability
As of 1 January 2018	**309,172**	**1,666**	**1,253,014**	**–**
Cash changes				
Proceeds from borrowings	–	–	–	–
Repayment of borrowings	(300,000)	–	–	–
Repayment of obligations under finance leases	–	(1,892)	–	–
Interest paid	(140,835)	–	–	–
Total cash changes	**(440,835)**	**(1,892)**	**–**	**–**
Non-cash changes				
Finance costs	141,547	226	–	–
Reclass from non-current to current	560,516	–	(560,516)	–
Total	**702,063**	**226**	**(560,516)**	**–**
As of 31 December 2018	**570,400**	**–**	**692,498**	**–**

The Group classifies interest paid as cash flows from operating activities.

28. Financial instruments and financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Liquidity risk;
- Market risk;
- Credit risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies deal with identifying and analysing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

28.1 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities. The contractual maturities of financial liabilities are presented including estimated interest payments.

The Group's current liabilities exceed its current assets by 1,405,272 as at 31 December 2019. The implications are described in Note 2.2.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	Total	Less than 1 year	1-3 years	Over 3 years
Financial liabilities as at 31 December 2019				
Borrowings	**1,333,854**	1,333,854	–	–
Trade and other payables	**344,538**	262,849	81,689	–
Lease liabilities	**34,680**	6,382	12,603	15,695
Total	**1,713,072**	**1,603,085**	**94,292**	**15,695**

	Total	Less than 1 year	1-3 years	Over 3 years
Financial liabilities as at 31 December 2018				
Borrowings	**1,391,101**	653,980	737,121	–
Trade and other payables	**179,094**	97,405	81,689	–
Total	**1,570,195**	**751,385**	**818,810**	**–**

28.2 Market risk

Market risk includes interest risk and foreign currency exchange rate risk.

a) Interest risk

As of 31 December 2019 the Group is exposed to interest rate risk because it has a loan with a variable interest rate denominated in RUB in the amount of 1,256,457 interest rate on which is key rate of the Central Bank of Russia + 1.5%.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Increase/ decrease in basis points	Effect on loss before tax
2019	+50	(6,240)
	-50	6,240

b) Foreign currency exchange rate risk

The Group does not have any significant exposure to foreign currency risk, as no significant sales, purchases or borrowings are denominated in a currency other than the functional currency.

The Group's operations are carried in the Russian Federation, where all of its revenue, costs and financing are denominated in RUB. As a result there is no exposure at the operating subsidiaries' level to foreign currency exchange risk movements.

28.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on a credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

The Group is largely dependent on one customer (Gazprom Mezhregiongaz Saratov LLC) for a significant portion of earned revenues. Gazprom Mezhregiongaz Saratov LLC accounted for 80.5% and 79.7% of the Group's total revenue in 2019 and 2018 respectively. The loss or the insolvency of this customer for any reason, or reduced sales of the Group's principal product, could significantly reduce the Group's ongoing revenue and/or profitability, and could materially and adversely affect the Group's financial condition. The credit rating assigned to Gazprom by Standard & Poor's is BBB-. To manage credit risk and exposure to the loss of the key customer, the Group has entered into a long-term contract with Gazprom Mezhregiongaz Saratov LLC, effective till 31 December 2020. As of the date of these consolidated financial statements issue the Group is in a process of prolongation the contract for another 7 years. As for the smaller customers, the Group imposes minimum credit standards that the customers must meet before and during the sales transaction process.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The Group does not hold collateral as security.

Set out below is the information about the credit risk exposure on the Group's trade and other receivables using a provision matrix:

			Days past due		
31 December 2019	Total	Current	45-180 days	180-360 days	>360 days
Expected credit loss rate		0%	–	100%	100%
Estimated total gross carrying amount at default	**162,220**	159,811	–	13	2,396
Expected credit loss	**2,409**	–	–	13	2,396

			Days past due		
31 December 2018	Total	Current	45-180 days	180-360 days	>360 days
Expected credit loss rate		0%	–	100%	0%
Estimated total gross carrying amount at default	**178,894**	176,498	–	1,480	916
Expected credit loss	**2,396**	–	–	1,480	916

Credit risk related to cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings.

To limit exposure to credit risk on cash and cash equivalents management's policy is to hold cash and cash equivalents in reputable financial institutions with low credit risk. During 2019 cash was held mainly with Promsvyasbank PJSC, Bank Dom.RF, Alfa Bank and Sberbank. Banks are regularly evaluated by International and Russian agencies and are considered reliable banks with low credit risk (ratings at the reporting date are presented below).

To limit exposure to credit risk on cash and cash equivalents management's policy is to hold cash and cash equivalents in reputable financial institutions.

	31 December 2019	31 December 2018
Ba1.ru, Moody's	108	191,251
Ba2.ru, Moody's	89	–
ruBBB, Expert RA	–	50,000
Baa3.ru, Moody's	1,869	10,945
Ba3.ru, Moody's	1,101	49
Other	462	8,391
Total cash and cash equivalents	**3,629**	**260,636**

Capital management

The Group considers its capital and reserves attributable to equity shareholders to be the Group's capital. In managing its capital, the Group's primary long-term objective is to provide a return for its equity shareholders through capital growth. Going forward, the Group may seek additional investment funds and also maintain a gearing ratio that balances risks and returns at an acceptable level, while maintaining a sufficient funding base to enable the Group to meet its working capital needs. Details of the Group's capital are disclosed in the statement of changes in equity.

There have been no significant changes to management's objectives, policies or processes in the period, nor has there been any change in what the Group considers to be capital.

The Group companies are in compliance with externally imposed capital requirements as of 31 December 2019 and 31 December 2018.

29. Commitments and contingencies

29.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred at 31 December 2019 was 292,279, net of VAT (31 December 2018: 29,984, net of VAT).

29.2 Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Group's insurance currently includes cover for damage to or loss of assets, third-party liability coverage (including employer's liability insurance), in each case subject to excesses, exclusions and limitations. However, there can be no assurance that such insurance will be adequate to cover losses or exposure to liability, or that the Group will continue to be able to obtain insurance to cover such risks. Until the Group obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

29.3 Litigation

The Group has been involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the normal course of business. In the opinion of management there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these financial statements.

The Group's contractor has commenced an action against the Group claiming the payment of 6,085 as a result of a breach of payment terms under the agreement. The Group has assessed the risk of repayment as possible. No provision for this claim has been recognised in the financial statements.

29.4 Taxation

Russian tax, currency and customs law allows for various interpretations and is subject to frequent changes. Management's interpretation of legislation as applied to the Group's transactions and activities may be challenged by regional or federal authorities.

The Group operates in a number of foreign jurisdictions besides Russian Federation. The Group includes companies established outside the Russian Federation that are subject to taxation at rates and in accordance with the laws of jurisdictions in which the companies of the Group are recognised as tax residents. Tax liabilities of foreign companies of the Group are determined on the basis that foreign companies of the Group are not tax residents of the Russian Federation, nor do they have a permanent representative office in the Russian Federation and are therefore not subject to income tax under Russian law, except for income tax deductions at the source.

In 2019, there was further implementation of mechanisms aimed at avoiding tax evasion using low-tax jurisdictions and aggressive tax planning structures. In particular, these changes included the definition of the concept of beneficial ownership, the tax residence of legal entities at the place of actual activities, as well as the approach to taxation of controlled foreign companies in the Russian Federation. In addition, since 2019, the total VAT rate is increased to 20%.

The Russian tax authorities continue to actively cooperate with the tax authorities of foreign countries in the international exchange of tax information, which makes the activities of companies on an international scale more transparent and requires detailed study in terms of confirming the economic purpose of the organization of the international structure in the framework of tax control procedures.

These changes and recent trends in applying and interpreting certain provisions of Russian tax law indicate that the tax authorities may take a tougher stance in interpreting legislation and reviewing tax returns. The tax authorities may thus challenge transactions and accounting methods that they have never challenged before. As a result, significant taxes, penalties and fines may be accrued. It is not possible to determine the amounts of constructive claims or evaluate the probability of a negative outcome. Tax audits may cover a period of three calendar years immediately preceding the audited year. Under certain circumstances, the tax authorities may review earlier tax periods.

In addition, tax authorities have the right to charge additional tax liabilities and penalties on the basis of the rules established by transfer pricing legislation, if the price/profitability in controlled transactions differs from the market level. The list of controlled transactions mainly includes transactions concluded between related parties. Requirements for tax control of prices and preparation of transfer pricing documentation apply to cross-border transactions between related parties (without applying any threshold), individual transactions in the field of foreign trade in goods of world exchange trade and transactions with companies located in low-tax jurisdictions, as well as transactions between related parties in the domestic market in some cases.

Tax authorities may carry out a price/profitability check in controlled transactions and, in case of disagreement with the prices applied by the Group in these transactions, may additionally charge additional tax liabilities if the Group is unable to justify the market nature of pricing in these transactions by providing transfer pricing documentation (national documentation) in accordance with the requirements of the legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the impact on these consolidated financial statements if the authorities were successful in enforcing their interpretations could be significant.

29.5 Environmental matters

The Group's operations are in the upstream oil and gas industry in the Russian Federation and its activities may have an impact on the environment. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement stance of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material.

Under the current levels of enforcement of existing legislation, management believes there are no significant liabilities in addition to amounts already accrued as a part of the decommissioning provision and which would have a material adverse effect on the financial position or results of the Group.

30. Related party transactions

During the period there were no operations with related parties, except for key management remunerations. Key management comprises members of the Board of Directors.

The remuneration of key management comprised of salary and bonuses in the amount 8,613 (2018: 8,956).

31. Events after the reporting date

The coronavirus (COVID-19) pandemic in 2020 has caused financial and economic tension in the world markets, and a decrease in consumption expenditure and business activities. A drop in demand in oil, natural gas and crude products together with a higher supply of oil due to the cancellation of the OPEC+ oil production agreement have caused a fall in hydrocarbon world prices. The stock exchange, currency and commodity markets have shown significant volatility since March 2020.

Many countries as well as the Russian Federation have imposed quarantine measures. Social distancing and isolation measures have resulted in discontinued operations in retail, transport, travel and tourism, foodservice and many other areas.

The impact of the pandemic on economics in countries individually and globally has had no historical analogies ever when governments took measures to save the economies. Various forecasts of changes in the macroeconomic indicators both in the short- and long-term horizon, the extent of the impact of the pandemic on businesses including the estimation of how long the crisis and recovery from it will last, display different views.

The Group considers the influence of the events on the Group's operations as limited taking into consideration the following factors:

- systemic nature and position of the industry where the Group operates (gas extraction);
- the means and volume of use of the Group's production assets have not changed;
- absence of currency risk (the majority of the Group's revenues and expenditures as well as monetary assets and liabilities are denominated in RUB);
- absence of direct adverse effect on the main operational activities of the Group from the regulatory changes aimed at preventing the spread of COVID-19.

However, the uncertainty about the future operating environment of the Group and of its counterparties remains: another risk is a possible long nature of the pandemic, the duration and effect of which cannot be reliably estimated now.

In May 2020 the Company concluded the loan agreement with its related party, shareholder, who has significant influence over the Company, ARA CAPITAL HOLDINGS LIMITED. The amount of the interest-free loan is USD 9 million. The interest rate will be 15% in case of breach of the covenant under the agreement. Final repayment date is 31 December 2020. The Company intends to extend the final repayment date.

32. Availability of annual report and financial statements and General Meeting

Copies of the Group's annual report and consolidated financial statements will be sent to Registered Shareholders but may not be sent to holders of Depository Interests. The annual report and financial statements will be available for inspection at the Group's registered office and may also be viewed on the Group's website at: www.zoltav.com. Notice of a General Meeting will be sent to shareholders in due course.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(in '000s US dollars, unless otherwise stated)

GLOSSARY

bbl	Barrel
bbls	Barrels
bbls/d	Barrels per day
bcf	Billion cubic feet
bcm	Billion cubic metres
boepd	Barrels of oil equivalent per day
CPR	Competent Person's Report
mcf	Thousand cubic feet
mcm	Thousand cubic metres
mmboe	Million barrels of oil equivalent
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
mmcm	Million cubic metres
mmcm/d	Million cubic metres per day
mtoe	Thousand tonnes of oil equivalent
MW	Megawatt
PRMS	Petroleum Resources Management System
t	Tonnes
t/d	Tonnes per day
toepd	Tonnes of oil equivalent per day

zoltav.com

Designed by Anna Mackee | www.annamackee.com