ZOLTAV RESOURCES INC.

ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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DIRECTORS AND ADVISERS

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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) and Andrey Immel

Nomination and Remuneration Committee
Alexander Gorodetsky (Chairman) and 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

Nominated Adviser & Broker

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

CHAIRMAN'S STATEMENT

Average production for sale from the Bortovoy Licence, Saratov increased by 8% during 2020. The growth of production is due to the successful implementation of geological and technical measures in 2020, including the continuation of a substantial development drilling programme on the Zhdanovskoye and Karpenskoye fields of West Bortovoy, and operating efficiencies.

I would like to acknowledge the work undertaken by our teams both on the fields and generally within the production infrastructure to deliver this improved production performance safely and efficiently, and against the background of the COVID-19 pandemic.

Revenues in 2020 increased by 2% to RUB 1.24 billion, reflecting the impacts of both stronger gas production but also lower oil and condensate sales prices. Overall, the performance helped the Company to reduce the net loss reported in 2019 of RUB 2.9 billion (including a RUB 2.8 billion non-current assets impairment charge) to RUB 64 million in 2020.

During 2020, the Company also completed a substantial feasibility study on the East Bortovoy fields, which began in 2019. Technical analysis has also been completed and the project has been successfully reviewed by an independent technical consulting firm. A substantial amount of planning work has been undertaken on the project including completion of the gas pipeline design and successful application for a construction permit, as well as a range of technological studies and contractor selection processes.

A project final investment decision on East Bortovoy remains 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 potential providers of project finance.

Finally, I would like to thank our major shareholder ARA Capital Holdings for its continued financial support of the Company by way of a loan facility which has enabled the Company to advance its strategy of continued development of the West Bortovoy fields while progressing a potential future development of the East Bortovoy fields.

Lea Verny

Léa Verny

Non-executive Chairman

29 June 2021

REVIEW OF OPERATIONS

Production

Production for sale from the Bortovoy Licence, Saratov, averaged 4,678 boepd (638 toepd) during 2020, an 8% increase when compared to 4,321 boepd (589 toepd) in 2019. The growth of production is due to the successful implementation of geological and technical measures in 2020, including the drilling of development wells on the Zhdanovskoye and Karpenskoye fields, and operating efficiencies.

Average net daily production (sold to customers) during 2020 was 26.8 mmcf/d (0.76 mmcm/d) of gas and 204 bbls/d (26 t/d) of oil and condensate (2019: 24.5 mmcf/d (0.69 mmcm/d) of gas and 246 bbls/d (31 t/d) of oil and condensate).

Overall, in 2020, the Company produced approximately:

- Natural gas: 10 bcf (278 mmcm) or 1.6 mmboe (223 mtoe) (2019: 9 bcf (253 mmcm) or 1.5 mmboe (203 mtoe))
- Oil and condensate: 74,706 bbls (9,517 t) (2019: 89,618 bbls (11,416 t))

The Western Gas Plant continued to operate efficiently throughout 2020 with one planned shutdown, for which works were completed efficiently in 51 hours.

During 2020, the Company introduced new processes for undertaking maintenance and repairs at the Western Gas Plant. A complete inspection of all technical equipment was carried out which identified certain equipment requiring replacement. As a result, the Company has designed, and begun to implement, a three-year equipment replacement programme. By upgrading inefficient equipment, the Company has already reduced its own gas consumption.

Operations at the plant have continued throughout the COVID-19 global pandemic without interruption. Additional measures to mitigate the risk of infection, including additional cleaning and personal protective equipment, continued to be implemented during the course of the year.

In line with Zoltav's commitment to maintaining high safety standards, the Company also carried out a Hazard and Operability Study to identify potential operational hazards of the production process.

Development

West Bortovoy

The well stock producing from the two currently producing Permian fields (Zhdanovskoye and Karpenskoye) consists of 16 gas wells and two oil wells working via artificial lift. A development drilling programme, initiated in May 2019, continued apace throughout 2020 and included the drilling of three side-track wells on existing well stock and two new wells. A summary of operations in the period appears below:

- Zhdanovskoye sidetrack Well 8 was spudded in late 2019 and put on production in January 2020.
- Karpenskoye sidetrack Well 19 was spudded in January 2020 and was completed in February 2020. The well encountered water cut and will require intervention.
- Karpenskoye Well 5D underwent a workover in February 2020 to transition to the overlying horizon.
- The depth of Zhdanovskoye Well 108 was increased in March 2020, resulting in the opening of a productive formation that had not previously been penetrated.
- Zhdanovskoye Well 19 underwent a workover in May 2020 to transition to the overlying horizon.

- Karpenskoye Well K1-10 was transferred to mechanical production in November 2020.

- From June 2020 to December 2020, a number of repair and insulation works were undertaken at Karpenskoye Wells 100, 19 and 13.

- Karpenskoye sidetrack Well 13 was spudded in November 2020 and put on production in December 2020.

- Two standalone vertical wells, together with a 7.2 km looping pipe to avoid bottlenecking, were drilled in 2020:

    - Zhdanovskoye Well 106 was spudded in May 2020, and was put on production in July 2020.

    - Zhdanovskoye Well 105 was spudded in August 2020, and was put on production in September 2020.

    - These wells both exceeded expectations after being put on production.

As a result of the successful operations, the Company increased gas production compared to 2019.

East Bortovoy

During 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 was completed and the project has been successfully reviewed by an independent technical consulting firm.

At the Pavlovskoye field, the Company completed a study of the old well stock. As a result, Zoltav has undertaken further preparatory work relating to the commissioning of five gas wells and one oil well. Furthermore, the Company has identified two candidate wells to address the issue of utilising associated water during further development of the field.

For the Nepryakhinskoye field, technology was selected and work was carried out to retest the Biysk and Koyven horizons at Well 1. The results of the testing confirmed the potential of the field, and the inclusion of this field in the development programme of the project.

The design of the gas pipeline was completed in the period. The Company also received a positive conclusion from the GGE (Glavgosexpertiza – the applicable government agency for such construction projects), resulting in the receipt of a construction permit. Contractors have been selected to design the reconstruction of the gas treatment unit, a booster compressor station, and a demercaptinisation unit.

Pilot studies were carried out on the choice of technology for reducing the content of mercaptan sulfur in gas, resulting in a decision to implement Merox technology (alkaline purification). The Company has put out a tender for the manufacture and supply of tubular products, shut-off and control valves, and equipment for a long production cycle, in addition to a tender to select a contractor for construction and installation works of linear facilities.

A project final investment decision remains 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.

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 June 2021

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 2020 increased by 2% to RUB 1.24 billion, compared to RUB 1.22 billion in 2019.

89% 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 3% gas price increase and accordingly the Company signed an addendum to its contract with Mezhregiongaz resulting in an average price in 2020 of RUB 3,968 per mcm compared to RUB 3,882 per mcm in 2019.

Most of 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 1,837/bbl (RUB 14,417/t) in 2020 compared to RUB 2,554/bbl (RUB 20,049/t) in 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 increased by 20.7% to RUB 289.2 million (2019: RUB 241.6 million), mainly due to increases in staff costs as a result of the strengthening of the management team in relation to the potential implementation of the East Bortovoy project.

Total cost of sales was RUB 833 million (2019: RUB 1,065 million). This comprised RUB 272 million of mineral extraction tax (MET) (2019: RUB 285 million), RUB 159 million of depreciation and depletion of assets (2019: RUB 419 million) and RUB 402 million of other cost of sales (2019: RUB 361 million).

Other expenses decreased to RUB 34 million (2019: RUB 118 million) as a result of a positive change in the decommissioning and environmental restoration provision.

Operating loss

Zoltav reported an operating loss for 2020 of RUB 913 million compared to an operating loss of RUB 2.98 billion in 2019, mainly due to the change in depreciation and depletion as a result of 2019's significant impairment of non-current assets and lower impairment charge.

Adjusted EBITDA[1] decreased by 3% to RUB 306 million (2019: RUB 316 million) due to an increase in both cost of goods sold and G&A expenses, partially compensated by the revenue increase and decrease in MET expenses.

Finance costs of RUB 127 million (2019: RUB 155 million) are mainly represented by decreased interest on the refinanced debt of RUB 1.32 billion with PromSvyazbank.

Loss before tax

Zoltav generated RUB 1.04 billion loss before tax in 2020, compared to a loss before tax of RUB 3.1 billion in 2019.

Taxation

Production based tax for the period was RUB 272 million (2019: RUB 285 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 RUB 27/mcf or RUB 938/mcm (2019: RUB 30/mcf or RUB 1,069/mcm).

The Company had an income tax charge for the year of RUB 59 million (2019: RUB 242 million income tax benefit).

[1]*Adjusted EBITDA: EBITDA is adjusted for non-cash items such as provisions, write-offs and foreign exchange.*

Net loss

Zoltav delivered a significantly reduced net loss in 2020 of RUB 980 million (2019: net loss of RUB 2.9 billion).

Cash

Net cash generated from operating activities was RUB 383 million (2019: RUB 276 million).

The Bortovoy Licence operating subsidiary, Diall Alliance, successfully serviced its credit facility with Promsvyazbank and repaid a further RUB 288 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. Going forward the Company complied with all relevant covenants.

Total cash at the end of the period was RUB 26 million (2019: RUB 4 million).

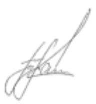
Loan Agreement Update

Zoltav announced on 14 July 2020 that it had entered into a loan agreement with ARA Capital Holdings under which ARA Capital Holdings provided a revolving loan facility for up to USD 9 million (the "Loan"). The Loan was due for repayment by 31 March 2021 (unless otherwise extended or converted into equity by mutual agreement). ARA Capital Holdings agreed in June 2021 to extend the repayment date to 30 September 2021 (the "Loan Extension") and increase the Loan facility up to a maximum principal amount of USD 19 million.

The Loan continues to be interest-free save for in the event of a failure to repay on time, in which circumstances the Loan will accrue interest from the date of the Loan disbursement at a reduced rate of 10 percent per annum rather than the 15 percent per annum that was defined in the original Loan agreement announced on 12 March 2020.

It was further been agreed that should the Loan not be repaid by 30 September 2021 or be subject to a further extension by mutual agreement, ARA Capital Holdings will be entitled to request that the Loan (including accrued interest) be converted into new ordinary shares in the Company at the lower price of 27 pence per share or the volume weighted average price of the Company's shares between 1 September 2021 and 29 September 2021, with such conversion taking place no later than 31 December 2021.

Tigran Tagvoryan



Chief Executive Officer

29 June 2021

BOARD AND SENIOR MANAGEMENT BIOGRAPHIES

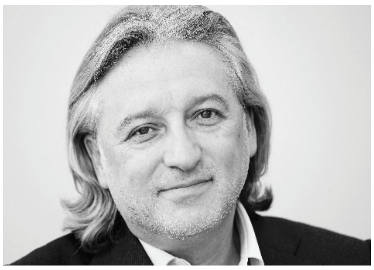
LEA VERNY

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, Ms 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, Ms 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. Ms 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, Mr 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, Mr 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 to 2012, Mr 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.

SENIOR MANAGEMENT (NON-BOARD)

TIGRAN TAGVORYAN
Chief Executive Officer

Tigran Tagvoryan 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, Mr Tagvoryan 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, Mr Tagvoryan 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. Mr Tagvoryan 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, Mr Krasnevsky 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, Mr Krasnevsky is overseeing the further development of Zoltav's assets. Mr Krasnevsky is a graduate of the Gomel State University and has a degree in geological engineering and hydrogeology.

DIRECTORS' REPORT

The Directors of the Company present their annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

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 25.

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 2020.

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 pages 11 and 12.

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 2020 and 2019.

Substantial shareholdings

On 29 December 2020 the Company was notified of a share purchase agreement ("SPA") pursuant to which ARA Capital Holdings Limited ("ARA Capital Holdings") agreed to buy, and Bandbear Limited ("Bandbear") agreed to sell, an interest in the Company of 62,596,644 shares, representing 44.10 percent of Zoltav's shares. As part of this transaction, Bandbear would acquire the shares that were previously held by Drentru Services Limited, which would subsequently be acquired by ARA Capital Holdings.

The transaction takes place in two stages. Initially, ARA Capital Holdings acquired 8,100,000 Zoltav shares, representing 5.7% of Zoltav's share capital. The acquisition of the remaining shares held by Bandbear is conditional upon several conditions precedent including ARA Capital Holdings obtaining clearance from the Russian Federal Antimonopoly Service ("FAS").

Therefore, the interests in excess of 3% of the issued share capital of the Company which had been notified to the Company as at 31 December 2020 were as follows:

Name	Number of ordinary shares	Percentage of existing share capital
ARA Capital Limited	56,243,075	39.62%
Bandbear Limited	48,143,076	33.91%
ARA Capital Holdings Limited	14,453,568	10.18%
Drentru Services Limited	6,353,568	4.48%

On 9 March 2021, the Company announced that Drentru Services Limited had sold its entire shareholding to Bandbear and therefore the interests in excess of 3% of the issued share capital of the Company which had been notified to the Company as at 9 March 2021 were as follows:

Name	Number of ordinary shares	Percentage of existing share capital
ARA Capital Limited	56,243,075	39.62%
Bandbear Limited	54,496,644	38.39%
ARA Capital Holdings Limited	14,453,568	10.18%

The Company has not been notified of any subsequent changes to the interests in excess of 3% of the issued share capital of the Company since 9 March 2021.

The Company understands that conditions precedent included within the SPA are yet to complete and that the timing of completion cannot currently be estimated. Further updates will be disclosed when they become available.

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 27 to the financial statements.

Independent auditor

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

For and on behalf of the Board:

Lea Verny

Non-executive Chairman

29 June 2021

CORPORATE GOVERNANCE REPORT

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. During 2018, the Board also concluded that they will seek 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 2020 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 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 or her 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 board meetings during 2020. These were attended by all the directors appointed at the time.

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

	Lea Verny	**Alexander Gorodetsky**	**Andrey Immel**	**Total**
	RUB'000	RUB'000	RUB'000	RUB'000
2020 salary	7,331	2,257	–	9,588
2020 share based compensation	–	–	–	–
2020 total	7,331	2,257	–	9,588
2019 salary	6,446	1,975	–	8,421
2019 share based compensation	–	–	–	–
2019 total	6,446	1,975	–	8,421

INDEPENDENT AUDITOR'S REPORT

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 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies (the consolidated financial statements).

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 2020 and its consolidated financial performance and its consolidated cash flows for 2020 in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

Since we were engaged to audit the consolidated financial statements in 2021, we were unable to observe the counting of physical inventories at 31 December 2020 or satisfy ourselves concerning those inventory quantities by alternative means. We were also 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 2020 and 2019 and the accumulated losses at 31 December 2020 and as 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 980,086 thousand Russian rubles during the year ended 31 December 2020 and, as of that date, the Group's current liabilities exceeded its current assets by 2,127,357 thousand Russian rubles. As stated in Note 2.2, these events or conditions, along with other 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 matter	How our audit addressed the key audit matter
__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 2020, 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.	As part of our audit procedures, we have considered 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 analysed the Group's disclosures of assumptions on which the results of impairment testing largely depend.

Key audit matter	How our audit addressed the key audit matter
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 2020 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.	We have considered 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 2020

Other information consists of the information included in Annual Report of Zoltav Resources Inc. for 2020, 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 the 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.

The Board of Directors is 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 the 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 the 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 the 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 June 2021

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 FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020
(in ‘000s of Russian rubles, unless otherwise stated)

	Note	2020	2019
Revenue from contracts with customers	5	1,243,815	1,218,879
Cost of sales	6	(833,075)	(1,065,441)
Gross profit		**410,740**	**153,438**
Administrative and selling expenses	7	(289,225)	(241,634)
Other income	9	44,080	26,017
Other expenses	9	(33,520)	(117,611)
Impairment of non-current assets	12, 13, 25	(1,045,442)	(2,801,914)
Operating loss		**(913,367)**	**(2,981,704)**
Finance income	10	1,031	12,194
Finance costs	10	(126,907)	(154,553)
Loss before tax		**(1,039,243)**	**(3,124,063)**
Income tax benefit	11	59,157	242,455
Loss for the year attributable to owners of the parent being total comprehensive loss		**(980,086)**	**(2,881,608)**
		RUB	**RUB**
Loss per share attributable to owners of the parent			
Basic	20	(6.90)	(20.30)
Diluted	20	(6.90)	(20.30)

Tigran Tagvoryan

Chief Executive Officer

29 June 2021

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020
(in '000s of Russian rubles, unless otherwise stated)

	Note	As at 31 December 2020	As at 31 December 2019
Assets			
Non-current assets			
Exploration and evaluation assets	12	3,609,700	3,510,216
Property, plant and equipment	13	664,063	1,110,275
Right-of-use assets	25	15,365	15,043
Deferred tax assets	23	4,400	–
Total non-current assets		**4,293,528**	**4,635,534**
Current assets			
Inventories	14	14,069	24,556
Trade and other receivables	15	158,233	159,811
Other current non-financial assets	15	33,231	43,550
Cash and cash equivalents	16	25,857	3,629
Total current assets		**231,390**	**231,546**
Total assets		**4,524,918**	**4,867,080**
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		(6,311,947)	(5,331,861)
Total equity		**1,499,846**	**2,479,932**
Non-current liabilities			
Decommission provision	22	645,406	591,558
Other payables	24	–	73,841
Lease liabilities	25	20,919	21,634
Deferred tax liabilities	23	–	63,297
Total non-current liabilities		**666,325**	**750,330**
Current liabilities			
Trade and other payables	24	551,746	262,849
Contract liabilities		5,880	4,431
Other taxes payables	19	100,089	79,467
Borrowings	21	1,656,896	1,256,457
Lease liabilities	25	6,115	4,081
Income tax payable		38,021	29,533
Total current liabilities		**2,358,747**	**1,636,818**
Total liabilities		**3,025,072**	**2,387,148**
Total equity and liabilities		**4,524,918**	**4,867,080**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

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

	Note	2020	2019
Cash flows from operating activities			
Loss before tax		**(1,039,243)**	**(3,124,063)**
Adjustments for:			
Depreciation, depletion and amortization	6, 7	168,920	429,279
Impairment of non-current assets	12, 13, 25	1,045,442	2,801,914
Finance costs	10	126,907	154,553
Finance income	10	(1,031)	(12,194)
Loss on disposal of property, plant and equipment, net of income from sale of property, plant and equipment	9	11,604	38,005
Net foreign exchange differences		14,384	(548)
Change in the estimates of decommissioning and environmental restoration provision	10	(2,185)	67,254
Other income and expenses		1,223	(141)
Operating cash inflows before working capital changes		**326,021**	**354,059**
Change in inventories		14,861	3,339
Change in trade and other receivables and other current non-financial assets		11,888	(14,726)
Change in trade and other payables and contract liabilities		91,705	46,741
Change in other taxes payable		20,622	(16,814)
Net cash flows from operating activities before income tax and interests		**465,097**	**372,599**
Interest received		1,040	14,345
Interest paid	26	(82,976)	(110,536)
Income tax paid		(52)	(149)
Net cash flows from operating activities		**383,109**	**276,259**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		2,609	1,442
Capital expenditure on exploration and evaluation activities		(104,927)	(225,439)
Purchase of property, plant and equipment		(647,378)	(295,784)
Net cash used in investing activities		**(749,696)**	**(519,781)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities	26	(4,780)	(3,309)
Proceeds from borrowings	21, 26	793,134	1,320,000
Repayment of borrowings	21, 26	(410,000)	(1,329,548)
Net cash flows from/(used) in financing activities		**378,354**	**(12,857)**
Net change in cash and cash equivalents		**11,767**	**(256,379)**
Net foreign exchange difference		10,461	(628)
Cash and cash equivalents at the beginning of the year		3,629	260,636
Cash and cash equivalents at the end of the year	16	**25,857**	**3,629**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020
(in '000s of Russian rubles, unless otherwise stated)

	Attributable to owners of the Parent				
	Share capital	**Share premium**	**Other reserve**	**Accumulated losses**	**Total equity**
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**
At 1 January 2020	**970,218**	**5,498,009**	**1,343,566**	**(5,331,861)**	**2,479,932**
Loss for the year	–	–	–	(980,086)	**(980,086)**
Total comprehensive loss	**–**	**–**	**–**	**(980,086)**	**(980,086)**
At 31 December 2020	**970,218**	**5,498,009**	**1,343,566**	**(6,311,947)**	**1,499,846**

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

NOTES TO THE 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 2020 and 2019
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 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.

1. Background (continued)

1.2 Russian business environment (continued)

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;
- Limited 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.

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 2020, the Group's current liabilities exceed its current assets by 2,127,357. The Group incurred a net loss in the amount of 980,086 in 2020. 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.

2. Significant accounting policies (continued)

2.2 Going concern (continued)

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 21 and Note 30, during 2020 the Group received a loan from ARA Capital Holdings, related party, in the amount of USD 9 million (664,881 using RUB/USD exchange rate as at 31 December 2020). In June 2021 this loan agreement was extended and increased to a maximum principal size of USD 19 million (1,403,638 using RUB/USD exchange rate as at 31 December 2020). The loan is due on 30 September 2021. In the event the loan is not repaid by 30 September 2021 or not subject to a further extension by mutual agreement, ARA Capital Holdings will be entitled to request that the Loan (including accrued interest) be converted into new ordinary shares in the Company;

- The Group is in process of negotiating project finance for developing Eastern part of Bortovoy licence field with several financial institutions;

- The Group generated net cash inflow from operating activities in 2020 and budgeted net cash inflow from operating activities for 2021.

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 2020. 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 2020	**Effective for annual periods beginning on or after**
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2*	1 January 2020
Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS19	1 January 2020

These new amendments applied for the first time in 2020 did not have a material impact on the consolidated financial statements of the Group.

2. Significant accounting policies (continued)

2.3 Disclosure of impact of new and future accounting standards (continued)

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
Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Disclosure of Accounting Policies**	1 January 2023
Amendments to IFRS 3 *Business Combinations**; IAS 16 *Property, Plant and Equipment**; IAS 37 *Provisions, Contingent Liabilities and Contingent Assets**; and Annual improvements 2018-2020*	1 January 2022
Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates**	1 January 2023
Amendment to IFRS 16 *Leases: Covid 19-Related Rent Concessions*	1 June 2020
Amendments to IFRS 16 *Leases: Covid-19-Related Rent Concessions* beyond 30 June 2021*	1 April 2021
Amendments to IAS 12 *Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction**	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
IFRS 17 *Insurance Contracts**	1 January 2023
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform – Phase 2**	1 January 2021
Amendments to IFRS 4 *Insurance Contracts* – deferral of IFRS 19	1 January 2021

* *Subject to EU Endorsement.*

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

2. Significant accounting policies (continued)

2.3 Disclosure of impact of new and future accounting standards (continued)

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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

2. Significant accounting policies (continued)

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2020. 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. Significant accounting policies (continued)

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. Significant accounting policies (continued)

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.

	2020	**2019**
RUB/USD as at 31 December	73.8757	61.9057
RUB/USD average for the year ended 31 December	72.1464	64.7362

2.9 Exploration and evaluation assets

The Company and its subsidiaries apply the full capitalization 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.

2. Significant accounting policies (continued)

2.9 Exploration and evaluation assets (continued)

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.

2. Significant accounting policies (continued)

2.10 Property, plant and equipment (continued)

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.

2. Significant accounting policies (continued)

2.11 Impairment of non-current assets (continued)

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. Significant accounting policies (continued)

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

2. Significant accounting policies (continued)

2.13 Financial instruments (continued)

- 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 2020. 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. Significant accounting policies (continued)

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 other reserves 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. Significant accounting policies (continued)

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.

2. Significant accounting policies (continued)

2.18 Current and deferred income tax (continued)

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.

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.

2.20 Leases

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 short-term 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.

2. Significant accounting policies (continued)

2.20 Leases (continued)

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.

3. Critical accounting estimates and judgements (continued)

3.1 Income taxes (continued)

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.

3. Critical accounting estimates and judgements (continued)

3.3 Impairment of assets (continued)

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.

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 2020 and 2019 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 2020		31 December 2019	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets				
Trade and other receivables	158,233	158,233	159,811	159,811
Total assets	**158,233**	**158,233**	**159,811**	**159,811**
Financial liabilities				
Borrowings	1,643,670	1,656,896	1,243,576	1,256,457
Trade and other payables	551,746	551,746	262,849	262,849
Other non-current payables	–	–	73,745	73,841
Total liabilities	**2,195,416**	**2,208,642**	**1,580,170**	**1,593,147**

As of 31 December 2020, the fair value of borrowings and is based on cash flows discounted using a market rate of 6.71%. As of 31 December 2019, the fair value of borrowings and other payables is based on cash flows discounted using a market rate of 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.

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:

	2020	2019
Gas sales	1,104,397	981,640
Condensate sales	57,836	91,880
Oil sales	79,364	137,003
Sulphur sales	2,218	8,356
Total revenue from contracts with customers	**1,243,815**	**1,218,879**

All gas sales are made to one customer, Gazprom Mezhregiongaz Saratov LLC, under a contract effective until 31 December 2027 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

	2020	2019
Depreciation and depletion	159,230	418,819
Mineral extraction tax	272,137	285,419
Wages and salaries	116,889	100,908
Materials and supplies	84,259	80,897
Other taxes and charges	62,096	54,519
Repair and maintenance	51,087	39,690
Compensation benefits to operating personnel	26,524	28,235
Other	60,853	56,954
Total cost of sales	**833,075**	**1,065,441**

7. Administrative and selling expenses

	2020	2019
Wages and salaries including director's fee	224,903	158,244
Accountancy, legal and consulting services	24,832	22,928
Depreciation and amortization	9,690	10,460
Audit services	4,447	10,923
Insurance	3,226	2,870
Computers and software	2,583	2,273
Travelling	2,181	3,784
Office expenses	1,986	1,515
Rent expense	1,691	1,155
Field development costs	414	9,989
Other	13,272	17,493
Total administrative, selling expense	**289,225**	**241,634**

8. Salaries and other employee benefits

	2020	2019
Salaries and other employee benefits	368,316	287,387
Total	**368,316**	**287,387**

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):

	2020	2019
	Employees	**Employees**
Administrative	82	67
Operating	181	174
Total	**263**	**241**

9. Other income and expenses

	2020	2019
Income from services	30,337	23,936
Net income from currency purchase and sale	7,973	–
Net income from sale of property, plant and equipment	2,610	1,371
Change in decommissioning and environmental restoration provision	2,185	–
Net foreign exchange difference	–	548
Other	975	162
Other income	**44,080**	**26,017**
Loss on disposal of property, plant and equipment	(14,214)	(39,376)
Net foreign exchange difference	(14,384)	–
Charitable contributions	(1,706)	(2,660)
Penalties accrued	(868)	(6,009)
Change in decommissioning and environmental restoration provision	–	(67,254)
Other	(2,348)	(2,312)
Other expenses	**(33,520)**	**(117,611)**

10. Finance income and finance costs

	2020	2019
Finance income		
Interest on bank deposits	1,031	12,194
Total finance income	**1,031**	**12,194**
Finance costs		
Interest on borrowings (Note 21)	(78,842)	(111,176)
Unwinding of the discount on decommissioning and environmental restoration provision (Note 22)	(39,109)	(35,150)
Unwinding of the discount on recognition non-current payables	(6,264)	(5,760)
Interest on lease liabilities (Note 25)	(2,692)	(2,467)
Total finance costs	**(126,907)**	**(154,553)**

11. Income tax benefit

The tax charge for the year comprises:

	2020	2019
Deferred tax benefit	67,697	253,032
Current tax expense	(52)	(149)
Tax risk provisions	(8,488)	(10,428)
Total income tax benefit	**59,157**	**242,455**

11. Income tax benefit (continued)

Reconciliation between theoretical and actual taxation charge is provided below.

	2020	2019
Loss before income tax	**(1,039,243)**	**(3,124,063)**
Theoretical tax benefit at applicable income tax rate of 20% (2019: 20%)	**207,849**	**624,813**
Effect of different foreign tax rates	(6,404)	(4,662)
Effect of unrecognised deferred tax assets	(133,479)	(361,195)
Tax effect of expenses not deductible for tax purposes	(321)	(6,073)
Tax risk provisions	(8,488)	(10,428)
Total income tax benefit	**59,157**	**242,455**

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

	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.

12. Exploration and evaluation assets

	Sub-soil licences	Exploration and evaluation works capitalised, including seismic works	Total
Balance at 1 January 2019	**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	(2,063)	–	**(2,063)**
Balance at 31 December 2019	**1,034,122**	**2,476,094**	**3,510,216**
Additions	–	159,674	**159,674**
Transfer from property, plant and equipment	–	4,712	**4,712**
Change in the estimates of decommissioning provision	–	(2,526)	**(2,526)**
Disposals	–	(9,108)	**(9,108)**
Impairment	(337)	(52,174)	**(52,511)**
Amortization	(757)	–	**(757)**
Balance at 31 December 2020	**1,033,028**	**2,576,672**	**3,609,700**

In management's opinion, as at 31 December 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 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 2019	**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**
Additions	351,722	3,345	1,583	367,140	**723,790**
Reclassification	132,134	–	–	(132,134)	**–**
Transfer to exploration and evaluation assets	–	–	–	(4,712)	**(4,712)**
Transfer to current assets	–	–	–	(4,244)	**(4,244)**
Change in the estimates of decommissioning provision	31	–	–	–	**31**
Disposals	(16,413)	(371)	(589)	(3,462)	**(20,835)**
Cost at 31 December 2020	**5,924,033**	**20,636**	**12,340**	**530,048**	**6,487,057**
Accumulated depreciation, depletion and impairment					
Balance at 1 January 2019	**(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)**
Depreciation and depletion	(162,767)	(1,684)	(771)	–	**(165,222)**
Impairment	(934,063)	(854)	(1,689)	(54,144)	**(990,750)**
Disposals	14,770	371	589	–	**15,730**
Balance at 31 December 2020	**(5,579,133)**	**(18,835)**	**(10,551)**	**(214,475)**	**(5,822,994)**
Net book value at 1 January 2019	**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**
Net book value at 31 December 2020	**344,900**	**1,801**	**1,789**	**315,573**	**664,063**

The gross carrying amount of fully depreciated property, plant and equipment that is still in use at 31 December 2020 was 345,244 (2019: 266,186).

13. Property, plant and equipment (continued)

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.

In 2020 the Group updated analysis the impairment of the Western part of Bortovoy gas field CGU and recognised additional impairment.

The impairment was allocated between Exploration and evaluation assets (Note 12), Property, plant and equipment and Right-of-use assets (Note 25) 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 for analysis as 31 December 2019, and 2021-2025 for analysis as 31 December 2020.

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.

As of 31 December 2020 the recoverable amount of the Western part of Bortovoy licence field comprised 13,806. The future cash flows were discounted to their present values using a discount rate of 14.09% (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 4,038.

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

As of 31 December 2019:

- Cumulative volumes of gas extractions for the period 2020-2027: 1,588 mln of m^3;
- Annual inflation in the Russian Federation for the period 2021-2027: within 3.7-3.6%;
- Cumulative capital expenditure for the period 2020-2027 in nominal prices: 1,219,366.

As of 31 December 2020:

- Cumulative volumes of gas extractions for the period 2021-2025: 924 mln of m^3;
- Annual inflation in the Russian Federation for the period 2021-2025: within 3.8-4.0%;
- Cumulative capital expenditure for the period 2021-2025 in nominal prices: 884,760.

14. Inventories

	31 December 2020	31 December 2019
Natural gas and hydrocarbon liquids (at lower of cost and net realizable value	4,940	4,432
Materials and supplies (at cost)	9,129	20,124
Total inventories at the lower of cost and net realizable value	**14,069**	**24,556**

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 2020	31 December 2019
Trade receivables, gross	153,045	161,281
Other accounts receivable, gross	6,800	939
Expected credit loss	(1,612)	(2,409)
Total trade and other receivables	**158,233**	**159,811**
Prepayments	25,311	30,329
VAT receivable	5,876	10,000
Other taxes prepaid	2,044	3,221
Total other current non-financial assets	**33,231**	**43,550**

Trade and other receivables are non-interest bearing and are generally on settlement terms of 30-45 days. In 2020, null (2019: 13) 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:

	2020	2019
The opening balance in the provision for expected credit losses on 1 January under IFRS 9	**(2,409)**	**(2,396)**
Charge for the period	–	(13)
Reversal	797	–
As at 31 December	**(1,612)**	**(2,409)**

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 2020 and 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

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 local Financial Reporting Standards. No dividends were declared or paid in 2020 and 2019.

19. Other taxes payable

	31 December 2020	31 December 2019
VAT	49,140	25,239
Mineral extraction tax	28,146	34,150
Property tax	10,564	7,364
Other taxes	12,239	12,714
Total	**100,089**	**79,467**

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 2019 all share options have expired and do not have any effect on the loss per share as of 31 December 2020 also.

	2020	2019
Loss attributable to owners of the Company – basic and diluted	(980,086)	(2,881,608)
	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	(6.90)	(20.30)
Diluted loss per share	(6.90)	(20.30)

21. 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 31 December	**–**	**–**
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 facility was drawn down in full in 2014. The original maturity date of the credit facility was 30 April 2021 but the Group repaid the loan during 2019 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 1.7%. 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 with carrying value as of 31 December 2020 amounting to 5,640 to secure the loan. The agreement contains certain loan covenants. The Group was not in compliance with certain of such covenants as 31 December 2020 and accordingly the entire outstanding balance has been reclassified to a short-term liability.

	2020	2019
Credit facility with Promsvyazbank PJSC – liability, as at 1 January	**1,256,457**	**–**
Including current liability	*1,256,457*	–
Interest accrued	74,635	70,824
Interest paid	(78,254)	(62,367)
Proceeds	–	1,320,000
Repayment	(288,000)	(72,000)
Credit facility Promsvyazbank PJSC – liability, as at 31 December	**964,838**	**1,256,457**
Including current liability	*964,838*	*1,256,457*

On 14 July 2020, the Company announced that it has entered into a loan agreement dated by 12 March 2020 with ARA Capital Holdings Limited under which ARA Capital Holdings Limited provided a revolving loan facility for up to USD 9,000,000 (the "Loan"). ARA Capital Holdings Limited is the parent company of ARA Capital Limited, both are the Group's shareholders.

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

(1) USD 2,000,000, which is provided unconditionally and has been drawn down by the Company; and

(2) USD 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 was originally due for repayment by 31 December 2020. The final repayment date was extended to 31 March 2021 in December 2020 and subsequently extended further to 30 September 2021 in June 2021. The Loan is interest-free. In the event of the Company's failure to repay on time, interest at a rate of 10 percent per annum will be accrued.

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. As described in Note 30, the amendment to the Loan agreement made in June 2021 states that in the event the Loan is not repaid by 30 September 2021 or not subject to a further extension by mutual agreement, ARA Capital Holdings will be entitled to request that the Loan (including accrued interest) be converted into new ordinary shares in the Company.

21. Borrowings (continued)

	2020	2019
Credit facility with ARA Capital Holdings Limited – liability, as at 1 January	**–**	**–**
Including current liability	–	–
Interest accrued	–	–
Interest paid	–	–
Proceeds	646,134	–
Net foreign exchange difference	18,747	
Repayment	–	–
Credit facility ARA Capital Holdings Limited – liability, as at 31 December	**664,881**	**–**
Including current liability	*664,881*	–

Also during 2020, the Group received loans from third parties in the total amount of 147,000. The final maturity date for these loans is 31 December 2021. The loans are denominated in rubles, interest rate is fixed (9.5% and 20% for different tranches).

	2020	2019
Credit facility with third parties – liability, as at 1 January	**–**	**–**
Including current liability	–	–
Interest accrued	4,207	–
Interest paid	(2,030)	–
Proceeds	147,000	–
Repayment	(122,000)	–
Credit facility third parties – liability, as at 31 December)	**27,177**	**–**
Including current liability	*27,177*	–

22. 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	19,419	796
Unwinding of discount	39,109	35,150
Change in estimate of decommissioning and environmental restoration provision	(4,680)	165,184
Provision as at 31 December	**645,406**	**591,558**

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.

22. Decommission provision (continued)

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 2020 was 4.50% in 2020, decreasing to 4.0% 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 31 December 2020, the discount rate varies from 5.93% to 6.39% (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.

23. Deferred tax liabilities

Movements in temporary differences during the year:

	31 December 2020	Recognised in profit or loss	31 December 2019
Property, plant and equipment	251,702	67,014	184,688
Decommissioning provision	78,553	8,065	70,488
Other current assets and liabilities	41,302	14,894	26,408
Tax loss carry-forwards	4,400	(23,548)	27,948
Deferred tax assets	**375,957**	**66,425**	**309,532**
Exploration and evaluation assets	(371,557)	1,272	(372,829)
Deferred tax liabilities	**(371,557)**	**1,272**	**(372,829)**
Net deferred tax assets/(liabilities)	**4,400**	**67,697**	**(63,297)**

	31 December 2019	Recognised in profit or loss	31 December 2018
Property, plant and equipment	184,688	184,688	–
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)**

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. As of 31 December 2020 the Group has not recognised deferred income tax assets of 1,095,707 (31 December 2019: 962,228). 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 such deferred tax assets of 580,782 (2019: 517,024).

Management assessed that recognised deferred tax assets will be fully offset against future taxable profits in 2021-2026.

24. Trade and other payables

	31 December 2020	31 December 2019
Current trade payables	429,446	217,133
Payables to employees	104,217	30,920
Accrued expenses	18,083	14,796
Total current payables	**551,746**	**262,849**
Non-current other payables	–	73,841
Total non-current payables	**–**	**73,841**

25. 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**
Additions	443	5,656	–	**6,099**
Cost at 31 December 2020	**23,919**	**6,478**	**4,726**	**35,123**
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)**
Depreciation	(2,293)	(358)	(945)	**(3,596)**
Impairment	(2,181)	–	–	**(2,181)**
Accumulated depreciation, depletion and impairment balance at 31 December 2020	**(17,574)**	**(372)**	**(1,812)**	**(19,758)**
Net book value at 1 January 2019	**13,576**	**–**	**–**	**13,576**
Net book value at 31 December 2019	**10,376**	**808**	**3,859**	**15,043**
Net book value at 31 December 2020	**6,345**	**6,106**	**2,914**	**15,365**

25. Leases (continued)

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

	2020	2019
Balance as at 1 January	**25,715**	**13,576**
Additions	6,099	15,448
Interest expense	2,692	2,467
Payments	(7,472)	(5,776)
Balance as at 31 December	**27,034**	**25,715**
Current	6,115	4,081
Non-current	20,919	21,634

The following are the amounts recognised in profit or loss:

	2020	2019
Depreciation expense of right-of-use assets	3,596	4,068
Interest expense on lease liabilities	2,692	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)	1,691	1,155
Total amount recognised in profit or loss	**7,979**	**12,971**

26. 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 2020	**1,256,457**	**4,081**	**–**	**21,634**
Cash changes				
Proceeds from borrowings	793,134	–	–	–
Repayment of borrowings	(410,000)	–	–	–
Payment of principal portion of lease liabilities	–	(4,780)	–	–
Interest paid	(80,284)	(2,692)	–	–
Total cash changes	**302,850**	**(7,472)**	**–**	**–**
Non-cash changes				
Finance costs	78,842	2,692	–	–
New leases	–	2,163	–	3,936
Reclass from non-current to current	–	4,651	–	(4,651)
Exchange differences	18,747	–	–	–
Total	**97,589**	**9,506**	**–**	**(715)**
As of 31 December 2020	**1,656,896**	**6,115**	**–**	**20,919**

26. Changes in liabilities arising from financing activities (continued)

	Current interest-bearing borrowings	Current finance lease liability	Non-current interest-bearing borrowings	Non-current finance lease liability
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**

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

27. 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.

27.1 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.

27. Financial instruments and financial risk management (continued)

27.1 Liquidity risk (continued)

The Group's current liabilities exceed its current assets by 2,127,357 as at 31 December 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 31 December 2020				
Borrowings	**1,699,812**	1,699,812	–	–
Trade and other payables	**551,746**	551,746	–	–
Lease liabilities	**33,850**	8,066	15,258	10,526
Total	**2,285,408**	**2,259,624**	**15,258**	**10,526**

	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**

27.2 Market risk

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

a) Interest risk

The Group is exposed to interest rate risk because it has a loan from Promsvyazbank PJSC with a variable interest rate denominated in RUB, interest rate on which is key rate of the Central Bank of Russia + 1.6%.

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
2020	+50	(4,800)
	-50	4,800
2019	+50	(6,240)
	-50	6,240

b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities.

27. Financial instruments and financial risk management (continued)

27.2 Market risk (continued)

The Group is exposed to currency exchange rate risk due to the fact that some of its trade payables and loans are denominated in foreign currencies. The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are as follows:

	As of 31 December 2020			As of 31 December 2019		
	Assets	**Liabilities**	**Net effect**	**Assets**	**Liabilities**	**Net effect**
USD	11,827	(680,676)	(668,848)	–	(15,465)	(15,465)
EUR	522	(4,434)	(3,911)	455	(3,576)	(3,121)
GBP	–	(5,979)	(5,979)	–	(2,072)	(2,072)
Total	**12,350**	**(691,088)**	**(678,739)**	**455**	**(21,114)**	**(20,659)**

The Group is mainly affected by changes in the USD exchange rate.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	**Effect on loss before tax**
2020	16%	(107,016)
	-16%	107,016
2019	13%	(2,010)
	-13%	2,010

27.3 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 88.8% and 80.5% of the Group's total revenue in 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 contract with Gazprom Mezhregiongaz Saratov LLC, effective till 31 December 2027. As for the smaller customers, the Group imposes minimum credit standards that the customers must meet before and during the sales transaction process.

27. Financial instruments and financial risk management (continued)

27.3 Credit risk (continued)

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		
	Total	**Current**	**45-180 days**	**180-360 days**	**>360 days**
31 December 2020					
Expected credit loss rate		0%	–	–	100%
Estimated total gross carrying amount at default	**159,845**	158,233	–	–	1,612
Expected credit loss	**1,612**	–	–	–	1,612

			Days past due		
	Total	**Current**	**45-180 days**	**180-360 days**	**>360 days**
31 December 2019					
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

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 2020 cash was held mainly with Promsvyasbank PJSC, Alfa Bank, PJSC "Sovcombank" 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 2020	**31 December 2019**
Ba1.ru, Moody's	1,017	108
Ba2.ru, Moody's	10,983	89
Baa3.ru, Moody's	13,326	1,869
Ba3.ru, Moody's	–	1,101
Other	531	462
Total cash and cash equivalents	**25,857**	**3,629**

27. Financial instruments and financial risk management (continued)

27.3 Credit risk (continued)

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 2020 and 31 December 2019.

28. Commitments and contingencies

28.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred at 31 December 2020 was 38,873, net of VAT (31 December 2019: 292,279, net of VAT).

28.2 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.

28.3 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.

28.4 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.

28. Commitments and contingencies (continued)

28.4 Taxation (continued)

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.

28.5 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.

29. Related party transactions

Note 1.1 provides information about the Group's structure, including details of the subsidiaries and the holding company. The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	31 December 2020	31 December 2019
Borrowings from shareholder, who has significant influence over the Group		
ARA Capital Holdings Limited	664,881	–
Total borrowings	**664,881**	**–**

Trade and other receivables from related parties are presented as follows:

	31 December 2020	31 December 2019
Operations with companies under the control of a shareholder with significant influence		
Artamira LLC	18,117	–
Chalyk-Nafta LLC	21	–
Saratov Geoneft LLC	20	–
Neftepoisk LLC	20	–
Engels Nafta LLC	20	–
Total trade and other receivables	**18,198**	**–**

The income items for transactions with related parties for the year ended 31 December 2020 and 31 December 2019 are presented below:

	2020	2019
Operations with companies under the control of a shareholder with significant influence		
Artamira LLC (Management and operational services)	9,740	–
Chalyk-Nafta LLC (Management services)	18	–
Saratov Geoneft LLC (Management services)	17	–
Neftepoisk LLC (Management services)	17	–
Engels Nafta LLC (Management services)	17	–
Total income items	**9,809**	**–**

Key management comprises members of the Board of Directors.

The remuneration of key management comprised of salary and bonuses in the amount 9,588 (2019: 8,613).

30. Events after the reporting date

In June 2021 the Group concluded an amendment to the loan agreement with ARA Capital Holdings Limited, a shareholder and related party, who has significant influence over the Company. The amendment extended the final repayment date to 30 September 2021 and increased the maximum principal amount of the Loan to USD 19 million. The amendment to the loan agreement also stated that in the event the Loan is not repaid by 30 September 2021 or not subject to a further extension by mutual agreement, ARA Capital Holdings will be entitled to request that the Loan (including accrued interest) be converted into new ordinary shares in the Company.

31. 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 Depositary 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.