30 September 2021

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

Half Year Report for the Six Months Ended 30 June 2021

Zoltav (AIM: ZOL), the Russia-focused oil and gas exploration and production company, announces results for the six months ended 30 June 2021.

Financial Summary

- Revenues increased by 37% to RUB 755 million (H1 2020: RUB 552 million), due to the increase in production (21%) and the positive impact of gas prices
- Total cost of sales increased by 10% to RUB 421 million (H1 2020: RUB 381 million)
- Operational and G&A costs increased by 18% to RUB 125 million (H1 2020: RUB 106 million), mainly due to increases in staff costs
- Operating profit increased by 232% to RUB 289.1 million (H1 2020: RUB 87.2 million), mainly due to the revenue increase, decreases in depreciation and lower impairment charge
- Profit before tax increased by 1,131% to RUB 230.2 million (H1 2020: RUB 18.7 million)
- Net cash generated from operating activities decreased by 16% to RUB 221 million (H1 2020: RUB 262.5 million, mostly due to the impact of tax credits being received in 2020 in relation to COVID-19 and debts due in 2019 from Mezhregiongaz being received in 2020
- Total cash at the end of the period was RUB 90 million (H1 2020: RUB 31 million)

Shareholder Loan

- The Company has been unable to repay or refinance the shareholder loan (announced on 14 July 2020 and extended most recently on 21 June 2021) and therefore will convene a General Meeting to seek authority to issue new ordinary shares pursuant to the agreed conversion terms of 27 pence per share (if such conversion is requested)

Operational Summary

- Average net daily production (sold to customers) in H1 2021 was:
    - 29.7 mmcf/d (0.84 mmcm/d) of gas (H1 2020: 24.3 mmcf/d (0.69 mmcm/d))
    - 221.2 bbls/d (28.2 t/d) of oil and condensate (H1 2020: 215 bbls/d (27.5 t/d))
- Programme of technical works on the West Bortovoy fields continued in H1 2021
- Further progress made on East Bortovoy project development including in contractor and equipment selection and technical planning
    - Project final investment decision remains subject to financing

Lea Verny, Independent Non-executive Chairman, commented:

"Average production for sale from the Bortovoy Licence increased by 21% in H1 2021, as a result of the rolling programme of technical works on the West Bortovoy fields. This positive operational performance is reflected in the Company's improved revenues.

The Company made further progress on the East Bortovoy project and is in the advanced stages of negotiations for project finance with two major Russian banks. The Board believes a development of the East Bortovoy fields is essential to ensuring the long-term financial security of the Company.

It should be noted that the terms of both project finance packages potentially available to the Company include conditions which are likely to restrict intra group transfers and cash outflows from the Group's main operating subsidiary, Diall Alliance. As a consequence, the Company would be unable to maintain the listing of its ordinary shares on AIM on an ongoing basis. Further updates will be provided in due course."

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Market Abuse Regulation (MAR) Disclosure

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulation ("MAR") (EU) No. 596/2014, as incorporated into UK law by the European Union (Withdrawal) Act 2018. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

About Zoltav

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

Glossary

bbls	Barrels
bbls/d	Barrels per day
bcf	Billion cubic feet
km	Kilometre
mcf	Thousand cubic feet
mcm	Thousand cubic metres
mmbbls	Million barrels of oil
mmboe	Million barrels of oil equivalent
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
mmcm	Million cubic metres
mmcm/d	Million cubic metres per day
mtoe	Thousand tonnes of oil equivalent
RUB	Russian Ruble
t	Tonnes
t/d	Tonnes per day

Chairman's Statement

Average production for sale from the Bortovoy Licence, Saratov, increased by 21% in H1 2021, as a result of the rolling programme of technical works on the West Bortovoy fields. This operational performance is reflected in the Company's revenues, which increased by 37% to RUB 755 million (H1 2020: RUB 552 million) in the period, helping Zoltav to deliver an improved profit before tax of RUB 230.2 million (H1 2020: RUB 18.7 million).

The Company made further progress on the East Bortovoy project, following the completion of the feasibility study which was undertaken in 2020, including in contractor and equipment selection and technical planning.

A project final investment decision on East Bortovoy remains subject to successful negotiations of binding terms for project finance from major Russian banks. Considering the natural decline in production from the West Bortovoy fields and the substantial capital required to maintain a rolling programme of technical works and development drilling, management believes a development of the East Bortovoy fields is essential to ensuring the long-term financial security of the Company.

The Company is in the advanced stages of negotiations for project finance with two major Russian banks and will provide a further update in due course. It should be noted that the terms of both project finance packages potentially available to the Company include conditions which are likely to restrict intra group transfers and cash outflows from the Group's main operating subsidiary, Diall Alliance. As a consequence, the Company would be unable to maintain the listing of its ordinary shares on AIM on an ongoing basis.

In the event that Diall Alliance is unable to secure project financing in the near term, it will be unable to service its current loans, including its credit payment due to Promsvyazbank at the end of October 2021, due to a cash shortfall which is expected to arise in Q4 2021.

Furthermore, the Company has been unable to repay or refinance the shareholder loan (announced on 14 July 2020 and extended most recently on 21 June 2021) and therefore will convene a General Meeting to seek authority to issue new ordinary shares pursuant to the agreed conversion terms of 27 pence per share (if such conversion is requested).

Lea Verny
Non-executive Chairman
29 September 2021

Review of Operations

Production

Production

Production for sale from the Bortovoy Licence, Saratov, averaged 5,178 boepd (706 toepd) during H1 2021, a 21% increase when compared to 4,257 boepd (581 toepd) in H1 2020.

Average net daily production (sold to customers) during H1 2021 was 29.7 mmcf/d (0.84 mmcm/d) of gas and 221 bbls/d (28.2 t/d) of oil and condensate (H1 2020: 24.3 mmcf/d (0.69 mmcm/d) of gas and 215 bbls/d (27.5t/d) of oil and condensate).

Overall, in H1 2021, the Company produced approximately:

- Natural gas: 5.4 bcf (152 mmcm) or 0.9 mmboe (122 mtoe) (H1 2020: 4.4 bcf (125 mmcm) or 0.7 mmboe (100 mtoe))
- Oil and condensate: 40,040 bbls (5,101 t) (H1 2020: 39,216 bbls (4,996 t))

The Western Gas Plant continued to operate efficiently throughout H1 2021 with no shutdowns.

Operations at the plant have continued throughout the COVID-19 global pandemic without interruption. Additional measures to mitigate the risk of infection, including additional cleaning and personal protective equipment, remain in place.

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 programme of technical works continued in H1 2021:

- Karpenskoye Well 52 underwent workovers in February and June 2021 to transition to the overlying horizon
- Karpenskoye Well 17 underwent workovers in March and May 2021 to transfer to the overlying horizon
- Karpenskoye Well 117 had repair and installation works undertaken in March 2021, and underwent a workover in May 2021 to transition to the underlying horizon
- Karpenskoye Well 13 had repair and insulation works undertaken in March 2021

Works continued post period end:

- Karpenskoye Well 18D and 21D were spudded in July and August, and are scheduled to be put on production in September and October 2021
- Karpenskoye Well 12D saw the replacement of an electrically driven centrifugal pump in July, which has supported production from the well since August 2021
- Preparatory work has been completed at Zhdanovskoye Well 103 ahead of bottomhole treatment, which the Company hopes will improve production rates from the well

Daily production of Zhdanovskoye Well 106 and 105 (put on production in July and September 2020 respectively) exceeded planned volumes. These, together with the two standalone vertical wells, and 7.2 km looping pipe to avoid bottlenecking, which were completed in 2020, are contributing to the improved production performance.

East Bortovoy

During H1 2021, the Company made further progress on the East Bortovoy project following the completion of the feasibility study which was undertaken in 2020, including in contractor and equipment selection and technical planning. Should the Company ultimately take a positive final investment decision, subject to financing, the progress which is being made on project development is expected to improve project implementation timelines.

A project final investment decision is subject to successful negotiations of binding terms for project finance from major Russian banks. Considering the natural decline in production from the West Bortovoy fields and the substantial capital required to maintain a rolling programme of technical works and development drilling, management believes a development of the East Bortovoy fields is essential to ensuring the long-term financial security of the Company.

The Company is in the advanced stages of negotiations for project finance with two major Russian banks and will provide a further update in due course.

Koltogor

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

Tigran Tagvoryan
Chief Executive Officer
29 September 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 H1 2021 increased by 37% to RUB 755 million, compared to RUB 552 million in H1 2020, due to the increase of gas production and the positive impact of gas prices.

81% 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 H1 2021 of RUB 4,028 per mcm compared to RUB 3,911 per mcm in H1 2020.

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 increased by 119% to RUB 3,462/bbl (RUB 27,175/t) in H1 2021 compared to RUB 1,583/bbl (RUB 12,428/t) in H1 2020 due to the influence of Urals oil pricing and USD revaluation.

Cost of sales and G&A costs

Total cost of sales increased by 10% to RUB 421 million in H1 2021 (H1 2020: RUB 381 million). This comprised a 41% increase in mineral extraction tax (MET) to RUB 175 million (H1 2020: RUB 124 million), a 19% increase in wages and salaries of production staff to RUB 65 million (H1 2020: RUB 55 million), RUB 57 million of other taxes and royalties (SibGeCo Koltogorsky licence) (H1 2020: RUB 29 million), an 82% decrease in depreciation to RUB 13 million (reflecting the 2020 impairment) (H1 2020: RUB 71 million) and RUB 110 million of other cost of sales (H1 2020: RUB 102 million).

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 31/mcf or RUB 1,102/mcm (H1 2020: RUB 27/mcf or RUB 945/mcm).

The Group's operational and G&A costs increased by 18% to RUB 125 million (H1 2020: RUB 106 million), mainly due to increases in staff costs and professional fees in relation to the potential financing of the East Bortovoy project.

Other income increased by 172% to RUB 84 million (H1 2020: RUB 31 million) due to the recovering of a provision for inflation rate and discount amounting to RUB 22 million (H1 2020: RUB 0 million), recovering of bonus and unused vacation provisions for 2020 by RUB 18 million (H1 2020: RUB 0 million), and the increasing of other incomes as energy realisation and operator services amounting to RUB 26 million (H1 2020: RUB 15million).

The Group reviews the application of inflation rates used for the provision estimation each half-year end. The inflation rate used in the estimation of the provision as of 30 June 2021 was 4.50% in 2021, decreasing to 4.0% in 2036 (as of 30 June 2020: 4.20% in 2020, decreasing to 4.00% in 2036). The discount rates used to determine the decommissioning and environmental restoration provision are based on Russian government bond rates. As of 30 June 2021, the discount rate varies from 7.12% to 7.21% (as of 30 June 2020: from 5.92% to 6.44%) depending on the expected period of abandonment and site restoration for each gas and oil fields.

Other expenses decreased to RUB 4 million (H1 2020: RUB 9 million) as a result of a positive change in the decommissioning and environmental restoration provision.

Operating profit

Zoltav achieved an operating profit for H1 2021 of RUB 289.1 million compared to an operating profit of RUB 87.2 million in H1 2020, mainly due to the revenue increasing, decreases in depreciation and depletion as a result of 2020's significant impairment of non-current assets, and lower impairment charge.

Adjusted EBITDA[1] increased by 91% to RUB 302 million (H1 2020: RUB 158 million), with an EBITDA margin of 40%.

Finance costs of RUB 60 million (H1 2020: RUB 69 million) are mainly represented by decreased interest on the refinanced debt of RUB 1.32 billion with PromSvyazbank, with the repayment of debts totalling RUB 207 million in H1 2021.

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

Profit before tax

Zoltav generated RUB 230.2 million profit before tax in H1 2021, compared to a profit before tax of RUB 18.7 million in H1 2020.

Taxation

The income tax charge for the period was RUB 17 million (H1 2020: RUB 48 million charge tax benefit) due to the increase of current income tax to RUB 9 million in H1 2021, the decrease of differed tax assets by RUB 4 million, and the creation of a tax provision for CenGeo Holdings Limited of RUB 4 million.

Net profit

Zoltav delivered a net profit in H1 2021 of RUB 213 million (H1 2020: net loss of RUB 29 million).

Cash

Net cash generated from operating activities was RUB 221 million (H1 2020: RUB 262.5 million).

The Bortovoy Licence operating subsidiary, Diall Alliance, serviced its credit facility with Promsvyazbank and repaid a further RUB 207 million during the period. The loan facility contains a technical covenant requiring 75 mmcm of natural gas production per quarter. The covenant contains some 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 2021 due to a delay in the development drilling programme on West Bortovoy. The bank accepted the Company's explanation on the covenant breach. From Q3 2021, the Company will find it difficult to comply with certain covenants which require minimum end of day cash of RUB 115 million and 75 mmcm of natural gas production per quarter. The penalty for the violation will be an increase of 0.2% on the current interest rate.

In the event that Diall Alliance is unable to secure project financing for the development of East Bortovoy in the near term, it will be unable to service its current loans, including its credit payment due to Promsvyazbank at the end of October 2021, due to a cash shortfall which is expected to arise in Q4 2021.

Total cash at the end of the period was RUB 90 million (H1 2020: RUB 31 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 14 July 2020.

It was agreed on 18 June 2021 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. The Company does not have sufficient funds to repay the Loan and it has been unable to secure alternative sources of finance to repay the Loan. Accordingly, in order to seek authority to issue new ordinary shares in the Company pursuant to the agreed conversion terms (if such conversion is requested by ARA Capital Holdings), the Company intends to convene a General Meeting by the end of this year.

Tigran Tagvoryan
Chief Executive Officer
29 September 2021

Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2021
(in ‘000s of Russian rubles, unless otherwise stated)

	Note	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Revenue from contracts with customers	3	755,137	552,334
Cost of sales	4	(420,564)	(380,621)
Gross profit		**334,573**	**171,713**
Administrative and selling expenses		(124,954)	(106,038)
Other income	14	83,635	30,768
Other expenses		(4,164)	(9,245)
Operating profit		**289,090**	**87,198**
Finance income		969	471
Finance costs		(59,834)	(68,964)
Profit before tax		**230,225**	**18,705**
Income tax expense	5	(17,074)	(48,136)
Profit/(loss) for the period attributable to owners of the parent being total comprehensive income		**213,151**	**(29,431)**

		RUB	**RUB**
Profit / (loss) per share attributable to owners of the parent			
Basic	9	1.50	(0.21)
Diluted	9	1.50	(0.21)

Tigran Tagvoryan
Chief Executive Officer

29 September 2021

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

Interim condensed consolidated statement of financial position as at 30 June 2021
(in '000s of Russian rubles, unless otherwise stated)

	Note	As at 30 June 2021 (unaudited)	As at 31 December 2020
Assets			
Non-current assets			
Exploration and evaluation assets	6	3,610,380	3,609,700
Property, plant and equipment	7	1,182,565	664,063
Right-of-use assets		13,244	15,365
Deferred tax assets		-	4,400
Total non-current assets		**4,806,189**	**4,293,528**
Current assets			
Inventories		17,266	14,069
Trade and other receivables		113,841	158,233
Other current non-financial assets		59,719	33,231
Cash and cash equivalents	12.3	90,053	25,857
Total current assets		**280,879**	**231,390**
Total assets		**5,087,068**	**4,524,918**
Equity and liabilities			
Share capital	8	970,218	970,218
Share premium		5,498,009	5,498,009
Other reserves		1,343,566	1,343,566
Accumulated losses		(6,098,796)	(6,311,947)
Total equity		**1,712,997**	**1,499,846**
Non-current liabilities			
Decommission provision	11	607,573	645,406
Lease liabilities		18,245	20,919
Total non-current liabilities		**625,818**	**666,325**
Current liabilities			
Trade and other payables		647,023	551,746
Contract liabilities		45,720	5,880
Other taxes payables		69,096	100,089
Borrowings	10	1,937,876	1,656,896
Lease liabilities		6,590	6,115
Income tax payable		41,948	38,021
Total current liabilities		**2,748,253**	**2,358,747**
Total liabilities		**3,374,071**	**3,025,072**
Total equity and liabilities		**5,087,068**	**4,524,918**

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

Interim condensed consolidated statement of cash flows for the six months ended 30 June 2021
(in '000s of Russian rubles, unless otherwise stated)

	Note	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Cash flows from operating activities			
Loss before tax		**230,225**	**18,705**
Adjustments for:			
Depreciation, depletion and amortization	6,7	19,366	76,101
Finance costs		59,833	68,964
Finance income		(969)	(471)
Loss on disposal of property, plant and equipment, net of income from sale of property, plant and equipment		(1,021)	811
Net foreign exchange differences		(13,456)	(15,074)
Change in the estimates of decommissioning and environmental restoration provision		(21,931)	5,243
Other income and expenses		(19,489)	2,303
Operating cash inflows before working capital changes		**252,558**	**156,582**
Change in inventories		(642)	2,352
Change in trade and other receivables and other current non-financial assets		17,905	80,862
Change in trade and other payables and contract liabilities		27,064	33,606
Change in other taxes payable		(30,993)	36,702
Net cash flows from operating activities before income tax and interests		**265,892**	**310,104**
Interest received		968	424
Interest paid	10	(37,123)	(48,013)
Income tax paid		(8,747)	(13)
Net cash flows from operating activities		**220,990**	**262,502**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,765	80
Capital expenditure on exploration and evaluation activities		(56,558)	(53,749)
Purchase of property, plant and equipment		(391,637)	(324,801)
Net cash used in investing activities		**(446,430)**	**(378,470)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities		(3,223)	(2,112)
Proceeds from borrowings	10	502,713	327,839
Repayment of borrowings	10	(207,117)	(182,555)
Net cash flows from/(used) in financing activities		**292,373**	**143,172**
Net change in cash and cash equivalents		**66,933**	**27,204**
Net foreign exchange difference		(2,737)	358
Cash and cash equivalents at the beginning of the period		25,857	3,629
Cash and cash equivalents at the end of the year		**90,053**	**31,191**

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

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2021
(in '000s of Russian rubles, unless otherwise stated)

	Attributable to owners of the Parent				
	Share capital	**Share premium**	**Other reserve**	**Accumula-ted losses**	**Total equity**
At 1 January 2020	**970,218**	**5,498,009**	**1,343,566**	**(5,331,861)**	**2,479,932**
Loss for the period	–	–	–	(29,431)	**(29,431)**
Total comprehensive loss	**–**	**–**	**–**	**(29,431)**	**(29,431)**
At 30 June 2020 (unaudited)	**970,218**	**5,498,009**	**1,343,566**	**(5,361,292)**	**2,450,501**
At 1 January 2021	**970,218**	**5,498,009**	**1,343,566**	**(6,311,947)**	**1,499,846**
Profit for the period	–	–	–	213,151	**213,151**
Total comprehensive loss	**–**	**–**	**–**	**213,151**	**213,151**
At 30 June 2021 (unaudited)	**970,218**	**5,498,009**	**1,343,566**	**(6,098,796)**	**1,712,997**

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 30 June 2021 and 2020
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 are 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.

In 2021 the negative influence of COVID-19 on world markets continues. At the moment, it is impossible to fully evaluate the potential impact of COVID to the Company's results for 2021 as global oil and gas markets continue to be volatile. Management will continue to evaluate the influence of this factor on the Company's operational activity and its financial results.

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

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

Systemic nature and position of the industry where the Group operates (gas extraction);

The means and volume of use of the Group's production assets have not changed;

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.

2. Significant accounting policies

2.1 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as adopted by the European Union. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020, which were prepared in accordance with International Financial Reporting Standards, as adopted by the European Union.

Operating results for the six-month period ended 30 June 2021 are not necessarily indicative of the results that may be expected for the year ending 31 December 2021.

2.2 Going concern

As of 30 June 2021 the Group's current liabilities exceed its current assets by 2,467,374 kRUB (31 December 2020: 2,127,357 kRUB). The net working capital deficit was mainly caused by the fact that the Group breached a covenant, stipulated in the loan agreement (see Note 10). In accordance with a loan agreement terms, in case of a covenant breach the bank can demand for a settlement of a full amount due ahead of schedule, stated in the loan agreement. This circumstance constitutes a significant liquidity risk for the Group which causes a material uncertainty and casts significant doubt on the Group's ability to continue as a going concern, and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

- As of the date of these consolidated financial statements are issued, the bank has not demanded settlement of a full amount due ahead of schedule. The Group expects that no ahead of schedule settlement will take place and all loan repayments will be made in accordance with the loan agreement schedule. The management of the Group is in constant contact with the bank, providing it with all necessary explanations and supporting documentation;
- As described in Note 10, during 2020 the Group received a loan from ARA Capital Holdings, related party, for the amount of USD 9 million (664,881 kRUB 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 (1,375,074 kRUB using RUB/USD exchange rate as at 30 June 2021). 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. It was agreed on 18 June_2021 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. The Company does not have sufficient funds to repay the Loan and it has been unable to secure alternative sources of finance to repay the Loan. Accordingly, in order to seek authority to issue new ordinary shares in the Company pursuant to the agreed conversion terms (if such conversion is requested by ARA Capital Holdings), the Company intends to convene an EGM by the end of this year.

- 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 for the six-month period ended 30 June 2021 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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group.

New accounting pronouncements

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

Standards issued but not yet effective in the European Union	**Effective for annual periods beginning on or after**
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	1 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	1 January 2022
IFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities	1 January 2022
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
IFRS 17 Insurance Contracts	1 January 2023

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.

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 an 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.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

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

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

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

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

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

2.4 Segment reporting

Segment reporting follows the Group's internal reporting structure.

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

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

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

2.5 Foreign currency translation

a) Functional and presentation currency

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

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

b) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on the settlement or translation of monetary items are recognised in profit or loss.

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

c) Group companies

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

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

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

	30 June 2021	**31 December 2020**
RUB/USD as at reporting date	72.3723	73.8757

	2021	2020
RUB/USD average for the six months ended 30 June	74.2781	69.3714

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

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

	30 June 2021		31 December 2020	
	Fair value (unaudited)	Carrying value (unaudited)	Fair value	Carrying value
Financial assets				
Trade and other receivables	113,841	113,841	158,233	158,233
Total assets	**113,841**	**113,841**	**158,233**	**158,233**
Financial liabilities				
Borrowings	1,713,531	1,937,876	1,643,670	1,656,896
Trade and other payables	647,023	647,023	551,746	551,746
Total liabilities	**2,360,554**	**2,584,899**	**2,195,416**	**2,208,642**

The fair value of borrowings and other non-current payables is based on cash flows discounted using a market rate of 7.39% (2020: 6.71%). The fair values of borrowings and other non-current payables are within level 2 of the fair value hierarchy. The fair value of trade and other receivables is within level 3 hierarchy.

3. Revenue from contracts with customers

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

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

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Gas sales	614,239	488,914
Condensate sales	82,417	39,458
Oil sales	56,190	22,626
Sulphur sales	2,291	1,336
Total revenue from contracts with customers	**755,137**	**552,334**

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.

4. Cost of sales

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Mineral extraction tax	174,975	124,035
Wages and salaries	65,427	54,919
Other taxes and royalties	57,315	28,640
Materials and supplies	38,214	35,519

Repair and maintenance	31,097	27,838
Depreciation and depletion	13,147	71,181
Compensation benefits to operations personnel	12,028	13,042
Other	28,361	25,447
Total cost of sales	**420,564**	**380,621**

5. Income tax expense

The tax charge for the year comprises:

	Six months ended 30 June	
	2021 (unaudited)	**2020 (unaudited)**
Deferred tax expense	(4,400)	(43,587)
Current tax expense	(8,747)	(13)
Tax risk provisions	(3,927)	(4,536)
Total income tax expense	**(17,074)**	**(48,136)**

Reconciliation between theoretical and actual taxation charge is provided below.

	Six months ended 30 June	
	2021 (unaudited)	**2020 (unaudited)**
Profit before income tax	**230,225**	**18,705**
Theoretical tax charge at applicable income tax rate of 20% (H1 2020: 20%)	**(46,045)**	**(3,741)**
Effect of different foreign tax rates	(2,762)	(3,069)
Effect of unrecognised deferred tax assets	28,047	(34,069)
Tax effect of expenses not deductible for tax purposes	7,613	(2,721)
Tax risk provisions	(3,927)	(4,536)
Total income tax expense	**(17,074)**	**(48,136)**

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

	Six months ended 30 June 2021	**Six months ended 30 June 2020**
The Russian Federation	20.0%	20.0%
The Republic of Cyprus	12.5%	12.5%
Cayman Islands	0%	0%

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

6. Exploration and evaluation assets

	Sub-soil licences	Exploration and evaluation works capitalised, including seismic works	Total
Balance at 1 January 2020	**1,035,967**	**2,474,249**	**3,510,216**
Additions	–	97,427	**97,427**
Transfer from property, plant and equipment	–	2,482	**2,482**
Change in the estimates of decommissioning provision	–	1,342	**1,342**
Amortization	(109)	(436)	**(545)**
Balance at 30 June 2020 (unaudited)	**1,035,858**	**2,575,064**	**3,610,922**
Balance at 1 January 2021	**1,033,028**	**2,576,672**	**3,609,700**
Additions	–	4,477	**4,477**
Transfer from property, plant and equipment	–	(1,465)	**(1,465)**
Change in the estimates of decommissioning provision	–	(2,066)	**(2,066)**
Amortization	(266)	–	**(266)**
Balance at 30 June 2021 (unaudited)	**1,032,762**	**2,577,618**	**3,610,380**

In management's opinion, as at 30 June 2021 there were no non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group.

The impairment is described in Note 7.

7. Property, plant and equipment

	Oil and gas assets	Motor vehicles	Other equipment and furniture	Construction work in progress	Total
Cost at 1 January 2020	**5,456,559**	**17,662**	**11,346**	**307,460**	**5,793,027**
Additions	23,278	27	383	311,099	**334,787**
Reclassification	133,130	–	–	133,130	**–**
Transfer to exploration and evaluation assets	–	–	–	(2,482)	**(2,482)**
Transfer to current assets	–	–	–	(2,682)	**(2,682)**
Change in the estimates of decommissioning provision	11,970	–	–	–	**11,970**
Disposals	(8,636)	–	–	–	**(8,636)**
Cost at 30 June 2020 (unaudited)	**5,616,301**	**17,689**	**11,729**	**480,265**	**6,125,984**
Cost at 1 January 2021	**5,924,033**	**20,636**	**12,340**	**530,048**	**6,487,057**
Additions	8,291	74	2,652	561,092	**572,109**
Reclassification	53,890	–	–	(53,890)	**–**
Transfer to exploration and evaluation assets	–	–	–	1,465	**1,465**
Transfer to current assets	–	–	–	(1,980)	**(1,980)**
Change in the estimates of decommissioning provision	(35,724)	–	–	–	**(35,724)**
Disposals	(3,987)	(1,572)	–	(850)	**(6,409)**
Cost at 30 June 2021 (unaudited)	**5,946,503**	**19,138**	**14,992**	**1,035,885**	**7,016,518**
Accumulated depreciation, depletion and impairment					
Balance at 1 January 2020	**(4,497,073)**	**(16,668)**	**(8,680)**	**(160,331)**	**(4,682,752)**
Depreciation and depletion	(72,703)	(753)	(336)	–	**(73,792)**
Disposals	7,745	–	–	–	**7,745**
Balance at 30 June 2020 (unaudited)	**(4,562,031)**	**(17,421)**	**(9,016)**	**(160,331)**	**(4,748,799)**
Balance at 1 January 2021	**(5,579,133)**	**(18,835)**	**(10,551)**	**(214,475)**	**(5,822,994)**
Depreciation and depletion	(15,173)	(903)	(93)	-	**(16,169)**
Disposals	4,057	1,153	-	-	**5,210**
Balance at 30 June 2021 (unaudited)	**(5,590,249)**	**(18,585)**	**(10,644)**	**(214,475)**	**(5,833,953)**
Net book value at 1 January 2020	**959,486**	**994**	**2,666**	**147,129**	**1,110,275**
Net book value at 30 June 2020 (unaudited)	**1,054,270**	**268**	**2,713**	**319,934**	**1,377,185**
Net book value at 1 January 2021	**344,900**	**1,801**	**1,789**	**315,573**	**664,063**
Net book value at 30 June 2021 (unaudited)	**356,254**	**553**	**4,348**	**821,410**	**1,182,565**

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 was planned. This and the 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 6), Property, plant and equipment and Right-of-use assets of the CGU.

In assessing the impairment amount, the carrying value of the CGU is compared with its recoverable amount. The recoverable amount used in assessing the impairment charges described below is fair value less costs of disposal ("FVLCD"). The Company generally estimates FVLCD using the income approach, specifically the discounted cash flow ("DCF") method. Discounted cash flows of the Western part of Bortovoy licence field were built based on the long-term business plan the Group. The period: 2020-2027 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 kRUB. 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 by 1% would result in an additional impairment charge of 18,486 kRUB.

As of 31 December 2020 the recoverable amount of the Western part of Bortovoy licence field comprised 13,806 kRUB. 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 by 1% would result in an additional impairment charge of 4,038 kRUB.

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 kRUB.

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 kRUB.

8. Share capital

At 30 June 2021, 31 December 2020	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

9. Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As of 31 December 2020, all share options have expired and do not have any effect on the loss per share as of 30 June 2021 also.

	Six months ended 30 June	
	2021 (unaudited)	2020 (unaudited)
Profit / (loss) attributable to owners of the Company – basic and diluted	213,151	(29,431)
	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 profit / (loss) per share	1.50	(0.21)
Diluted profit / (loss) per share	1.50	(0.21)

10. Borrowings

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 kRUB. 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 kRUB. 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 30 June 2021 amounting to 5,338 kRUB to secure the loan. The agreement contains certain loan covenants. The Group was not in compliance with certain of such covenants as at 31 December 2020 and accordingly the entire outstanding balance has been reclassified to a short-term liability.

On 16 March 2021 the Group signed a credit line agreement with Promsvyasbank PJSC. The credit line limit is 300,000 kRUB. 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 4.5%. Payment terms depend on the amount of the credit line used and the final payment is no later than 29 April 2024.

The loan facility contains a technical covenant requiring 75 mmcm of natural gas production per quarter. The covenant contains some 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 2021 due to a delay in the development drilling programme on West Bortovoy. The bank accepted the Company's explanation on the covenant breach. From Q3 2021 the Company will find it difficult to comply with certain covenants which require minimum end of day cash of RUB 115 million and 75 mmcm of natural gas production per quarter. The penalty for the violation will be an increase of 0.2% on the current interest rate.

	2021	**2020**
Credit facility with Promsvyazbank PJSC – liability, as at 1 January	**964,838**	**1,256,457**
Including current liability	*964,838*	*1,256,457*
Interest accrued	*35,903*	43,924
Interest paid	*(33,308)*	(46,108)
Proceeds	283,117	–
Repayment	(207,117)	(144,000)
Credit facility Promsvyazbank PJSC – liability, as at 30 June (unaudited)	**1,043,433**	**1,110,273**
Including current liability	*1,043,433*	*1,110,273*

On 14 July 2020, the Company announced that it has entered into a loan agreement dated 12 March 2020 with ARA Capital Holdings Limited under which ARA Capital Holdings Limited provided a revolving loan facility for up to USD 9 million (the “Loan”). ARA Capital Holdings Limited is the parent company of ARA Capital Limited, both are the Group’s shareholders. In June 2021 this loan agreement was extended and increased to a maximum principal size of USD 19 million.

The Loan has been made available for drawdown in three 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.
(3) USD 3,000,000, which is provided unconditionally 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.

It was agreed on 18 June 2021 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. The Company does not have sufficient funds to repay the Loan and it has been unable to secure alternative sources of finance to repay the Loan. Accordingly, in order to seek authority to issue new ordinary shares in the Company pursuant to the agreed conversion terms (if such conversion is requested by ARA Capital Holdings), the Company intends to convene an EGM by the end of this year.

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. 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.

	2021	2020
Credit facility with ARA Capital Holdings Limited – liability, as at 1 January	**664,881**	**–**
Including current liability	*664,881*	–
Interest accrued	–	–
Interest paid	–	–
Proceeds	219,596	244,285
Net foreign exchange difference	(16,010)	(13,446)
Repayment	–	–
Credit facility ARA Capital Holdings Limited – liability, as at 30 June (unaudited)	**868,467**	**230,839**
Including current liability	*868,467*	*230,839*

Also during 2020, the Group received loans from third parties in the total amount of 147,000 kRUB. 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).

	2021	2020
Credit facility with third parties – liability, as at 1 January	**27,177**	**–**
Including current liability	*27,177*	–
Interest accrued	1,201	1,752
Interest paid	(2,402)	(710)

Proceeds	–	97,000
Repayment	–	(52,000)
Credit facility third parties – liability, as at 30 June (unaudited)	**25,976**	**46,042**
Including current liability	*25,976*	*46,042*

11. 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.

	2021	2020
Provision as at 1 January	**645,406**	**591,558**
Additions	2,155	10,982
Unwinding of discount	19,733	18,981
Change in estimate of decommissioning and environmental restoration provision	(59,721)	18,555
Provision as at 30 June (unaudited)	**607,573**	**640,076**

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

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

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

The Group reviews the application of inflation rates used for the provision estimation each half-year end. The inflation rate used in the estimation of the provision as of 30 June 2021 was 4.50% in 2021, decreasing to 4.0% in 2036 (as of 31 December 2020: 4.50% in 2020, decreasing to 4.0% in 2036). The discount rates used to determine the decommissioning and environmental restoration provision are based on Russian government bond rates. As of 30 June 2021, the discount rate varies from 7.12% to 7.21% (as of 31 December 2020: from 5.93% to 6.39%) depending on expected period of abandonment and site restoration for each gas and oil fields.

12. 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.

12.1 Liquidity risk

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

The Group's current liabilities exceed its current assets by 2,467,374 kRUB as at 30 June 2021. 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, in kRUB:

	Total	Less than 1 year	1-3 years	Over 3 years
Financial liabilities as at 30 June 2021 (unaudited)				
Borrowings	**1,759,611**	1,759,611	–	–
Trade and other payables	**647,023**	647,023	–	–
Lease liabilities	**30,627**	8,315	12,804	9,508
Total	**2,437,261**	**2,414,949**	**12,804**	**9,508**

	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**

The Company is in the advanced stages of negotiations for project finance with two major Russian banks and will provide a further update in due course. It should be noted that the terms of both project finance packages potentially available to the Company include conditions which are likely to restrict intra group transfers and cash outflows from the Group's main operating subsidiary, Diall Alliance. As a consequence, the Company would be unable to maintain the listing of its ordinary shares on AIM on an ongoing basis.

In the event that Diall Alliance is unable to secure project financing in the near term, it will be unable to service its current loans, including its credit payment due to Promsvyazbank at the end of October 2021, due to a cash shortfall which is expected to arise in Q4 2021.

12.2 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 + 2.35%.

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.

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

12.3 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 81.3% and 88.5% of the Group's total revenue during the first six months of 2021 and 2020 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 to 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.

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

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

To limit exposure to credit risk on cash and cash equivalents management's policy is to hold cash and cash equivalents in reputable financial institutions with low credit risk. During the first six months of 2021 cash was held mainly with Promsvyasbank PJSC, Alfa Bank and Sberbank. Banks are regularly evaluated by International and Russian agencies and are considered reliable banks with low credit risk (ratings at the reporting date are presented below).

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

	30 June 2021 (unaudited)	31 December 2020
Ba1.ru, Moody's	108	1,017
Ba2.ru, Moody's	11,915	10,983
Baa3.ru, Moody's	77,499	13,326
Other	531	531
Total cash and cash equivalents	**90,053**	**25,857**

Capital management

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

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

The Group companies are in compliance with externally imposed capital requirements as of 30 June 2021 and 31 December 2020.

13. Commitments and contingencies

13.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred at 30 June 2021 was 1,223,483 kRUB, net of VAT (31 December 2020: 38,873 kRUB, net of VAT).

13.2 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.

13.3 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.

13.4 Taxation

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

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

In 2021, 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.

13.5 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.

14. 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 (kRUB).

	30 June 2021 (unaudited)	**30 June 2020 (unaudited)**
Borrowings from shareholder, who has significant influence over the Group		
ARA Capital Holdings Limited	868,467	230,839
Total borrowings	**868,467**	**230,839**

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

	30 June 2021 (unaudited)	**30 June 2020 (unaudited)**
Operations with companies under the control of a shareholder with significant influence		
Artamira LLC	8,416	–
Chalyk-Nafta LLC	157	–
Saratov Geoneft LLC	123	–
Neftepoisk LLC	123	–
Engels Nafta LLC	123	–
Total trade and other receivables	**8,942**	**–**

Trade and other payables from related parties are presented as follows (kRUB):

	30 June 2021 (unaudited)	**30 June 2020 (unaudited)**

Operations with companies under the control of a shareholder with significant influence		
Artamira LLC	53,208	–
Total trade and other payables	**53,208**	**–**

The income items for transactions with related parties for the year ended 30 June 2021 and 30 June 2020 are presented below (kRUB):

	30 June 2021 (unaudited)	30 June 2020 (unaudited)
Operations with companies under the control of a shareholder with significant influence		
Artamira LLC (Management and operational services)	9,891	–
Chalyk-Nafta LLC (Management services)	87	–
Saratov Geoneft LLC (Management services)	86	–
Neftepoisk LLC (Management services)	86	–
Engels Nafta LLC (Management services)	86	–
Total income items	**10,236**	**–**

Key management comprises members of the Board of Directors.

The remuneration of key management comprised of salary and bonuses in the amount 4,976 kRUB (6 months 2020: 4,574 kRUB).

15. Events after the reporting date

There were no events after the reporting date that require disclosures in the Group's interim condensed consolidated financial statements.