

29 October 2020

Zoltav Resources Inc.
("Zoltav" or the "Company")

Half Year Report for the Six Months Ended 30 June 2020

Zoltav (AIM: ZOL), the Russia-focused oil and gas exploration and production company, announces results for the six months ended 30 June 2020.

Financial Summary

- Revenues declined by 12% to RUB 552 million (USD 8 million) (H1 2019: RUB 624 million (USD 9.6 million)), due mainly to lower gas production and lower oil and condensate prices
- Total cost of sales was 29% lower at RUB 380.6 million (USD 5.5 million) (H1 2019: RUB 533.9 million (USD 8.2 million))
- Operational and G&A costs decreased by 20% to RUB 106 million (USD 1.53 million) (H1 2019: RUB 133.2 million (USD 2.04 million))
- Operating profit of RUB 87.2 million (USD 1.26 million) (H1 2019: operating loss of RUB 105 million (USD 1.61 million))
- Profit before tax of RUB 18.7 million (USD 0.3 million) (H1 2019: loss before tax of RUB 172.6 million or USD 2.64 million)
- Cash generated from operating activities increased by 39% to RUB 257.5 million (USD 3.71 million) (H1 2019: RUB 185.5 million (USD 2.84 million))
- Total cash at the end of the period was RUB 31 million (USD 0.45 million) (H1 2019: RUB 330 million (USD 5.33 million))
 - Revolving loan facility of USD 9 million announced after the period-end in July 2020

Notes:

(1) Comparative figures stated above and throughout this report for H1 2019 represent the verified and updated data for that period.

(2) USD comparisons are provided in the above Financial Summary for illustrative purposes only and are calculated using the following exchange rates:

H1 2020: 1 USD = 69.3714 RUB

As at 30 June 2020: 1 USD = 69.9513 RUB

H1 2019: 1 USD = 65.3384 RUB

As at 30 June 2019: 1 USD = 63.0756 RUB

As at 31 December 2019: 1 USD = 61.9057 RUB

2019: 1 USD = 64.7362

Operational Summary

- Average net daily production (sold to customers) in H1 2020 was:
 - 24.3 mmcf/d (0.69 mmcm/d) of gas (H1 2019: 26 mmcf/d (0.74 mmcm/d))
 - 215 bbls/d (27.5 t/d) of oil and condensate (H1 2019: 207 bbls/d (26 t/d))

- Overall, in H1 2020, Zoltav produced:
 - Natural gas: 4.4 bcf (125 mmcm) of gas or 0.7 mmboe (100 mtoe) (H1 2019: 4.7 bcf (134 mmcm) or 0.8 mmboe (107 mtoe))
 - Oil and condensate: 39,216 bbls (4,996 t) (H1 2019: 37,389 bbls (4,763 t))
- Operations at the Western Gas Plant continued without any shutdowns or COVID-19 related disruption:
 - Additional safety and precautionary measures, such as additional cleaning and personal protective equipment, remain in force to reduce risk of infection
- Sidetrack development well programme on West Bortovoy fields continued during H1 2020:
 - Zhdanovskoye Well 8 – put on production in January 2020
 - Karpenskoye Well 19 – completed in February 2020 but encountered water cut and will require intervention
- A programme of two standalone vertical development wells and construction of a 7.2 km looping pipe on West Bortovoy fields was initiated in H1 2020:
 - Zhdanovskoye Well 106 – spudded in May 2020 and put on production in July 2020
 - Zhdanovskoye Well 105 – spudded in August 2020 and put on production in September 2020
 - Looping pipe construction started in June 2020 and completed in July 2020 – successfully contributing to debottlenecking of Zhdanovskoye production
- 2019/2020 development drilling programme on West Bortovoy expected to enable Zoltav to deliver sustainable gas production of at least 35.3 mmcf/d (1 mmcm/d) by the end of 2020
- Feasibility study on East Bortovoy completed in H1 2020:
 - Well operations and technical analysis were completed and the project has been successfully reviewed by an independent technical consulting firm
 - Project final investment decision is subject to financing
 - Progress continues to be made on other aspects of project development including pipeline design, procurement and tendering

Lea Verny, Independent Non-executive Chairman, commented:

“H1 2020 was a busy period operationally, completing, in tandem, both the substantial feasibility study programme on East Bortovoy and continuing the development drilling programme on West Bortovoy.

We continue to work to maximise the potential of the western fields, with the work programme expected to enable Zoltav to deliver sustainable gas production of at least 35.3 mmcf/d (1 mmcm/d) by the end of 2020. At the same time, we are considering options for the potential development of the eastern fields on the Bortovoy Licence. This project remains subject to a final investment decision.”

Enquiries:

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Market Abuse Regulation (MAR) Disclosure

Certain information contained in this announcement would have been deemed inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 until the release of this announcement.

About Zoltav

Zoltav is an oil and gas exploration and production company focused on Russia. The Company holds the Bortovoy Licence in the Saratov region of South Western Russia, a 3,215 sq km area along the northern margin of the Pre-Caspian basin, one of the largest hydrocarbon basins in the CIS. The Bortovoy Licence contains a number of productive gas fields in the west of the Licence and a processing plant. The Company is currently evaluating strategies to commercialise the eastern fields of the Bortovoy Licence. For further information on Zoltav, or to sign up for our news alert service, visit: www.zoltav.com.

Glossary

bbls	Barrels
bbls/d	Barrels per day
bcf	Billion cubic feet
km	Kilometre
mcf	Thousand cubic feet
mcm	Thousand cubic metres
mmbbls	Million barrels of oil
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
RUB	Russian Ruble
t	Tonnes
t/d	Tonnes per day
USD	United States Dollar
US \$	United States Dollar

Chairman's statement

Average production through the Western Gas Plant on the Bortovoy Licence, Saratov during H1 2020 declined 6% when compared to the same period last year, reflecting the natural declining production profile of the western fields. An ongoing development drilling programme on these fields was initiated in May 2019 and continued throughout H1 2020. This work programme is expected to enable Zoltav to deliver sustainable gas production of at least 35.3 mmcf/d (1 mmcm/d) by the end of 2020.

Western Gas Plant operations continued safely and efficiently throughout H1 2020 with no shutdowns. Additional measures to mitigate the risk of COVID-19 infection remain in force.

During H1 2020, the Company also completed a substantial feasibility study on the East Bortovoy fields, which began in 2019. Technical analysis has now also 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 continues to be made across a range of other areas of East Bortovoy project development which, in the event of a positive final investment decision in due course, is expected to improve project implementation timelines.

I commend the entire geological and operational teams on the substantial work programmes which have been undertaken across the Bortovoy Licence since 2019.

Lea Verny
Non-executive Chairman
29 October 2020

Review of operations

Production

Average production through the Western Gas Plant on the Bortovoy Licence, Saratov during H1 2020 was 4,257 boepd (581 toepd), a 6% decline when compared to the same period last year (H1 2019: 4,552 boepd (621 toepd)), reflecting the natural production decline.

Average net daily production (sold to customers) during H1 2020 was 24.3 mmcf/d (0.69 mmcm/d) of gas and 215 bbls/d (27.5 t/d) of oil and condensate (H1 2019: 26 mmcf/d (0.74 mmcm/d) of gas and 207 bbls/d (26 t/d) of oil and condensate).

Overall, in H1 2020, the Company produced:

- Natural gas: 4.4 bcf (125 mmcm) or 0.7 mmboe (100 mtoe) (H1 2019: 4.7 bcf (134 mmcm) or 0.8 mmboe (107 mtoe))
- Oil and condensate: 39,216 bbls (4,996 t) (H1 2019: 37,389 bbls (4,763 t))

The Western Gas Plant continued to operate efficiently throughout H1 2020 with no shutdowns. Operations at the plant have continued throughout the COVID-19 global pandemic without interruption. Additional measures to mitigate the risk of infection remain in force, 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 15 gas wells and one oil well working via artificial lift. A development drilling programme, initiated in May 2019, continued throughout H1 2020.

Two sidetrack wells were completed during H1 2020:

- Zhdanovskoye Well 8 was spudded in November 2019 and was 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 sidetrack wells in the 2019/20 programme on the Zhdanovskoye field were contributing around 40% of gas production and approximately two-thirds of liquid products at the end of H1 2020. The two unsuccessful sidetrack wells in the 2019/20 programme 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 continuing to test a range of squeeze treatment technologies to isolate water in these wells although it should be noted that such intervention carries a relatively low success rate.

A programme of two standalone vertical wells, together with a 7.2 km looping pipe to avoid bottlenecks, were initiated in H1 2020:

- Zhdanovskoye Well 106 was spudded in May 2020, was put on production in July 2020, and is now contributing approximately 5.3 mmcf/d (0.15 mmcm/d)
- Zhdanovskoye Well 105 was spudded in August 2020, was put on production in September 2020 and is now contributing 12.7 mmcf/d (0.36 mmcm/d)

With the impact of several successful development wells and a 7.2 km looping pipe coming into operation during or after the period, the Company expects to deliver sustainable gas production of at least 35.3 mmcf/d (1 mmcm/d) by the end of 2020.

East Bortovoy

During H1 2020, the Company completed a substantial feasibility study on the East Bortovoy fields, which began in 2019. The final field operations, including the retesting of Nepriyakhinskoye Well 1 and further well re-entries on the Pavlovskoye field to obtain geological data and confirm the technical condition of the wells, were completed in the period.

Technical analysis has now also 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 continues to be made on other aspects of project development. This includes the pipeline design to connect the East Bortovoy fields to the Western Gas Plant, for which the development documentation for the first phase has been submitted to Glavgosexpertiza, the applicable government agency for such construction projects; and the initiation of tender and procurement processes for a range of equipment and contractors.

Should the Company ultimately take a positive final investment decision, subject to financing, the progress which is being made on pre-selecting suppliers and contractors, and other aspects of project development, is expected to improve project implementation timelines.

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 October 2020

Group Reserves under PRMS as per latest report of DeGolyer and MacNaughton (May 2014):

		Proved	Probable	Proved and 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
Total	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.

Financial Review

Revenue

The Group's revenues in H1 2020 decreased by 12% to RUB 552 million, compared to RUB 624 million in H1 2019.

88.5% of revenues were derived from gas sold to Mezhhregiongaz, 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 Mezhhregiongaz 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 Mezhhregiongaz.

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 1,583/bbl (RUB 12,428/t) in H1 2020 compared to RUB 2,804/bbl (RUB 22,015/t) in H1 2019, reflecting the impact of the COVID-19 global pandemic on oil prices.

Cost of sales and G&A costs

The Group's operational and G&A costs decreased by 20% to RUB 106 million (USD 1.53 million) (H1 2019: RUB 133.2 million (USD 2.04 million)).

Total cost of sales was RUB 380.6 million (H1 2019: RUB 533.9 million). This comprised RUB 124 million of mineral extraction tax (H1 2019: RUB 133 million), RUB 71 million of depreciation and depletion of assets (H1 2019: RUB 211 million) and RUB 185 million of other cost of sales (H1 2019: RUB 189 million).

Other expenses decreased to RUB 9 million (H1 2019: RUB 71 million).

Operating profit

Zoltav achieved an operating profit for H1 2020 of RUB 87.2 million, compared to an operating loss of RUB 105 million in H1 2019. This was achieved mainly due to decreased depreciation, higher revenue from sales of electricity generated and the positive exchange rate impact.

EBITDA increased by 48% to RUB 158 million (H1 2019: RUB 107).

Finance costs of RUB 69 million (H1 2019: RUB 76 million) are mainly represented by decreased interest on the refinanced debt of RUB 1.32 billion with PromSvyazbank.

Profit before tax

Zoltav generated RUB 18.7 million of profit before tax, compared to losses before tax of RUB 172.6 million in H1 2019.

Taxation

Production based tax for the period was RUB 124 million (H1 2019: RUB 133 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 27/mcf or RUB 945/mcm (H1 2019: RUB 27/mcf or RUB 956/mcm).

The income tax charge for the period was RUB 48 million (H1 2019: RUB 12 million income tax benefit).

Net loss

Zoltav generated a significantly reduced net loss of RUB 29 million (H1 2019: RUB 160 million).

Cash

Net cash generated from operating activities was RUB 257.5.4 million (H1 2019: RUB 185.5 million).

The Bortovoy Licence operating subsidiary, Diall Alliance, successfully serviced its credit facility with Promsvyazbank and repaid a further RUB 144 million during the period. The loan facility contains a technical covenant requiring 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 H1

2020 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 31 million (H1 2019: RUB 330 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.

Tigran Tagvoryan
Chief Executive Officer
29 October 2020

Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2020

(in '000s of Russian rubles, unless otherwise stated)

	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Revenue from contracts with customers	3	552,334	624,418
Cost of sales	4	(380,621)	(533,865)
Gross profit		171,713	90,553
Administrative and selling expenses		(106,038)	(133,160)
Other income		30,768	9,398
Other expenses		(9,245)	(71,236)
Operating profit/(loss)		87,198	(104,445)
Finance income		471	7,723
Finance costs		(68,964)	(75,892)
Profit /(loss) before tax		18,705	(172,614)

Income tax expense / benefit	5	(48,136)	12,086
Total comprehensive loss for the period		(29,431)	(160,528)

		RUB	RUB
Loss per share attributable to owners of the parent			
Basic	9	(0.21)	(1.13)
Diluted	9	(0.21)	(1.13)

The accompanying notes are an integral part of these consolidated financial statements.

Tigran Tagvoryan
Chief Executive Officer
29 October 2020

Interim condensed consolidated statement of financial position as at 30 June 2020

(in '000s of Russian rubles, unless otherwise stated)

	Note	As at 30 June 2020 (unaudited)	As at 31 December 2019
Assets			
Non-current assets			
Exploration and evaluation assets	6	3,610,922	3,510,216
Property, plant and equipment	7	1,377,185	1,110,275
Right-of-use assets		13,879	15,043
Total non-current assets		5,001,986	4,635,534
Current assets			
Inventories		24,741	24,556
Trade and other receivables		92,780	159,811
Other current non-financial assets		28,880	43,550
Cash and cash equivalents	13.3	31,191	3,629
Total current assets		177,592	231,546
Total assets		5,179,578	4,867,080
Equity and liabilities			
Share capital	8	970,218	970,218
Share premium		5,498,009	5,498,009
Other reserves		1,343,566	1,343,566
Accumulated losses		(5,361,292)	(5,331,861)
Total equity		2,450,500	5,361,540
Non-current liabilities			
Decommission provision	12	640,076	591,558
Other payables		–	73,841
Lease liabilities		19,796	21,634
Deferred tax liabilities		106,884	63,297

Total non-current liabilities		766,756	750,330
Current liabilities			
Trade and other payables		417,925	262,849
Contract liabilities		2,535	4,431
Other taxes payables		116,169	79,467
Borrowings	11	1,387,154	1,256,457
Lease liabilities		4,469	4,081
Income tax payable		34,069	29,533
Total current liabilities		1,962,321	1,636,818
Total liabilities		2,729,077	2,387,148
Total equity and liabilities		5,179,577	4,867,080

The accompanying notes are an integral part of these consolidated financial statements.

Interim condensed consolidated statement of cash flows for the six months ended 30 June 2020
(in '000s of Russian rubles, unless otherwise stated)

	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Cash flows from operating activities			
Profit/(loss) before tax		18,705	(172,614)
<i>Adjustments for:</i>			
Depreciation and depletion	7	76,101	217,335
Finance costs		68,964	75,892
Finance income		(471)	(7,723)
Loss on disposal of property, plant and equipment, net of income from sale of property, plant and equipment		811	28,287
Expected credit loss		886	616
Change in the estimates of decommissioning and environmental restoration provision		5,243	38,639
Other income and expenses		(22,140)	460
Operating cash inflows before working capital changes		148,099	180,892
Change in inventories		2,352	2,918
Change in trade and other receivables and other current non-financial assets		(112,266)	71,867
Change in trade and other payables and contract liabilities		37,075	11,626
Change in other taxes payable		36,702	(37,648)
Net cash flows from operating activities before income tax and interests		111,962	229,655
Interest received		193,552	8,768

Interest paid	11	(48,013)	(52,294)
Income tax paid		(13)	(607)
Net cash flows from operating activities		257,488	185,522
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		80	193
Capital expenditure on exploration and evaluation activities		(53,749)	(114,095)
Purchase of property, plant and equipment		(324,801)	(62,493)
Net cash used in investing activities		(378,470)	(176,395)
Cash flows from financing activities			
Payment of principal portion of lease liabilities		(2,112)	(1,399)
Proceeds from borrowings	11	327,839	1,320,000
Repayment of borrowings	11	(196,000)	(1,257,548)
Net cash flows used in financing activities		(129,727)	61,053
Net change in cash and cash equivalents		8,745	70,180
Net foreign exchange difference		18,817	(603)
Cash and cash equivalents at the beginning of the year		3,629	260,636
Cash and cash equivalents at the end of the year		31,191	330,213

The accompanying notes are an integral part of these consolidated financial statements.

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2020
(in '000s of Russian rubles, unless otherwise stated)

	Note	Share capital	Share premium	Other reserve	Accumulat ed losses	Total equity
At 1 January 2019		970,218	5,498,009	1,343,566	(2,562,988)	5,271,411
Loss for the period		-	-	-	(160,528)	(160,528)
Total comprehensive loss		-	-	-	(160,528)	(160,528)
At 30 June 2019 (unaudited)		970,218	5,498,009	1,343,566	(2,610,781)	5,201,012
At 1 January 2020		970,218	5,498,009	1,343,566	(5,331,861)	2,479,932
Loss for the period		-	-	-	(29,431)	(29,431)
Total comprehensive loss		-	-	-	(29,431)	(29,431)
At 30 June 2020 (unaudited)		970,218	5,498,009	1,343,566	(5,361,292)	2,450,501

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the interim condensed consolidated financial statements

(in '000s of Russian rubles, unless otherwise stated)

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 "SibGeCo")	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 16.

2. Significant accounting policies

2.1 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, as adopted by the European Union. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019, which were prepared in accordance with International Financial Reporting Standards, as adopted by the European Union.

Operating results for the six-month period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the year ending 31 December 2020.

2.2 Going concern

As of 30 June 2020 the Group’s current liabilities exceed its current assets by 1,784,729 (31 December 2019: 1,405,272). The net working capital deficit was mainly caused by the fact that the Group breached a covenant, stipulated in the loan agreement (see Note 11). 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 interim condensed 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 constant contact with the bank, providing it with all necessary explanations and supporting documentation;
- During 2020 the Group received a loan amounting to 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 for the six-month period ended 30 June 2020 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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

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.

	Effective for annual periods beginning on or after
Standards issued but not yet effective in the European Union	
Definition of a Business – Amendments to IFRS 3	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
The Conceptual Framework for Financial Reporting	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

2.4 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.

2.5 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.

	30 June 2020	31 December 2019
RUB/USD as at reporting date	69.9513	69.4706
	2020	2019
RUB/USD average for the six months ended 30 June	69.3714	65.3384

2.6 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:

	30 June 2020		31 December 2019	
	Fair value (unaudited)	Carrying value (unaudited)	Fair value	Carrying value
Financial assets				
Trade and other receivables	92,780	92,780	159,811	159,811
Total assets	92,780	92,780	159,811	159,811
Financial liabilities				
Borrowings	1,326,008	1,387,154	1,243,576	1,256,457
Trade and other payables	417,925	417,925	262,849	262,849
Other non-current payables	–	–	73,745	73,841
Total liabilities	1,743,933	1,805,079	1,580,170	1,593,147

The fair value of borrowings and other non-current payables is based on cash flows discounted using a market rate of 7.34% (2019: 8.33%). 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.

3. 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:

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Gas sales	488,914	515,679
Condensate sales	39,458	49,502
Oil sales	22,626	55,354
Sulphur sales	1,336	3,883
Total revenue from contracts with customers	552,334	624,418

All gas sales are made to one customer, Gazprom Mezhrefiongaz 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.

4. Cost of sales

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Mineral extraction tax	124,035	133,464
Depreciation and depletion	71,181	211,208
Wages and salaries	54,919	48,577
Materials and supplies	35,519	46,161
Other taxes and charges	28,640	28,338
Repair and maintenance	27,838	27,821
Compensation benefits to operating personnel	13,042	14,021
Other	25,447	24,275
Total cost of sales	380,621	533,865

5. Income tax (expense)/benefit

The tax charge for the year comprises:

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Deferred tax (expense)/benefit	(43,587)	18,087
Current tax expense	(13)	(607)
Tax risk provisions	(4,536)	(5,394)
Total income tax (expense)/benefit	(48,136)	12,086

Reconciliation between theoretical and actual taxation charge is provided below.

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
Profit/(loss) income tax	18,705	(172,614)
Theoretical tax (charge)/benefit at applicable income tax rate of 20% (H1 2019: 20%)	(3,741)	34,523
Effect of different foreign tax rates	(3,069)	(2,144)
Effect of unrecognised deferred tax assets	(34,069)	(9,888)
Tax effect of expenses not deductible for tax purposes	(2,721)	(5,011)
Tax risk provisions	(4,536)	(5,394)
Total income tax (expense)/benefit	(48,136)	12,086

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

	Six months	Six months
	ended 30 June	ended 30 June
	2020	2019
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.

6. Exploration and evaluation assets

	Sub-soil	Exploration and	Total
	licences	evaluation	
		works	
		capitalised,	
		including	
		seismic works	
Balance at 1 January 2019	1,037,510	2,440,003	3,477,513
Additions	-	151,679	151,679
Transfer from property, plant and equipment	-	6,604	6,604
Change in the estimates of decommissioning provision	-	2,450	2,450
Amortization	(109))	(829)	(938)
Balance at 30 June 2019 (unaudited)	1,037,401	2,599,907	3,637,308
Balance at 1 January 2020	1,035,967	2,474,249	3,510,216
Additions	-	97,427	97,427
Transfer from property, plant and equipment	-	2,482	2,482
Change in the estimates of decommissioning provision	-	1,342	1,342

Amortization	(109)	(436)	(545)
Balance at 30 June 2020	1,035,858	2,575,064	3,610,922

In management's opinion, as at 30 June 2020 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 7.

7. Property, plant and equipment

	Oil and gas assets	Motor vehicles	Other equipment and furniture	Constructi on work in progress	Total
Cost at 1 January 2019	5,303,261	16,886	9,821	61,221	5,391,189
Additions	4,001	3,104	417	102,844	110,366
Reclassification	8,690	-	-	(8,690)	-
Transfer to exploration and evaluation assets	-	-	-	(6,604)	(6,604)
Transfer to current assets	-	-	-	(1,226)	(1,226)
Change in the estimates of decommissioning provision	53,846	-	-	-	53,846
Disposals	(55,089)	(144)	-	-	(55,233)
Cost at 30 June 2019 (unaudited)	5,314,709	19,846	10,238	147,545	5,492,338
Cost at 1 January 2019	5,456,559	17,662	11,346	307,460	5,793,027
Additions	23,278	27	383	311,099	334,787
Reclassification	133,130	-	-	133,130	-
Transfer to exploration and evaluation assets	-	-	-	(2,482)	(2,482)
Transfer to current assets	-	-	-	(2,682)	(2,682)
Change in the estimates of decommissioning provision	11,970	-	-	-	11,970
Disposals	(8,636)	-	-	-	(8,636)
Cost at 30 June 2020 (unaudited)	5,616,301	17,689	11,729	480,265	6,125,984
Accumulated depreciation, depletion and impairment					
Balance at 1 January 2019	(1,704,913)	(14,032)	(5,408)	-	(1,724,353)
Depreciation and depletion	(212,237)	(1,845)	(402)	-	(214,484)
Disposals	26,609	144	-	-	26,753
Balance at 30 June 2019 (unaudited)	(1,890,541)	(15,733)	(5,810)	-	(1,912,084)
Balance at 1 January 2020	(4,497,073)	(16,668)	(8,680)	(160,331)	(4,682,752)
Depreciation and depletion	(72,703)	(753)	(336)	-	(73,792)

Disposals	7,745	-	-	-	7,745
Balance at 30 June 2020 (unaudited)	(4,562,031)	(17,421)	(9,016)	(160,331)	(4,748,799)
Net book value at 1 January 2019	3,598,348	2,854	4,413	61,221	3,666,836
Net book value at 30 June 2019 (unaudited)	3,424,168	4,113	4,428	147,545	3,580,254
Net book value at 1 January 2020	959,486	994	2,666	147,129	1,110,275
Net book value at 30 June 2020 (unaudited)	1,054,270	268	2,713	319,934	1,377,185

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 a 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, Property, plant and equipment and Right-of-use assets 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 the discount rate by 1% would result in an 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.

8. Share capital

At 30 June 2020, 31 December 2019	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
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9. 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 30 June 2020.

	Six months ended 30 June	
	2020 (unaudited)	2019 (unaudited)
Loss attributable to owners of the Company – basic and diluted	(29,431)	(160,528)
	Number of shares	Number of shares
Weighted average number of shares for calculating basic earnings per share	141,955,386	141,955,386
Weighted average number of shares for calculating diluted earnings per share	141,955,386	141,955,386
	RUB	RUB
Basic loss per share	(0.21)	(1.13)
Diluted loss per share	(0.21)	(1.13)

10. Share-based payments

All share options expired as of 31 December 2018.

11. Borrowings

	2020	2019
Non-revolving credit facility with Sberbank PJSC – liability, as at 1 January	–	1,262,898
Including current liability	–	570,400
Interest accrued	–	40,352
Interest paid	–	(45,702)
Repayment	–	(1,257,548)
Non-revolving credit facility with Sberbank PJSC – as at 30 June (unaudited)	–	–

Including current liability – –

In 2014, the Group entered into a 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 Promsvyazbank 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 1.7%. 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 amounting to 600,398 to secure the loan. The agreement contains certain loan covenants. The Group was not in compliance with a few covenants as 30 June 2020 and reclassified the long-term portion of the loan amounted 816,000 to short-term.

	2020	2019
Credit facility with Promsvyazbank PJSC – liability, as at 1 January	1,256,457	–
Including current liability	1,256,457	–
Interest accrued	43,924	70,824
Interest paid	(46,108)	(62,367)
Proceeds	–	1,320,000
Repayment	(144,000)	(72,000)
Credit facility Promsvyazbank PJSC – liability, as at 30 June (unaudited)	1,110,273	1,256,457
Including current liability	1,110,273	1,256,457

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. The Loan may be drawn down in a single or several tranches.

The amount of the draw down facility as of 30 June 2020 was RUB 230,839,290 (US\$ 3,3 million)

	2020	2019
Credit facility with ARA Capital Holdings Limited – liability, as at 1 January	–	–
Including current liability	–	–
Interest accrued	–	–
Interest paid	–	–
Proceeds	230,839	–
Repayment	–	–
Credit facility ARA Capital Holdings Limited – liability, as at 30 June (unaudited)	230,839	–
Including current liability	230,839	–

Also during 2020, the Group received loans from third parties in rubles in the total amount of 97,000. The terms of the agreements provide for repayment of loans at the end of the term. The final maturity date for these loans is 1 March 2021.

	2020	2019
Credit facility with third parties – liability, as at 1 January	–	–
Including current liability	–	–
Interest accrued	1,752	–
Interest paid	(710)	–
Proceeds	97,000	–
Repayment	(52,000)	–
Credit facility third parties – liability, as at 30 June (unaudited)	46,042	–
Including current liability	46,042	–

12. 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.

	2020	2019
Provision as at 1 January	591,558	390,428
Additions	10,982	–

Unwinding of discount	18,981	16,567
Change in estimate of decommissioning and environmental restoration provision	18,555	94,935
Provision as at 30 June (unaudited)	640,076	501,930

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 30 June 2020 was 4.20% in 2020, decreasing to 4.00% in 2036 (as of 31 December 2019: 4.20% in 2020, decreasing to 4.10% in 2036). The discount rates used to determine the decommissioning and environmental restoration provision are based on Russian government bond rates. As of 30 June 2020, the discount rate varies from 5.92% to 6.44% (as of 31 December 2019: from 6.34% to 6.52%) depending on expected period of abandonment and site restoration for each gas and oil fields.

13. 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.

13.1 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 1,784,729 as at 30 June 2020. 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 30 June 2020				
Borrowings	1,439,709	1,439,709	-	-
Trade and other payables	417,925	417,925	-	-
Lease liabilities	32,030	6,577	12,512	12,941
Total	1,889,664	1,864,211	12,512	12,941
	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	1,570,195	751,385	818,810	-

13.2 Market risk

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

a) Interest risk

As of 30 June 2020 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 1,110,273 interest rate on which is key rate of the Central Bank of Russia + 1.5%.

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.

13.3 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 Mezhrefiongaz Saratov LLC) for a significant portion of earned revenues. Gazprom Mezhrefiongaz Saratov LLC accounted for 88.5% and 81.6% of the Group's total revenue during the first six months of 2020 and 2019 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 Mezhrefiongaz 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.

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 the first six months of 2020 cash was held mainly with Promsvybank 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.

	30 June 2019 (unaudited)	31 December 2019
Ba1.ru, Moody's	63	108
Ba2.ru, Moody's	85	89
Baa3.ru, Moody's	17,197	1,869
Ba3.ru, Moody's	13,353	1,101
Other	493	462
Total cash and cash equivalents	31,191	3,629

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 30 June 2020 and 31 December 2019.

14. Commitments and contingencies

14.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred at 30 June 2020 was 226,232, net of VAT (31 December 2019: 292,279, net of VAT).

14.2 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.

14.3 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.

14.4 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 2020, 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.

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.

14.5 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.

15. 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 4,574 (6 months 2019: 4,253).

16. 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.