volgagas plc

placing and admission to **aim**

Sole Global Coordinator and Bookrunner, Joint Lead Manager and Joint Broker

RENAISSANCE CAPITAL

Nominated Adviser, Joint Lead Manager and Joint Broker

KBC PEEL HUNT LTD

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the contents of this document or the action that you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 ("FSMA") if you are in the UK or, if not, from another appropriately authorised independent financial adviser who specialises in advising on the acquisition of shares and other securities.

The directors ("Directors") of Volga Gas plc (the "Company"), whose names appear on page 9, and the Company, whose registered address appears on page 9 of this document, accept responsibility, individually and collectively, for the information contained in this document and compliance with the rules of the London Stock Exchange plc (the "London Stock Exchange") applicable to companies governing the admission to and operation of AIM ("AIM"), a market operated by the London Stock Exchange (the "AIM Rules for Companies"). To the best of the knowledge and belief of the Company and the Directors, each of whom has taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

This document is an admission document which has been drawn up in accordance with the AIM Rules for Companies. This document has been issued in connection with the application for admission to trading of the Shares, as defined below, on AIM. This document does not comprise a prospectus for the purposes of the Prospectus Rules published by the Financial Services Authority of the United Kingdom (the "FSA") and a copy of it has not been, and will not be, approved by the FSA.

Application will be made for all of the ordinary shares (together, the "Shares") of the Company in issue and to be issued pursuant to the placing (the "Placing") of certain Shares (the "Placing Shares"), but excluding Shares which may be issued by the Company pursuant to the over-allotment option granted to KBC Peel Hunt on behalf of the Joint Lead Managers (the "Optional Shares"), on behalf of the Company to be admitted to trading on AIM ("Admission"). It is expected that Admission will become effective and that unconditional dealings in the Shares will commence on AIM on or about 25 April 2007. The Shares are not dealt in on any other recognised investment exchange and no application has been made or will be made for the Shares to be admitted to any such exchange.

VOLGA GAS PLC

(a company incorporated in England and Wales with registered number 5886534)

Placing of up to 20,833,333 Shares at a price of US$6 per Share to raise US$125,000,000 and Admission to trading on AIM

Nominated Adviser, Joint Lead Manager and Joint Broker

KBC Peel Hunt Ltd

Sole Global Coordinator and Bookrunner and Joint Lead Manager

Renaissance Securities (Cyprus) Limited

Joint Broker

Renaissance Capital Limited

Share capital immediately following Admission

Authorised			Issued and fully paid	
Number	Amount	Shares of par value of 1p each	Number	Amount
330,720,100	£3,307,201		51,694,715	£516,947

The numbers set out above exclude any Optional Shares.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority (the "Official List"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required, pursuant to the AIM Rules for Companies, to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

The whole of this document should be read. An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. Investors should consider carefully the "Risk Factors" which are set out in Part IV of this document.

All the Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions declared, paid or made in respect of Shares after Admission.

This document does not constitute an offer to sell, an invitation to subscribe for or the solicitation of an offer to buy or subscribe for securities in any jurisdiction in which such offer, invitation or solicitation is unlawful. In particular, this document may not be sent or forwarded to any legal or natural person in the United States, Canada, Australia, Japan, the Republic of South Africa or the Republic of Ireland, or any other jurisdiction in which it is not permissible to make an offer of or sell the Shares.

KBC Peel Hunt **Renaissance Capital**

KBC Peel Hunt Ltd ("KBC Peel Hunt"), which is authorised and regulated in the United Kingdom by the FSA, and Renaissance Securities (Cyprus) Limited ("Renaissance" and together with KBC Peel Hunt, the "Joint Lead Managers"), which is authorised by the Cyprus Securities and Exchange Commission and passported into and regulated in the United Kingdom by the FSA, are acting for the Company, and no one else, in connection with the Admission and the Placing, and will not be responsible to any person other than the Company for providing the protections afforded to their respective clients or for providing any advice in relation to the contents of this document and/or the Admission or the Placing. KBC Peel Hunt's responsibilities as the nominated adviser to the Company are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person whether in respect of his decision to acquire Shares in reliance on any part of this document or otherwise. No representation or warranty, express or implied, is made by either of the Joint Lead Managers or any of their respective parent or subsidiary undertakings or the subsidiary undertakings of any such parent undertakings or any of such person's directors, officers or employees as to any of the contents of this document for which the Company and the Directors are solely responsible. Neither of the Joint Lead Managers has authorised the contents of, or any part of, this document and, without limiting the statutory rights of any person to whom this document is issued, no liability whatsoever is accepted by either of the Joint Lead Managers for the accuracy of any information or opinions contained in this document or for any omissions of any information, for which the Company and the Directors are solely responsible. In particular, the information contained in this document has been prepared solely for the purposes of the Placing and the Admission and is not intended to inform or be relied upon by any subsequent purchasers of Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them.

Each of the Company and the Joint Lead Managers has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) in connection with the issue or sale of the Shares in circumstances in which Section 21(1) of FSMA does not apply.

No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company or the Joint Lead Managers. Neither the delivery of this document nor any subscription or acquisition made under it shall, in any circumstances, create any implication that there has been no change in the affairs of the Company and its subsidiaries since the date of this document or that the information in it is correct as of any subsequent date.

The distribution of this document and the offer of the Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by any of the Company or the Joint Lead Managers to permit a public offering of the Shares. Other than in the United Kingdom, no action has been or will be taken to permit the possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Shares) in any jurisdiction where action for that purpose may be required, or doing so is restricted or prohibited by law.

The offer or sale of Shares to persons who are resident in, or citizens of, or which are corporations, partnerships or other entities created or organised under the laws of countries other than the United Kingdom may be affected by the laws and regulations of the relevant jurisdiction. No person receiving a copy of this document in any territory other than the United Kingdom may treat the same as constituting an offer or an invitation to him to subscribe, apply for or purchase Shares unless, in the relevant territory, such offer or invitation could lawfully be made without compliance with any registration or other legal requirements other than any such requirements which have been fulfilled. Accordingly, persons (including, without limitation, nominees and trustees) receiving this document should not, in connection with the Placing, distribute or send the same into any jurisdiction where to do so would or might contravene securities laws or regulations. It is the responsibility of any person outside the United Kingdom to satisfy himself as to the full observance of the laws and any regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consent which may be required, and compliance with other necessary formalities including the payment of any issue, transfer or other taxes due in such territory.

This document has been prepared solely for the benefit of the limited number of prospective investors to whom it has been addressed and delivered and may not, in any circumstances, be used for any other purpose or be viewed as a document for the benefit of the public. The reproduction, distribution or transmission of this document (either in whole or in part) without the prior written consent of the Company and the Joint Lead Managers is prohibited.

In relation to each member state of the European Economic Area ("Member State") which has implemented European Union ("EU") Directive 2003/71/EC (the "Prospectus Directive"), each of the Joint Lead Managers has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State it has not made and will not make an offer of Shares to the public in that Member State, except that it may, with effect from and including such date, make an offer of Shares to the public in that Member State:

(i) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(ii) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the consent of the Sole Global Coordinator and Bookrunner for any such offer; or

(iv) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an "offer of Shares to the public" in relation to any Shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive includes any relevant implementing measure in that Member State.

The Shares have not been and will not be registered under the laws of the Russian Federation, including the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended, and therefore may not be offered, sold or delivered directly in the Russian Federation or to Russian persons except as permitted by Russian Law.

In addition, the Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or under the securities laws of any state or other jurisdiction of the United States. Purchasers of the Shares may not offer, sell, pledge or otherwise transfer the Shares in the United States absent registration under the Securities Act, except pursuant to an available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable securities laws of the states and other jurisdictions of the United States. The Placing Shares and the Optional Shares (if any) are being offered and sold outside the United States solely in offshore transactions in reliance on Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Placing, an offer or sale of Shares within the United States by any dealer (whether or not participating in the Placing) may violate the registration requirements of the Securities Act.

The Joint Lead Managers, as agents for the Company, have agreed to procure subscribers for the Placing Shares or, failing which, to subscribe themselves as principals for such Shares at the Placing Price on and subject to the terms of the Underwriting Agreement. The Placing Shares will represent 40.3 per cent. of the Enlarged Issued Share Capital. The Placing Shares are being placed by the Joint Lead Managers with institutional and other sophisticated investors and the Placing is conditional, *inter alia*, on Admission. See "Part II — The Company — Details of the Placing" for further details of these arrangements.

In connection with the Placing, KBC Peel Hunt or any person acting on its behalf may, for a limited period after Admission, to the extent permitted by applicable law, over-allot or effect other stabilisation transactions in the Shares with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market. However, there is no obligation on KBC Peel Hunt, or any person acting on its behalf, to do so. Such stabilisation, if commenced, may begin on the date of Admission, may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be discontinued at any time without prior notice but in no event later than 30 days after the date of Admission. The Joint Lead Managers do not intend to disclose the extent of any over-allotments and/or stabilisation transactions conducted in relation to the Placing otherwise than in accordance with any legal or regulatory obligation to do so.

The Company has granted KBC Peel Hunt on behalf of the Joint Lead Managers an over-allotment option, pursuant to which the Joint Lead Managers may require the Company to issue up to 1,666,667

Optional Shares to them at the Placing Price, for the purposes of allowing KBC Peel Hunt, or any person acting on its behalf, to cover over-allotments resulting from stabilisation transactions. The over-allotment option is exercisable in whole or in part upon written notice by KBC Peel Hunt on behalf of the Joint Lead Managers at any time and from time to time within 30 days after the date of Admission. See "Part II — The Company — Stabilisation and Over-allotment Arrangements" for further details of these arrangements.

In connection with the Placing, the Joint Lead Managers, and any of their affiliates acting as an investor for them or their own account(s) may subscribe for or acquire Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Company or other related investments in connection with the Placing or otherwise. Accordingly, references in this document to the Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription, acquisition or dealing by the Joint Lead Managers or any of their affiliates acting as an investor for them or their own account(s). The Joint Lead Managers do no intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

This document contains statements that are, or may be deemed to be, forward-looking statements. Examples of such forward-looking statements include, but are not limited to, statements of the Company's plans, targets, objectives or goals, including those related to products or services, statements concerning future business or industry performance, other statements that do not relate strictly to historical or current facts and assumptions underlying such statements. Words such as "anticipate", "believe", "plan", "expect", "intend", "estimate", "project", "will", "should", "could", "may", "predict" and similar expressions are typically used to identify forward-looking statements. Investors are cautioned that actual results could differ materially from those anticipated in forward-looking statements. Investors should not place undue reliance on forward-looking statements. The forward-looking statements contained in this document are largely based on the Company's expectations, which reflect estimates and assumptions made by the Company and by the Petroleum Consultant, as defined below. The Company's estimates and assumptions reflect its best judgment based on currently known market conditions and other factors, some of which are discussed below. The Company's estimates may differ from comparable estimates in the report prepared by the Petroleum Consultant set out in "Part V — Petroleum Consultant's Report" due, *inter alia*, to timing and expenditure levels planned by the Company varying from those assumed in the Petroleum Consultant's Report. Although the Company believes its estimates and assumptions to be reasonable, they involve a number of inherent risks and uncertainties, both general and specific, many of which are beyond the Company's control and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. A number of important factors that could cause actual results to differ materially from the Company's estimates, assumptions and expectations, include, among other things, those identified under the heading "Part IV — Risk Factors."

When evaluating forward-looking statements, investors should carefully consider the factors identified under the heading "Part IV — Risk Factors" and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. These cautionary statements qualify all forward-looking statements attributable to the Company or persons acting on the Company's behalf.

The Company has prepared audited consolidated financial information under International Financial Reporting Standards, an accountants' report on which is contained in this document for the period ended 31 December 2006. The Company has prepared 2005 pro forma International Financial Reporting Standards financial information for Woodhurst Holdings Limited ("Woodhurst"), the only company within the Company's group, including the Company, Woodhurst, OOO Pre-Caspian Gas Company and OOO Gaznefteservice (the "Group"), operating in 2005. The limited International Financial Reporting Standards financial information makes it difficult to identify long term trends in the Company's business and as the Company's business changes by moving from exploration and development into production or by growing through acquisitions, the financial information contained herein may not be indicative of or comparable with its financial condition or the results of operations in the future. Accordingly, prospective investors have less information on which to evaluate their investment in the Shares now or in the future.

In evaluating the Company's future prospects, a potential investor should consider the risks, expenses, uncertainties and obstacles it may face in exploiting its hydrocarbon resources or implementing its growth strategy.

This document contains governmental, industry and market data. See "Part II — The Company," "Part III — Overview of the Russian Gas Industry" and "Part VI — Regulation." The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than those of countries with more developed market economies. Official statistics may also be produced on different bases than those used in such other countries. Any discussion of matters relating to Russia or its regions in this document will, therefore, be subject to uncertainty about the completeness or reliability of available official information. See also "Risk Factors — Other Risks — The Company has not independently verified information it has sourced from third parties."

The Petroleum Consultant's Report, which fulfils the requirements of the AIM Guidance Note for Mining, Oil and Gas Companies published in March 2006 as a competent person's report, is contained in "Part V — Petroleum Consultant's Report." Your attention is directed, in particular, to the basis on which the report was prepared, the representations made by the Company to the Petroleum Consultant in the preparation of the report and the definitions, assumptions, explanations and qualifications relating to the Petroleum Consultant's estimates set out therein. The Petroleum Consultant also relied, without independent verification, upon information furnished by the Company with respect to the Company's ownership, subsurface data as it pertains to the target objectives and various other information that was accepted as provided and represented by the Company.

Illustrations and charts contained herein are principally derived from the Company's internal information and have not been independently verified unless specifically indicated. Technical and capitalised terms used but not otherwise defined herein are defined in Appendix A or Appendix B.

Copies of this document, which is dated 20 April 2007, will be available to the public, free of charge, during normal business hours at the offices of Akin Gump Strauss Hauer & Feld, CityPoint, Level 32, One Ropemaker Street, London EC2Y 9AW for one month from the date of Admission.

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PLACING STATISTICS[1]

Placing Price	US$6
Number of Shares in issue prior to the Placing	30,861,382
Number of Placing Shares	20,833,333
Number of Shares in issue immediately following the Placing	51,694,715
Placing Shares as a percentage of the Enlarged Issued Share Capital	40.3%
Number of Shares subject to the over-allotment option	1,666,667
Estimated gross cash proceeds of the Placing	US$125m
Estimated net cash proceeds of the Placing receivable by the Company	US$116.5m
Market capitalisation of the Company on Admission at the Placing Price	US$310.2m
Percentage of the Enlarged Issued Share Capital that is Not in Public Hands on Admission	62.6%

EXPECTED TIMETABLE OF PRINCIPAL EVENTS[2]

Date of this document	20 April 2007
Admission to trading effective and unconditional dealings in Shares commence on AIM	8:00 a.m. GMT on 25 April 2007
Crediting of Shares in uncertificated form to CREST accounts	25 April 2007
Definitive Share certificates dispatched in respect of the Placing Shares (where applicable)	by 8 May 2007

[1] All US$/RUR exchange rate references in this document assume an exchange rate of RUR26.4 per US$1. Unless otherwise stated, this document applies such exchange rate to all projected or other forward-looking amounts.

[2] All dates in the table are subject to change.

DIRECTORS, SECRETARY AND ADVISERS

Board of Directors
Alexey Kalinin, Non-Executive Chairman
Mikhail Ivanov, Chief Executive Officer
Alistair Stobie, Chief Financial Officer
Ronald Freeman, Non-Executive Director
Stephen Ogden, Non-Executive Director
Vladimir Koshcheev, Non-Executive Director
Michael Calvey, Non-Executive Director
all of the registered office

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Company Secretary
Alistair Stobie
of the registered office

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Petroleum Consultant
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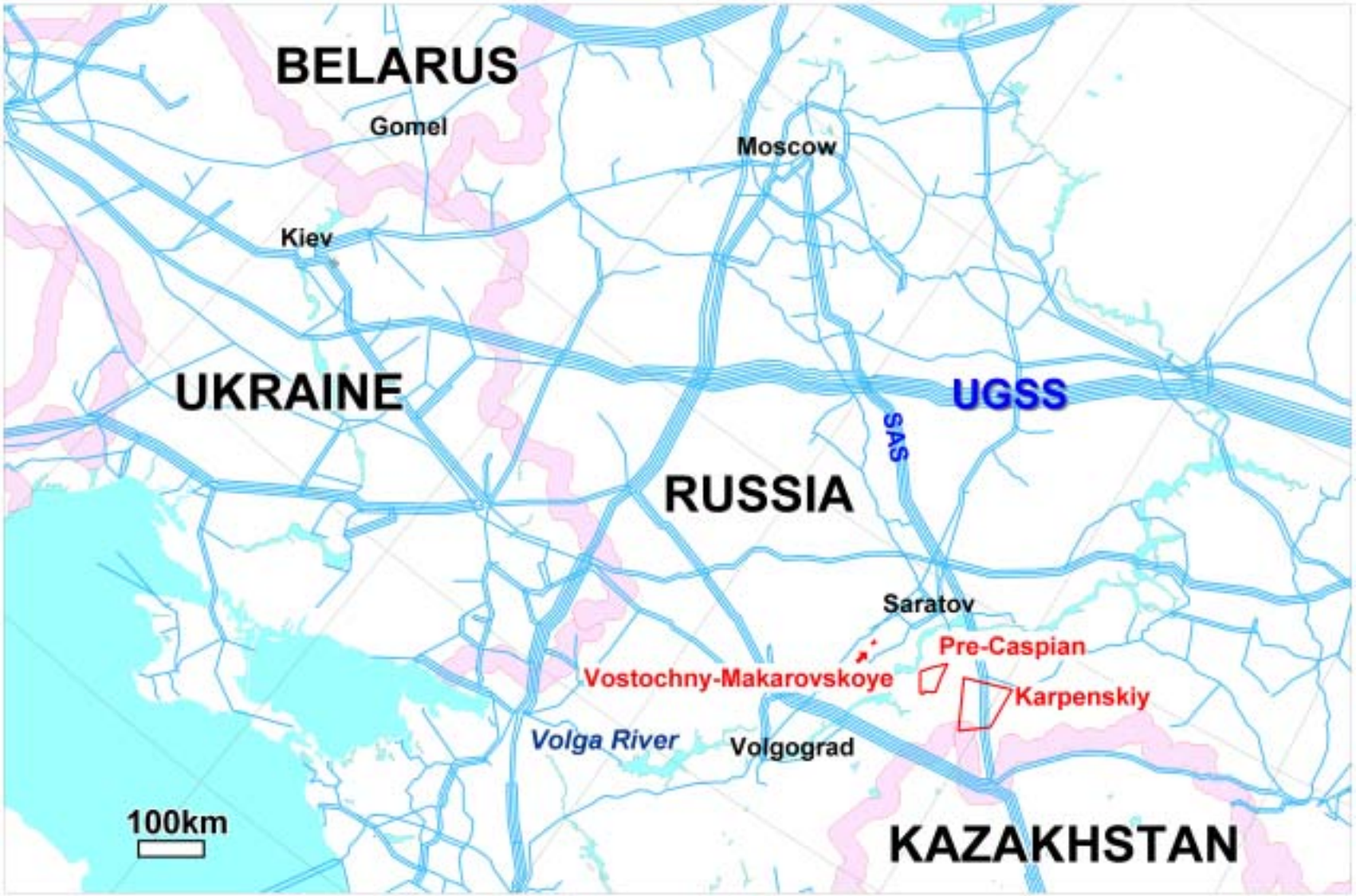

The above illustration is derived from the Company's internal information and represents the Company's interpretation of such information, but such illustration has not been subject to any independent verification.

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PART I

KEY INFORMATION

Volga Gas plc is a company which is principally focused on the exploration, development and production of gas and condensate in the Volga region of European Russia. The Company has three exploration and production licences in the Saratov and Volgograd regions, which it aims to bring into production to take advantage of increasing Russian domestic gas pricing and demand. Each of the Company's licence areas is located close to pipelines and other infrastructure and to major centres of demand in European Russia. The Company aims to become a leading independent gas producer through organic growth and acquisitions.

Russian assets with exploration and production potential

The Karpenskiy licence area covers approximately 4,180km^2 and is situated on the northern edge of the North Caspian Basin in the Saratov region (the "Karpenskiy Licence Area"). As a result of 2-D seismic acquired and wells drilled by LUKoil group companies, the Company has identified the Yuzhny-Ershovskoye sub-salt structure which is estimated to contain best estimate prospective resources, before the application of risk factors, of 34.5bcm of gas (approximately 203.1mmBOE) and 42,394mbbls of condensate.

- The Company is currently acquiring 3-D seismic on the Yuzhny-Ershovskoye structure and will commence acquisition of 3-D seismic on the Yuzhny-Mokrousovskoye structure once that is complete, in advance of a two-well sub-salt drilling programme on the structures to begin in the first half of 2008.
- Pending the sub-salt drilling programme, the Company is commencing an ancillary two-well supra-salt drilling programme that it expects to complete by the end of 2007.

The Vostochny-Makarovskoye licence area covers approximately 18km^2 and is situated in the Volgograd region (the "Vostochny-Makarovskoye Licence Area"). It contains proved and probable reserves of 7.2bcm of gas (approximately 42.4mmBOE) and 18,892mbbls of condensate and also possible reserves of 11.1bcm of gas (approximately 65.3mmBOE) and 33,391mbbls of condensate. The Company intends to bring the Vostochny-Makarovskoye field into production before the end of 2008.[3]

The Pre-Caspian licence area covers 1,437km^2 and is situated close to the Karpenskiy Licence Area (the "Pre-Caspian Licence Area"). The Company believes that, by analogy with the geology of the Karpenskiy Licence Area, the Pre-Caspian Licence Area may have both sub-salt and supra-salt resources. The Company will start a 1,500km 2-D seismic acquisition programme in the second half of 2007.

Extract from table of reserves and resources

	*Net**			
Reserves[4]	*Proved*	*Proved & Probable*	*Proved, Probable & Possible*	
Condensate (mbbls)	3,886	18,892	52,283	
Gas (bcm)	2.1	7.2	18.3	
Prospective Resources[5]	*Low Estimate*	*Best Estimate*	*High Estimate*	*Risk Factor[6]*
Condensate (mbbls, except as indicated)	18,851	42,394	59,827	23%
Gas (bcm, except as indicated)	15.3	34.5	48.6	23%

* Each of the Company's licences is wholly-owned. Therefore, gross reserves and resources are equal to net reserves and resources.

3 See "Part V — Petroleum Consultant's Report," at page 63.

4 See "Part V — Petroleum Consultant's Report," at page 64.

5 See "Part V — Petroleum Consultant's Report," at page 63.

6 See "Part V — Petroleum Consultant's Report," at page 102 for the definition of Risk Factor.

Domestic pricing of, and demand for, gas

The Company has already secured separate gas off-take agreements for the Karpenskiy Licence Area and the Vostochny-Makarovskoye Licence Area which have floor prices of RUR2,100/mcm (approximately US$80/mcm), including VAT, and RUR1,600/mcm (approximately US$60/mcm), including VAT, respectively. These agreements cover the full anticipated production capacity from the Vostochny-Makarovskoye Licence Area, and agreed volumes, increasing up to 10bcm by 2012, of gas production annually from the Karpenskiy Licence Area.

The Company believes it will be able to sell its gas domestically at unregulated prices. The Company believes Russian domestic gas pricing will increase due to growing domestic demand and an increased need for non-Gazprom gas producers to supply the domestic market. In November 2006, the Russian government approved a plan which, if implemented, may lead to an increase in regulated gas prices by up to 143 per cent. between 2007 and 2011 for domestic industrial customers. The Company believes domestic unregulated prices are influenced by domestic regulated prices and that it is well placed to take advantage of upward price trends due to market forces and any government regulated action.

Domestic demand for gas is expected to rise by 19 per cent. by 2015 from 460bcm in 2006 to 546bcm in 2015. Of this, the share of non-Gazprom Russian producers is expected to grow from 25 per cent. to 38 per cent.

Proximity and access to markets and infrastructure

The Company's licences are located in the Volga region of European Russia (see map above). Each of the three licence areas is located close to major pipeline infrastructure, with the Central Asian Centre ("SAS") pipeline running through the Karpenskiy Licence Area. The Company has entered into a framework gas supply agreement with ZAO Trans Nafta ("Trans Nafta") whereby it is anticipated that Trans Nafta will be responsible for ensuring access to the SAS for agreed annual amounts of gas increasing to 10bcm per year from the Karpenskiy Licence Area by 2012. The Company is also to be afforded access to the Unified Gas Supply System (the "UGSS") through Trans Nafta's connection point for all anticipated production from the Vostochny-Makarovskoye Licence Area.

Experienced Russian and western management

The Company has an experienced management team which it believes has the diverse and complementary skills and local market knowledge required to manage and grow an oil and gas exploration and production company in Russia.

Mikhail Ivanov, Chief Executive Officer, has over 14 years of experience in the oil and gas industry, of which ten years were spent working within the Schlumberger group, which includes Schlumberger Logelco, Inc., together with its direct and indirect subsidiaries (the "Schlumberger Group"), assuming various managerial and engineering responsibilities. Whilst employed by the Schlumberger Group he worked in Russia, other countries of the former Union of Soviet Socialist Republics (the "Soviet Union") and Iran, where he was country/operations manager. In Iran he worked on deep and complex high pressure gas fields.

Vyacheslav Lepilin, Chief Operating Officer and Exploration Director, has 33 years of experience in the oil and gas industry in the Soviet Union and Russia. He has worked for most of that time in the Volga region in both field operations and seismic processing and interpretation. From 1994 to 2004 he worked for OAO LUKoil and the predecessor companies to OAO LUKoil. He was the Chief Geologist at OOO LUKoil-Nizhnevolzhskneft ("LUKoil-NVN") and was a member of the team responsible for discovering the sub-salt structures in the Karpenskiy Licence Area.

Alistair Stobie, Chief Financial Officer, has over 10 years experience working in Russia, principally as a private equity investor in the oil and gas sector and other sectors. He previously worked at Baring Asset Management and as a partner at Baring Vostok Capital Partners ("Baring Vostok") where he was responsible for the First NIS Regional Fund's investment in Burren Energy plc. He was a director of Burren Energy plc from 1995 to 1998.

The Company also believes that the involvement of Alexey Kalinin and Michael Calvey, co-managing partners of Baring Vostok, as non-executive directors of the Company and the involvement of Baring Vostok Private Equity Fund III, as the Company's principal beneficial owner, will be important in the pursuit and implementation of its strategy through, among other things, their in-depth knowledge of the Russian market.

Focus on organic growth and further acquisitions

The Company intends to utilise management's local knowledge and experience to increase shareholder value through developing and bringing into production the Company's existing gas and condensate fields and identifying, acquiring and exploiting further gas and condensate fields in Russia. The acquisition of licences will be pursued on an opportunistic basis, whether through government auctions, such as the recently acquired Pre-Caspian Licence, or through corporate acquisitions, where the Company believes such assets are undervalued, could create synergies with existing assets or could yield greater value through the application of the latest technology.

PART II

THE COMPANY

Overview

The Company is an independent gas exploration and production company which was incorporated in July 2006. Through its wholly-owned Russian subsidiaries, OOO Pre-Caspian Gas Company ("PGK") and OOO Gaznefteservice ("GNS"), the Company currently holds three licences to explore for and produce oil and gas in the Volga region of European Russia. The Company is also seeking to increase shareholder value through the acquisition of under-valued assets, such as the recently-acquired Pre-Caspian Licence in European Russia.

Due to the Company's limited operating history and the exploration and development stage of its assets, the Company does not have a track record of generating revenue and does not expect to generate material revenue prior to the end of 2008.

Overview of Licence Areas, Reserves and Resources

The Company holds an exploration and production licence (the "Karpenskiy Licence") covering approximately 4,180km^2 of the Karpenskiy block in the Saratov region. The Karpenskiy Licence is valid until 15 August 2021 and covers two identified structures, Yuzhny-Ershovskoye and Yuzhny-Mokrousovskoye. The Yuzhny-Ershovskoye structure contains best estimate prospective resources of 34.5bcm of gas (approximately 203.1mmBOE) and 42,394mbbls of condensate.[7]

The Company holds a production licence (the "Vostochny-Makarovskoye Licence") covering approximately 18km^2 in the Volgograd region. The Vostochny-Makarovskoye Licence is valid until 1 July 2026. The Vostochny-Makarovskoye Licence Area contains proved and probable reserves of 7.2bcm of gas (approximately 42.4mmBOE) and 18,892mbbls of condensate, and also possible reserves of 11.1bcm of gas (approximately 65.3mmBOE) and 33,391mbbls of condensate.[8]

The Company also acquired an exploration and production licence (the "Pre-Caspian Licence") covering 1,437km^2 in the Saratov region to the east of the Volga River, close to the Karpenskiy Licence Area, at a government-mandated auction in October 2006. The Pre-Caspian Licence is valid until 23 November 2031. By analogy with the geology of the Karpenskiy Licence Area, the Company believes that the Pre-Caspian Licence Area may contain sub-salt and supra-salt resources of gas and condensate. See "Part X — Classification of Reserves and Resources."

Overview of Upstream Operations

The Company is in the process of acquiring 100km^2 of 3-D seismic on the Yuzhny-Ershovskoye structure, following which it plans to acquire 160km^2 of 3-D seismic on the Yuzhny-Mokrousovskoye structure. The Company expects that acquisition, processing and interpretation of the 3-D seismic on both structures will be completed during the first half of 2008, after which the Company plans to drill and test one well on each structure, and start preparing a field development programme. In 2008 the Company also plans to acquire at least a further 140km^2 of 3-D seismic to identify additional structures within the Karpenskiy Licence Area.

The Company is currently preparing a detailed field development programme for the Vostochny-Makarovskoye Licence Area, which contemplates the installation of gas-processing infrastructure and the drilling of production wells. The Company currently expects that this development will lead to initial gas and condensate production by the end of 2008.

The Company also intends to commence exploration of the Pre-Caspian Licence Area during the second half of 2007 by initiating a programme to acquire approximately 1,500km of 2-D seismic.

The Company currently outsources substantially all of its exploration and development activities to local or international third-party service providers, depending upon the complexity of the geological structures and drilling.

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[7] See "Part V — Petroleum Consultant's Report," at pages 63.

[8] See "Part V — Petroleum Consultant's Report," at pages 64.

Overview of Pipeline Access and Marketing Arrangements

The Company believes it is important to secure access to the UGSS in advance of committing capital to field development.

Accordingly, PGK has entered into a framework gas supply agreement with Trans Nafta, a leading national independent gas trading company in relation to the Karpenskiy Licence Area. Under the agreement Trans Nafta will be required to purchase gas in amounts increasing by 2012 to 10bcm of gas annually at a minimum price of RUR2,100/mcm (approximately US$80/mcm), including VAT. See paragraph 7.9 of "Part IX — Additional Information — Material Contracts — Trans Nafta Karpenskiy Off-take Agreement."

GNS has also secured a floor price for its gas off-take agreements of RUR1,600/mcm (approximately US$60/mcm), including VAT, from Trans Nafta under an off-take agreement for all gas production from the Vostochny-Makarovskoye Licence Area. See paragraph 7.10 of "Part IX — Additional Information — Material Contracts — Trans Nafta Vostochny-Makarovskoye Off-take Agreement." It is expected that GNS will share access to the UGSS with Trans Nafta's contiguous Dobrinskoye licence area.

Recent Developments in Domestic Gas Price Regulation

The Russian government recently approved the joint proposal of the Ministry of Energy and Industry, the Ministry of Economic Development, the Ministry of Finance, the Federal Anti-Monopoly Service (the "FAS") and the Federal Service on Tariffs (the "FST"), concerning the supply of gas and electricity to the national economy. The plan, if implemented, would permit a series of gas price increases for domestic industrial customers (primarily electric energy producers) with a view to achieving netback parity, being the price at which domestic prices would be equivalent to export prices after taking account of transportation costs and export tariffs ("Netback Parity"), by 2011. The Company believes the plan is intended to balance a number of competing demands, including the demands to increase gas prices to stimulate supply to domestic industry whilst not increasing inflation.

At the same time the government significantly increased its average annual growth rate forecast for electricity demand to 4.2 per cent. per annum through 2015 (up from 2.5 per cent. per annum over the same period). The Company is not required to sell its gas at regulated prices; however, the Company believes domestic unregulated prices are influenced by domestic regulated prices. Accordingly, the Company believes the government's proposals will impact on the price at which the Company will sell its gas. The Company also anticipates that the recently implemented Mezhregiongaz gas trading scheme will bring some transparency to domestic gas pricing. In addition, the Company believes that, if it moves into production, it will be in a position to benefit from medium term gas deficits in Russia and related pricing trends. See "Part III — Overview of the Russian Gas Industry."

The Company may be required to sell all or a portion of its gas or other hydrocarbon production to the Russian government if the proposed draft restatement of the Russian Federal Law No. 2395-1 "On Subsoil," dated 21 February 1992, as amended (the "Subsoil Law") is adopted. See "Part IV — Risk Factors — Proposed changes in the Subsoil Law could adversely affect the Company's ability to participate in certain future auctions for exploration and production licences and could subject the Company to a statutory requirement to sell its natural gas to the Russian government."

Description of the Assets

Karpenskiy Licence Area

The Karpenskiy Licence Area is located in the marginal zone of the low-lying flatland region that lies at the northern end of the Caspian Sea (the "Caspian Depression") within the Volgograd-Karachaganak petroleum area. This petroleum area has two hydrocarbon-bearing intervals, sub-salt and supra-salt, divided by the Kungurian salt, which is a regional seal. The high petroleum potential of this province's sub-salt deposits is supported by discoveries in the marginal parts of the Caspian Depression, such as the Karachaganak, Tengiz and Astrakhan fields.[9]

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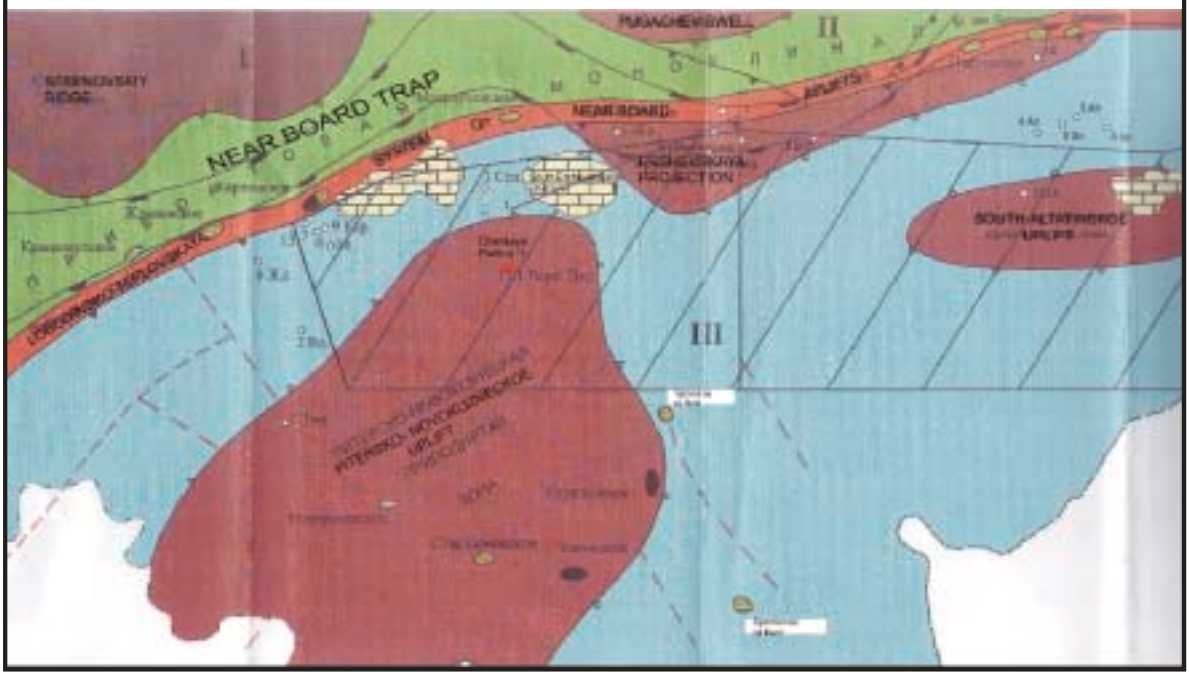
[9] See "Part V — Petroleum Consultant's Report," at page 63.

Tectonic map of the Karpenskiy Licence Area



Source: The Petroleum Consultant's Report.

History of the licence

Exploration of the Karpenskiy Licence Area has been conducted since 1973, when the Ministry of Geology of the Soviet Union approved an exploration programme across the Caspian Depression, following the discovery of the Karachaganak field. Licences covering the Karpenskiy Licence Area were held by entities within the LUKoil group, which includes OAO LUKoil, together with its direct and indirect subsidiaries (the "LUKoil Group") from August 1996 until March 2006, when the licence to the Karpenskiy block held by LUKoil-NVN was re-issued to PGK. In May 2006, Woodhurst acquired 100 per cent. of PGK from ZAO Vesla ("Vesla"). See paragraph 8.7 of "Part IX — Additional Information — Related Party Transactions."

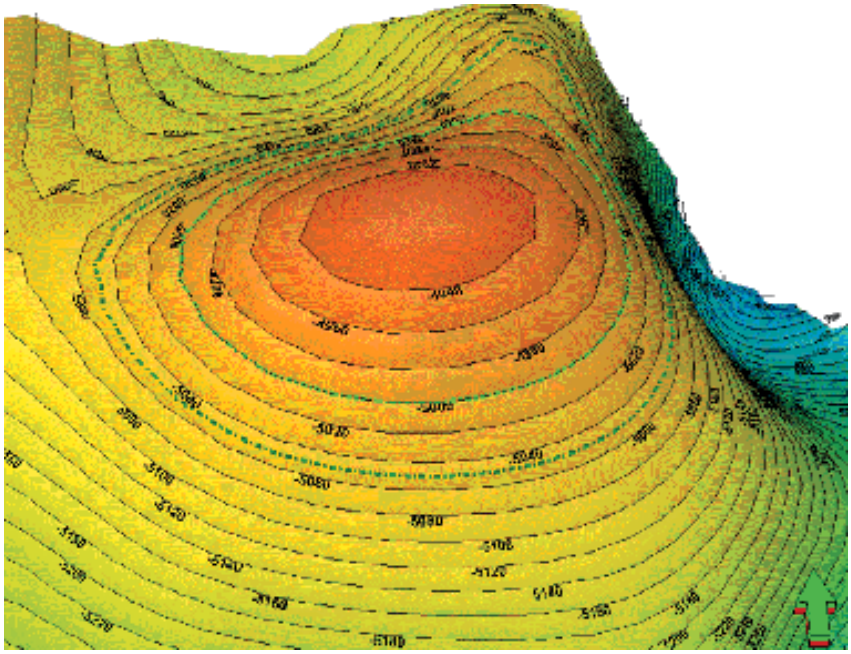
During the period that LUKoil-NVN was the owner of licence SRT 12678 NR (a licence broadly covering the Karpenskiy Licence Area, but a different licence to the licence currently held by PGK), Rosprirodnadzor, a governmental agency subordinate to the Russian Federal Agency for Subsoil Use (the "Federal Agency for Subsoil Use"), issued Act No. 64-10/5 on 11 March 2005 recommending the initiation of proceedings to revoke the licence. The process was never started. In response to a recent request by the Company for clarification, Rosprirodnadzor provided the Company with a letter stating that a number of matters noted in Rosprirodnadzor's 2005 act as breaches of the licence, including in relation to certain social and environmental obligations, have now been cured. It also states Rosprirodnadzor's recommendation that PGK apply to amend work programme deadlines and certain other terms of its licence SRT 13522 NR. PGK is in the process of preparing its application to have its licence amended in line with Rosprirodnadzor's recommendations. See "Part IV — Risk Factors — Risks Relating to the Company's Business — The Company's exploration and production licences may be suspended or revoked prior to the end of their terms."

Exploitation of the Licence Area

The area covered by the Karpenskiy Licence was initially reconnoitred by the Soviet Ministry of Geology between 1973 and 1989 through the acquisition of approximately 2,500km of 2-D seismic. Between 1996 and 2002, a further 2,240km of 2-D seismic was acquired on behalf of LUKoil Group entities. The supra-salt Kurilovskoye oilfield and the Talovskoye and Starshinskoye gas fields were previously discovered and exploited in the Karpenskiy Licence Area. These fields are excluded from the Company's licence.

Two exploratory wells were drilled by ZAO LUKoil-Saratov close to the Yuzhny-Ershovskoye structure. The Chornaya Padina 1 well was drilled in 2001 on the edge of the structure to a depth of 5,916m and penetrated the supra-salt, salt and sub-salt deposits. The well flowed gas and water to the surface but was terminated by the operator after approximately three hours on test when the well was pronounced unable to operate under the level of pressure produced. The well was subsequently liquidated. Chornaya Padina 2 was drilled in 2002 to penetrate the apex of the Yuzhny-Ershovskoye structure but was terminated due to technical difficulties before encountering the top of the sub-salt interval. Chornaya Padina 2 was also liquidated.

Seismic Map Showing Yuzhny-Ershovskoye Structure



Source: The Petroleum Consultant's Report.

PGK acquired from LUKoil-NVN seismic and well data from the Chornaya Padina 1 and 2 wells, associated interpretations and reports. The Company has engaged OAO Saratovneftegeophysika ("SNG"), a regional oilfield services company, to acquire 100km^2 of 3-D seismic on the Yuzhny-Ershovskoye structure and 160km^2 of 3-D seismic on the Yuzhny-Mokrousovskoye structure. The Company has contracted Schlumberger Logelco, Inc. ("Schlumberger Logelco") for the processing and interpretation of the data acquired from LUKoil-NVN and the 3-D seismic from the Yuzhny-Ershovskoye and Yuzhny-Mokrousovskoye structures.

The Company expects that seismic acquisition, processing and interpretation for both the Yuzhny-Ershovskoye and Yuzhny-Mokrousovskoye structures will be completed during the first half of 2008. The Company intends to drill one well on the Yuzhny-Ershovskoye structure and one well on the Yuzhny-Mokrousovskoye structure based on the results of the processing and interpretation of the 3-D seismic data. The Company is in discussions with several leading international oil services companies, such as Schlumberger Group's Integrated Project Management unit ("Schlumberger IPM") to provide turn-key drilling and testing services for two deep wells following interpretation of the Company's 3-D seismic. Schlumberger IPM are capable of providing turn-key services to test and complete both wells and the Company believes that a rig will be available to meet its schedule. After a period of testing the two wells, the Company expects to start preparing a field development programme.

Pending the sub-salt drilling, the Company is commencing an ancillary two-well supra-salt drilling programme that it expects to complete by the end of 2007. The Company has entered into a letter of intent with OOO Karbon for the provision of services and the drilling rig necessary to complete the project, and engaged OOO NSK Geoproekt to prepare technical and other documentation relevant to the planned drilling.

Pipeline infrastructure and marketing

The Karpenskiy Licence Area is located approximately 150 kilometres from the city of Saratov and the Central Asian Centre pipeline (the "SAS") runs through the centre of the licence area. The SAS connects gas fields in Turkmenistan and Kazakhstan with the UGSS, near the city of Saratov. The UGSS is then able to direct the gas to consumers in European Russia and for export through countries bordering Russia to the west, including Ukraine. The Mokrous pump station which compresses gas in the SAS is approximately 10 kilometres from the northern edge of the Karpenskiy Licence Area and 30 kilometres from the Yuzhny-Ershovskoye structure. The SAS, via its connection to the UGSS, would also provide PGK access to local demand through branch pipelines to European Russia.

Proximity to Existing Pipelines

The above illustration is derived from the Company's internal information and represents the Company's interpretation of such information, but such illustration has not been subject to any independent verification.

Through PGK's framework off-take agreement with Trans Nafta, Trans Nafta will be required to purchase amounts growing to 10bcm of gas annually from the Karpenskiy Licence Area, at a price of not less than RUR2,100/mcm (approximately US$80/mcm), including VAT. Title to PGK's gas will transfer to Trans Nafta after the gas transits to gas processing facilities which are expected to be located close to the Yuzhny-Ershovskoye and Yuzhny-Mokrousovskoye structures. The Company expects construction of gas processing facilities for the Karpenskiy Licence Area to commence in 2009, after the field development programme has been finalised. Trans Nafta will be responsible for securing access to UGSS, either directly or through its Talovskoye storage facility located in the south of the Karpenskiy Licence Area for this early production.

However, notwithstanding the existing agreement with Trans Nafta, there can be no assurance that Gazprom will allow access to the UGSS or SAS for any of the Company's gas production. Under PGK's gas supply agreement with Trans Nafta, certain actions of Gazprom and of its affiliates represent force majeure circumstances which, if undertaken, may excuse Trans Nafta's failure to perform under the agreement. See paragraph 7.9 of "Part IX — Additional Information — Material Contracts — Trans Nafta Karpenskiy Off-take Agreement."

Vostochny-Makarovskoye Licence Area

The Vostochny-Makarovskoye Licence Area is situated near Zhirnovsk in the Volgograd region and is adjacent to the Dobrinskoye licence area held by Trans Nafta. The licence is located in the Volga-Urals petroleum province which was the first oil and gas area to be exploited in Russia. Hydrocarbons have been produced in the Volgograd region since the 1930s.

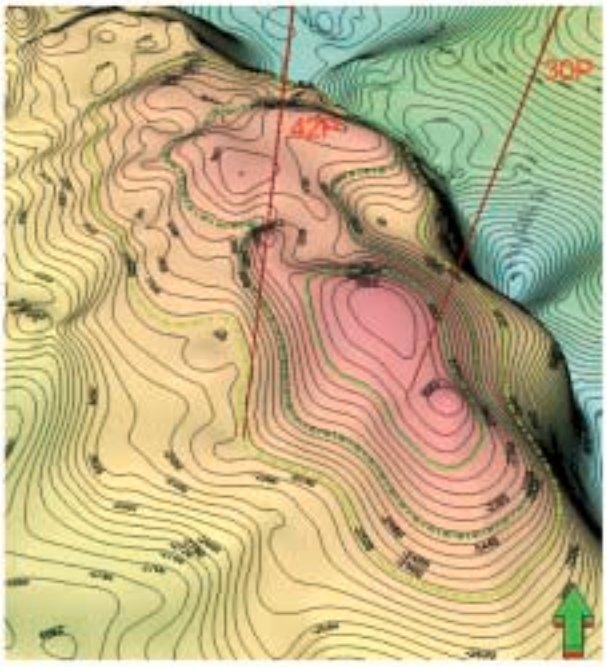
Vostochny-Makarovskoye Local Transportation and Infrastructure

Source: The Petroleum Consultant's Report.

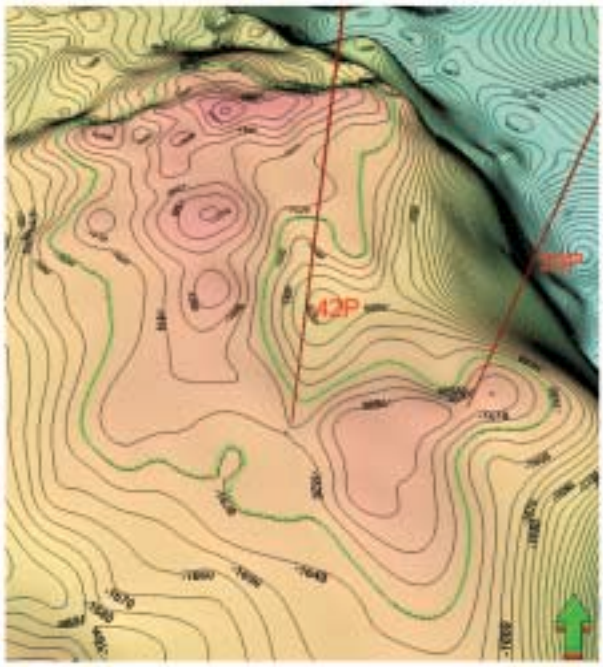
History of the Licence

The Vostochny-Makarovskoye Licence Area was first explored in 1989 by a predecessor entity of LUKoil-NVN and had three wells drilled on it between 1989 and 1992. Of the three wells drilled, wells 30 and 42 tested for gas in both the Evlansko-Livenskiy and Bobrikovskiy horizons. Well 30 flowed at up to 210mcm per day from the Bobrikovskiy layer and up to 76mcm per day from the Evlansko-Livenskiy layer. Concurrently with these discoveries, Pamyatno-Sasovskoye, also a gas condensate field, was discovered 14 kilometres from the Vostochny-Makarovskoye Licence Area. This larger field was brought into production and is currently being exploited by LUKoil-NVN.

GNS won the newly-issued Vostochny-Makarovskoye Licence, covering approximately 18km^2 in the Volgograd region of European Russia, at a government auction held in Volgograd on 25 May 2006 and the licence was issued to GNS on 12 July 2006. Woodhurst acquired 100 per cent. of GNS from Trans Nafta on 8 September 2006.



Map showing Evlansko-Livenskiy structure with gas-water contact for proved, probable and possible reserves



Map showing Bobrikovskiy structure with gas-water contact at 1,629.7m

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Source: The Petroleum Consultant's Report.

Exploitation of the Licence Area

The Company is currently preparing a detailed field development programme which includes a plan to develop the necessary gas processing facilities and a drilling programme. The Company has agreed in principle with Trans Nafta to finance the construction of joint gas processing facilities for the Vostochny-Makarovskoye Licence Area and the adjacent Dobrinskoye licence area owned by Trans Nafta. Trans Nafta has also agreed in principle to pay a fee per unit of throughput for use of the joint gas processing facilities, the level of which is to be determined once a joint GNS/Trans Nafta working group has prepared a technical plan for the development of the joint gas processing facilities. This technical plan is expected to be prepared during 2008.

The gas processing facilities are expected to be completed during 2008, One to two wells are expected to be drilled by the end of the first half of 2008, and the Company plans to commence commercial gas and condensate production in the last quarter of 2008.

Pipeline infrastructure and marketing

The Vostochny-Makarovskoye Licence Area is located close to the border of the Volgograd and Saratov regions. The Korobkovsky-Zhirnovsk pipeline runs north towards Zhirnovsk and terminates at the Korobkovsky Gas Processing Plant. Trans Nafta's access point to the Korobkovsky-Zhirnovsk pipeline, which is to be shared with GNS, is located approximately 9 kilometres north of the Vostochny-Makarovskoye Licence Area.

In line with the Company's strategy to ensure that its existing assets are able to obtain early access to the UGSS, Woodhurst obtained, as part of its agreement to acquire GNS, an agreement in principle from Trans Nafta to allow GNS to access the Korobkovsky-Zhirnovsk pipeline, which is part of the UGSS, through Trans Nafta's access point which lies near its Dobrinskoye licence area.

Concurrent with PGK's acquisition of GNS, Trans Nafta and GNS entered into an off-take agreement for all gas produced from the Vostochny-Makarovskoye Licence Area at a price not less than RUR1,600/mcm (approximately US$60/mcm), including VAT. The Company intends to enter into separate marketing arrangements for any condensate which is produced.

Pre-Caspian Licence Area

The Pre-Caspian Licence Area is located approximately 50 kilometres to the west of the Karpenskiy Licence Area (at the Pre-Caspian Licence Area's most northern point) and is part of the north-western

region of the Caspian Petroleum Province. The Company has not commenced exploration of the Pre-Caspian Licence Area. Accordingly, neither the Company, in this document, nor the Petroleum Consultant, in the Petroleum Consultant's Report, have attributed reserves or resources to the Pre-Caspian Licence Area.

History of the Licence

The licence governing exploration and production in the Pre-Caspian Licence Area had been held in the Russian government's undistributed fund since the collapse of the Soviet Union. The undistributed fund holds government licences, which are to be auctioned or otherwise distributed to companies for exploration and development. PGK acquired the Pre-Caspian Licence at a government-mandated auction in October 2006.

Exploitation of the Licence Area

Research into the Pre-Caspian Licence Area started in 1946 and continued periodically until 2003. Three parametric wells have been drilled for the purpose of obtaining geological information on the licence area: Saratov, from February 1970 to May 1973, Dyakov, from July 1989 to August 1990 and Yuzhnaya-Dyakovskaya, from May 1990 to January 1992. Region-wide 2-D seismic indicates that the Caspian shelf, which runs through the Karpenskiy Licence Area, extends into the Pre-Caspian Licence Area.

The Company intends to commence its exploration of the Pre-Caspian Licence Area by acquiring approximately 1,500km of 2-D seismic commencing in the second half of 2007 and expects to complete the acquisition by 2010, as required by the terms of the licence. The Company is seeking to identify both supra-salt and sub-salt hydrocarbon accumulations. The Company is in preliminary discussions for the acquisition, processing and interpretation of the seismic data.

Pipeline infrastructure and marketing

SNG's Rovnoe-Zolotaya Steppe oil and gas pipeline, which connects to the UGSS, is two kilometres from the western edge of the licence area and the Mokrous pump station is approximately 110 kilometres from the western edge of the licence area. The Company intends to enter into pipeline access and off-take or other marketing agreements, as appropriate, once it has determined the size and type of any reserves. The Company believes that, if current trends in the demand for oil, gas and condensate persist, it will be able to find markets for any quantities of hydrocarbons which it might discover.

Brief Summary of Petroleum Consultant's Report

The Petroleum Consultant's Report indicated the following net prospective resources associated with the Karpenskiy Licence Area:[10]

	Low Estimate	*Best Estimate*	*High Estimate*	*Risk Factor*[12]
Condensate (mbbls, except as indicated)	18,851	42,394	59,827	23%
Gas (bcm, except as indicated)	15.3	34.5	48.6	23%

The Petroleum Consultant's Report indicated the following proved, probable and possible reserves associated with the Vostochny-Makarovskoye Licence Area:[11]

	Proved	*Proved & Probable*	*Proved, Probable & Possible*
Condensate (mbbls)	3,886	18,892	52,283
Gas (bcm)	2.1	7.2	18.3

[10] See "Part V — Petroleum Consultant's Report," at page 63.

[11] See "Part V — Petroleum Consultant's Report," at page 64.

[12] See "Part V — Petroleum Consultant's Report," at page 102 for the definition of Risk Factor.

The Petroleum Consultant's Report indicated the following discounted future net income calculation for the Vostochny-Makarovskoye Licence Area:[13]

	Discounted Future Net Income (US$ millions)	
Discount Rate	*Total Proved*	*Proved & Probable*
10%	44.0	282.9
12%	37.0	252.3
15%	28.3	213.9

Ryder Scott Report

The Company also commissioned a report by Ryder Scott Company, L.P. ("Ryder Scott") of the resource potential located within the Yuzhny-Ershovskoye structure and associated risks which is reproduced in full at Appendix C (the "Ryder Scott Report"). Ryder Scott indicated that prospective unrisked resources within the Yuzhny-Ershovskoye structure were as follows:

	Low Estimate	*Best Estimate*	*High Estimate*
Condensate (Mbbl)*	33,487	127,883	208,050
Gas (bcm)**	29	110	179

* Extract from summary of gross prospective resources, see Appendix C, Ryder Scott Report, at page C-6.

** Extract from summary of gross prospective resources, see Appendix C, Ryder Scott Report, at page C-6.

The Petroleum Consultant's Report and the Ryder Scott Report differ in a number of areas. Whereas the Petroleum Consultant determined that the Yuzhny-Ershovskoye structure is a single structure, Ryder Scott believes that the Yuzhny-Ershovskoye structure comprises a number of patch reefs. In addition, whereas the Petroleum Consultant believes that Chornaya Padina 1 was drilled on the front side of the presumed reef structure, Ryder Scott states that it was not possible to determine whether Chornaya Padina 1 was drilled on the distant periphery of a carbonate reef or on the wash-out tail. The Company believes that the geological structure is more accurately reflected by the Petroleum Consultant's Report, which is in part based on the extra work carried out and the creation of a geological model in Petrel ("Petrel") which incorporated 16 reprocessed seismic profiles and well logs from Chornaya Padina 1 and 2. See "Part IV — Risk Factors — Risks Relating to the Company's Business — The natural gas and gas condensate data in this document are only estimates, and the Company's actual production, revenues and expenditures with respect to its reserves may differ materially from these estimates."

Strategy

Grow Organically

The Company currently has significant exploration and development acreage. The Company intends to generate revenue by developing its current fields and putting them into production, whilst containing costs in the exploration, development and production of gas on its current licence areas by retaining contractors appropriate to the complexity of the project. For example, PGK is negotiating to enter into turn-key contracts with international contractors with extensive experience of managing the exploration and appraisal of complex reservoirs such as Karpenskiy sub-salt structures, while GNS will engage local contractors to exploit less technically demanding fields such as those found in the Vostochny-Makarovskoye Licence Area.

Grow Opportunistically

The Company intends to utilise management's local knowledge and experience to identify, acquire and exploit undervalued gas assets in Russia. Acquisitions of licences will be pursued on an opportunistic basis, whether through government auctions, such as the recently acquired Pre-Caspian Licence, or through corporate acquisitions, where the Company believes such assets are undervalued, could create synergies with existing assets or could yield greater value through the application of the latest technology.

[13] See "Part V — Petroleum Consultant's Report," at page 64.

Optimise Access to Markets

The Company intends to focus on ensuring that produced gas will have the most effective route to end-customers at the highest possible netback sales price. To achieve this, the Company has focused on acquiring licence areas where it believes that it will be able to ensure access to the UGSS operated by Gazprom, as well as serve local demand.

Directors

Alexey Kalinin, Non-Executive Chairman

Mr Kalinin has been a director of the Company since 29 September 2006. Mr Kalinin is a Co-Managing Partner of Baring Vostok. Mr Kalinin joined Baring Vostok in February 1999 from Alfa Capital, where for six years he acted as a Director and Head of Direct Investments. During this time, Mr Kalinin was responsible for over 20 private equity portfolio companies, in most of which Alfa Capital was the controlling shareholder. Mr Kalinin also acted as the Chief Executive Officer of Alfa Asset Management, a joint venture between Alfa Capital and Trust Company of the West. Mr Kalinin is the Chairman of the Board of ZAO SakhInterlesprom and Lymex Holding. He is also a director of AirInSpace and Westalia Limited. Mr Kalinin holds a B.Sc. and a Ph.D. from the Moscow Power Engineering Institute and was a professor and researcher at the institute prior to joining Alfa Capital. Mr Kalinin is 47 years old.

Mikhail Ivanov, Chief Executive Officer

Mr Ivanov has been a director of the Company since 25 July 2006. Mr Ivanov was director of Oil and Gas Investments at Baring Vostok from 2005 to March 2007. Mr Ivanov has over 14 years experience in the oil and gas industry which includes 10 years working for the Schlumberger Group, beginning his career with Schlumberger Logelco, Inc. as a Field Engineer in Siberian Russia and concluding as a Business Development Manager, based in Moscow. During his time with Schlumberger Logelco, Inc., Mr Ivanov also acted as a Field Service Manager and Operation and Country Manager in Iran, where he was responsible for, amongst other things, Schlumberger's work on the South Pars gas field, and he was the Engineer-In-Charge in Georgia and Azerbaijan. He is the co-founder of Introstar company, which specialises in e-business solutions. Mr Ivanov holds an M.S. degree in Geophysics from Novosibirsk State University and an M.B.A. from the Kellogg School of Management of Northwestern University. He is an elected member of the Society of Petroleum Engineers ("SPE"). Mr Ivanov is 37 years old.

Alistair Stobie, Chief Financial Officer

Mr Stobie has been a director of the Company since 25 July 2006. Mr Stobie acted as the Managing Director of Chiron Capital, a merchant banking corporate finance boutique from 2004 to 2006. Prior to joining Chiron Capital, Mr Stobie acted as the Managing Partner of Mint Capital, a venture capital company interested in the Russian telecommunications, media and technology sectors, which he founded in 2000. Mr Stobie was a Founding Partner of Baring Vostok and acted as a member of the investment management team of First NIS Regional Fund since inception in 1994 to 1998. Mr Stobie was responsible for identifying, negotiating and monitoring private equity investments for Baring Vostok, including the fund's investment in Burren Energy plc, where he was a director from 1995 to 1998. He graduated from Keele University with a B.A. in International Relations. Mr Stobie is 40 years old.

Ronald Freeman, Non-Executive Director

Mr Freeman has been a director of the Company since 14 March 2007. Mr Freeman is currently a non-executive board member and advisory partner/shareholder of a number of international investment companies, including Troika Dialog (Moscow), Brookfield (Toronto) reinsurance subsidiary, OAO Severstal, Imagine Group Holdings Limited (Bermuda) and Unicredit Bank (Milan). He is also a member of development committees and a trustee for universities in Oxford, New York, Pennsylvania and Paris. From 1973 to 1991 and from 1997 until 2000, Mr Freeman was an investment banker/general partner with Salomon Brothers and was co-head of European Investment Banking at Citigroup. He was head of the banking department of the European Bank for Reconstruction and Development, from 1991 until 1997. From 1965 to 1967 he practiced law with Baker & McKenzie in Paris, and from 1967 to 1973 served as a management consultant with McKinsey & Company. Mr Freeman received a B.A. from Lehigh University in 1960 and a J.D. from Columbia University School of Law in 1964. He was admitted to the bar of the state of New York in 1965. Mr Freeman is 67 years old.

Stephen Ogden, Non-Executive Director

Mr Ogden has been a director of the Company since 14 March 2007. Stephen Ogden is Managing Partner of the First Montenegro Stone Property Fund. He was a Non-Executive Director of United Confectioneries from 1999 to 2005, Heineken Russia from 2002 to 2003, and Lenta Cash & Carry from 2003 to 2005. He was Chief Financial Officer of the Bochkarev Brewery in St. Petersburg from 1997 to 2002. Prior to becoming Chief Financial Officer of the Bochkarev Brewery, Mr Ogden was an auditor with KPMG and PricewaterhouseCoopers, and Financial Controller of CS First Boston (Moscow). Mr Ogden has a joint honours degree in economics and politics from Durham University, England, and is a qualified British chartered accountant. Mr Ogden is 39 years old.

Vladimir Koshcheev, Non-Executive Director

Mr Koshcheev has been a director of the Company since 29 September 2006. Mr Koshcheev currently acts as President of Pervaya Investizionno-Stroitelnaya Company LLC, Spinaker LLC and Vesla, an entity which is undergoing liquidation. Mr Koshcheev also holds 33 per cent. of the issued and outstanding share capital of Vesla. He is also Chairman of the board of directors of CJSC AKSM. Mr Koshcheev was President of OOO Pre-Volga Petroleum Company between 2003 and 2005. Mr Koshcheev received a specialist diploma from Moscow State Technical University in 1978 and is a member of the Russian Academy of Natural Sciences. Mr Koshcheev is 50 years old.

Michael Calvey, Non-Executive Director

Mr Calvey has been a director of the Company since 29 September 2006. Mr Calvey is a Founder and Co-Managing Partner of Baring Vostok in Moscow, and a Director of Baring Private Equity International, a global private equity firm headquartered in London. Since 1994 Mr Calvey has co-lead the investment team and has acted as the Chairman of the Investment Committee for both the First NIS Regional Fund and the Baring Vostok Private Equity Fund. Mr Calvey is currently the Chairman of the Board of three portfolio companies. Prior to joining Baring Vostok, Mr Calvey worked at the European Bank for Reconstruction and Development where he was responsible for several of the bank's investments in the oil and gas sector in Russia. Prior to his work with the bank, Mr Calvey was a member of the oil and gas team at Salomon Brothers Inc in New York on a variety of corporate finance and mergers and acquisitions assignments. Mr Calvey has a M.Sc. in accounting and finance from the London School of Economics. Mr Calvey is 39 years old.

Management

Vyacheslav Lepilin, General Director PGK/GNS

Mr Lepilin is currently Exploration Director and also General Director of PGK and GNS and has worked in the field of oil and gas for nearly 33 years. Prior to joining PGK in 2006, Mr Lepilin worked as a chief geologist for OOO Pre-Volga Petroleum Company. From 1995 to 2004 he was employed by various subsidiaries of OAO LUKoil, including as Chief Geologist for LUKoil-NVN, for OOO LUKoil-Saratovneftedobycha as chief of their geological division and as the General Director for ZAO LUKoil-PREM. From 1964 to 1974 Mr Lepilin attended Saratov State University and between 1974 and 1994 Mr Lepilin acted as a chief engineer and chief geologist at the Lower-Volga Scientific Research Institute of Geology and Geophysics. He currently sits as adviser on the Saratov region's Council on Subsoil Use. Mr Lepilin is 61 years old.

Corporate Governance

As an AIM company the Company will not be obliged to, and does not currently fully comply with, the corporate governance regime in the UK, currently the Combined Code on Corporate Governance, which was published in June 2006 (the "Combined Code"). Nevertheless, the Directors recognise the importance of sound corporate governance. The Directors have developed and intend to continue to develop policies and procedures for the Company to reflect the Combined Code, so far as is practicable, taking into account the size and nature of the Company. The Company's board of Directors (the "Board") has established a Remuneration Committee, Nomination Committee and an Audit Committee.

The Nomination Committee comprises three Non-Executive Directors, and is chaired by Ronald Freeman. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board,

making recommendations to the Board concerning plans for succession for both Executive and Non-Executive Directors including the Chief Executive and other senior management, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise.

The Remuneration Committee comprises three Non-Executive Directors, and is chaired by Ronald Freeman. It determines compensation of the Company's key employees, including the Chief Executive Officer, Chief Financial Officer, and other key personnel as may be determined from time to time by the Remuneration Committee.

The Audit Committee comprises three Non-Executive Directors and is chaired by Stephen Ogden. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for reviewing the auditor's reports relating to accounts and internal control policies and proceedings.

The Company is seeking to appoint another independent Non-Executive Director and it is envisaged that he will assume chairmanship of the Remuneration or Nomination Committees so that a different Independent Non-Executive Director chairs each of the three committees referred to above. The Company will also adopt and operate a Share dealing code consistent with Rule 21 of the AIM Rules for Companies and will take all proper and reasonable steps to ensure compliance by the Directors and relevant employees.

Following the Placing, 57.3 per cent. of the Company's Enlarged Issued Share Capital will be beneficially owned by three limited partnerships, Baring Vostok Private Equity Fund III L.P.1, Baring Vostok Private Equity Fund III L.P.2 and Baring Vostok Fund III Co-Investment L.P. (together, referred to as "Baring Vostok Private Equity Fund III"), held through its nominee, Cavendish Nominees Limited ("Cavendish Nominees"). The Company believes that the involvement of Baring Vostok Private Equity Fund III in its operations has been, and will continue to be, important in the pursuit and implementation of its strategy. However, notwithstanding the entering into of the Relationship Agreement with the Company, Baring Vostok Private Equity Fund III will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and, as long as it holds, directly or indirectly, the majority of the Company's Enlarged Issued Share Capital, will control appointment and removal of directors. Baring Vostok Private Equity Fund III will also be able to control or significantly influence the outcome of any vote on, among other things, any proposed amendment to the Company's charter, takeover proposal, proposed substantial sale of assets or other major corporate transactions. Additionally, Baring Vostok Private Equity Fund III may have the ability to cause the Company to de-list from AIM and return to the status of a privately held company. Thus, the interests of Baring Vostok Private Equity Fund III and some members of senior management could conflict with those of the other holders of Shares.

The Company is arranging for director and officer insurance with ACE for all the Directors and senior management of the Company. The Company believes that the policy will provide coverage in line with that taken out by companies of a similar size and nature.

Dividend policy

The Company believes it will be in a capital intensive phase for the foreseeable future and accordingly does not expect to declare a dividend in the short to medium term.

Use of proceeds

The net proceeds of the Placing are expected to be approximately US$116.5 million. The Company intends to use approximately US$14.4 million to repay controlling shareholder loans of US$13.6 million of principal plus US$0.8 million of interest, and approximately US$97 million to fund the development and exploration programme as described below:

- Drilling of sub- and supra-salt wells on the Karpenskiy Licence Area (approximately US$46 million);
- Drilling pursuant to the field development programme and construction of surface infrastructure for the Vostochny-Makarovskoye Licence Area (approximately US$42 million);
- The acquisition, processing and interpretation of 3-D seismic in the Karpenskiy Licence Area (approximately US$5.3 million); and

- The acquisition, processing and interpretation of seismic surveys in the Pre-Caspian Licence Area (approximately US$3.7 million).

The Company intends to use any other net proceeds it receives from the Placing for investment in its business and for general corporate purposes. The anticipated use of the net proceeds outlined above may change depending on the results of the current drilling and seismic programmes. Until the net proceeds are used as described above, the Company intends to obtain the best returns available within the risk parameters of the treasury policy set by the Board.

Details of the Placing

The Joint Lead Managers, as agents for the Company, have agreed to procure subscribers for the Placing Shares or, failing which, to subscribe themselves as principals for such Shares at the Placing Price, on and subject to the terms of the Underwriting Agreement. The Placing Shares will on Admission represent 40.3 per cent. of the Enlarged Issued Share Capital. The Placing Shares are being placed by the Joint Lead Managers with institutional and other sophisticated investors and the Placing is conditional, *inter alia*, on Admission. The Company will indemnify the Joint Lead Managers against certain liabilities in connection with the Placing. The fees and expenses associated with the Placing are estimated to be approximately US$8.5 million.

In connection with the Placing, the Joint Lead Managers, and any of their affiliates acting as an investor for them or their own account(s), may subscribe for or acquire Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such Shares, any other securities of the Company or other related investments in connection with the Placing or otherwise. Accordingly, references in this document to the Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription, acquisition or dealing by the Joint Lead Managers or any of their affiliates acting as an investor for them or their own account(s). The Joint Lead Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Stabilisation and Over-allotment Arrangements

In connection with the Placing, the Company has granted KBC Peel Hunt on behalf of the Joint Lead Managers an over-allotment option, pursuant to which the Joint Lead Managers may require the Company to issue up to 1,666,667 additional Shares to them at the Placing Price, for the purposes of allowing KBC Peel Hunt, or any person acting on its behalf, to cover over-allotments and/or short positions relating to stabilisation transactions. The over-allotment option is exercisable in whole or in part upon written notice by KBC Peel Hunt on behalf of the Joint Lead Managers at any time and from time to time within 30 days after the date of Admission. Any Shares issued pursuant to the exercise of the over-allotment option will be issued at the same price, and otherwise on the same terms and conditions, as the Placing Shares, and will rank in full for all dividends and other distributions declared, paid or made in respect of the Shares after the closing date in respect of such exercise of the over-allotment option and will otherwise rank *pari passu* in all respects with the existing Shares.

In connection with the Placing, KBC Peel Hunt or any person acting on its behalf may, for a limited period after Admission, to the extent permitted by applicable law, over-allot or effect other stabilisation transactions in the Shares with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market. However, there is no obligation on KBC Peel Hunt, or any person acting on its behalf, to do so. Such stabilisation, if commenced, may begin on the date of Admission, may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be discontinued at any time without prior notice but in no event later than 30 days after the date of Admission. The Joint Lead Managers do not intend to disclose the extent of any over-allotments and/or stabilisation transactions conducted in relation to the Placing otherwise than in accordance with any legal or regulatory obligation to do so.

Lock-up and orderly trading arrangements

On Admission, the Directors will have an interest, in aggregate, in 1,874,382 Shares (including 1,733,100 Shares held by Vlarenhill, a holding company 50 per cent. owned by Mr Koshcheev but excluding for these purposes any interest which Alexey Kalinin and Michael Calvey may be deemed to have as Co-Managing Partners of Baring Vostok, an entity related to Baring Vostok Private Equity Fund III), representing 3.6 per cent. of the Enlarged Issued Share Capital. The Directors and the Company's other

related parties and applicable employees (as those terms are defined in the AIM Rules for Companies), other than Baring Vostok Private Equity Fund III and Cavendish Nominees, have given undertakings for the purposes of rule 7 of the AIM Rules for Companies that they will not dispose of any interests they have in Shares or other securities of the Company for a period of one year from Admission or, if later, the last day of the period for exercise of the over-allotment option (the "Hard Lock-In Period"), except in the strictly limited circumstances provided by rule 7 of the AIM Rules for Companies and even then only with the prior written consent of the Joint Lead Managers. In addition, the Directors and the Company's other related parties (other than Baring Vostok Private Equity Fund III and Cavendish Nominees) and applicable employees have also agreed not to dispose of any interests they have in Shares or other securities of the Company for a further period of 180 days following the expiry of the Hard Lock-In Period without the prior written consent of the Joint Lead Managers, during which period the Joint Lead Managers shall have the exclusive right to effect any such disposals on their behalf. Thereafter, and for so long as a Joint Lead Manager (or its associate) continues to be a broker to the Company, in order to preserve an orderly market in the Shares, the Directors and the Company's other related parties and applicable employees will, in connection with any contemplated disposal of Shares or other securities of the Company, give such Joint Lead Manager(s) the exclusive right for 20 trading days to effect such disposal.

Further, on Admission Baring Vostok Private Equity Fund III will have an interest in aggregate in 29,620,000 Shares representing 57.3 per cent. of the Enlarged Issued Share Capital. The funds constituting Baring Vostok Private Equity Fund III and Cavendish Nominees, which holds such Shares on trust for the funds as nominee, have given undertakings for the purposes of rule 7 of the AIM Rules for Companies that they will not dispose of any interests they have in Shares or other securities of the Company during the Hard Lock-In Period, except in the strictly limited circumstances provided by rule 7 and even then only with the prior written consent of the Joint Lead Managers. Thereafter, for a period of one year after the expiry of the Hard Lock-In Period, in order to preserve an orderly market in the Shares, Baring Vostok Private Equity Fund III and Cavendish Nominees will, in connection with any contemplated disposal of Shares, give the Joint Lead Managers the exclusive right for 20 trading days to effect such disposal.

Further details of the lock-in arrangements are set out in paragraph 7.18 of "Part IX — Additional Information — Material Contracts."

Admission to AIM, dealing arrangements and CREST

The ISIN number for the Shares is GB00B1VN4809. Application will be made for the Shares to be admitted to trading on AIM and it is anticipated that Admission will become effective and that unconditional dealings in the Shares in pounds sterling under the ticker symbol VGAS will commence on or about 25 April 2007.

The Articles of Association permit the Company to issue Shares in uncertificated form in accordance with the Uncertificated Securities Regulations 2001.

The Directors have applied for the Shares to be admitted to CREST, a paperless settlement procedure enabling securities to be evidenced other than by certificate and transferred otherwise than by written instrument with effect from Admission and CRESTCo Limited has agreed to such admission. Accordingly, settlement of transactions in the Shares following Admission may take place within the CREST system if the relevant shareholder so wishes. CREST is a voluntary system and holders of Shares who wish to receive and retain Share certificates will be able to do so.

Taxation

Information regarding UK taxation with regard to shareholders is set out in paragraph 12 of "Part IX — Additional Information — Taxation" and information regarding Russian taxation of the Group is set out in "Part VI — Regulation." This information is intended as a general guide only. If prospective investors are in any doubt as to their tax position they should contact an independent professional adviser immediately.

PART III

OVERVIEW OF THE RUSSIAN GAS INDUSTRY

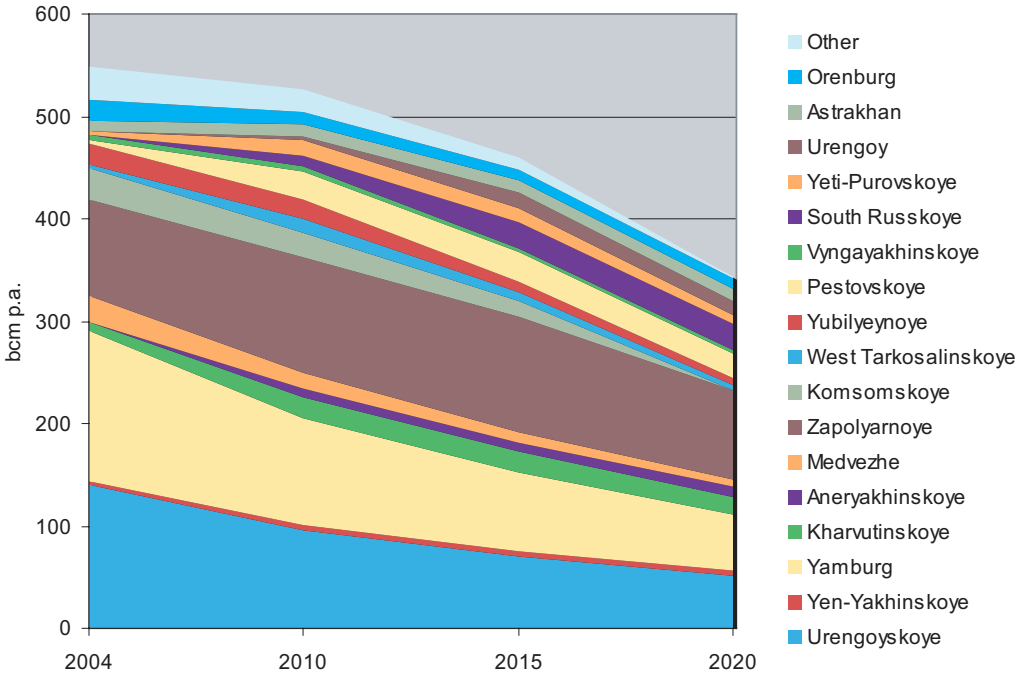
Overview

The Russian natural gas industry has its origins in the 1950s, when the first pipeline was built from Saratov to Moscow. It expanded rapidly after the discovery in the 1960s of large reserves of natural gas in the Yamal-Nenets region of Western Siberia.

After the dissolution of the Soviet Union, the oil and coal industries were restructured into several regional enterprises, many of which are now in private hands. By contrast, the natural gas industry (including production, refining, transportation and sales) remains largely the business of state-controlled Gazprom. Gazprom is the monopoly owner/operator of the UGSS. Moreover, Gazprom accounted for approximately 85 per cent. of Russian gas production in 2005, with the balance coming from integrated oil and gas companies and independent gas companies.

Gazprom's major producing fields have either reached peak production or are already suffering from declining production. At the same time, demand for Russian gas, both domestically and from Western Europe, already exceeds supply. Aggregate domestic and international demand for Russian gas in 2005 was approximately 661bcm, which exceeded Gazprom's production of approximately 547bcm and exceeded total Russian production of approximately 641bcm, as a result of which Gazprom had to purchase and transit gas from Central Asia in order to meet its supply commitments.

Gazprom Major Field Production Decline



Source: Jonathan Stern, *The Future of Russian Gas and Gazprom*, October 2005

This gas supply deficit is unlikely to abate, and could widen, in the medium term. The next major fields being developed by Gazprom, such as the Barents Sea Shtockman field, are technologically challenging and, accordingly, the Company believes that Gazprom may be unable to bring them into production, as currently scheduled, in 2011. Meanwhile, aggregate domestic and international demand for Russian gas is estimated to have risen to 710bcm in 2006 and, according to UBS projections, is expected to rise even further to 779bcm in 2010 and 866bcm in 2015. It is expected that Gazprom will continue to buy gas from Central Asia to meet its supply commitments.

The gas supply deficit is expected to lead to an increase in unregulated prices for domestic purchasers. In addition, the gas supply deficit has led the Russian government to acknowledge that an increase in domestic regulated gas tariffs is required to stimulate increased supply, contain demand and promote

energy efficiency. Accordingly, the Russian government proposed a series of regulated price increases which, if adopted, would result in Netback Parity for regulated industrial consumer gas tariffs by 2011. The Company believes that any such increase in regulated gas prices will have a knock-on effect of boosting unregulated gas prices.

These market and regulatory trends combine to create opportunities for independent gas exploration and production companies that can bring new Russian gas fields into production and bring the gas to market. The industry in which the Company must operate to take advantage of these opportunities, and some of the principal challenges it faces in doing so, are described in greater detail below.

Reserves

As of 31 December 2005, Russia was the largest holder of proved natural gas reserves in the world, controlling approximately 26.6 per cent. of known proved reserves.

Proved World Gas Reserves, 2005

Country	*(tcm)*	*% of Total Proved Reserves*
Russia	47.8	26.6%
Iran	26.7	14.8%
Qatar	25.8	14.3%
Saudi Arabia	6.9	3.8%
United Arab Emirates	6.0	3.3%
United States	5.5	3.1%
Nigeria	5.2	2.9%
Algeria	4.6	2.6%
Venezuela	4.3	2.4%
Iraq	3.2	1.8%
Rest of the world	43.8	24.4%
Total worldwide	**179.8**	**100%**

Source: BP's Statistical Review of World Energy, June 2006 ("BP Review 2006")

According to the Ministry of Natural Resources of the Russian Federation (the "Ministry of Natural Resources"), at year-end 2005, Gazprom was the largest holder of natural gas reserves in Russia, holding approximately 60 per cent. of Russia's total gas reserve base. The remaining gas reserves were held by integrated oil companies and other independent gas producers, and the state's undistributed reserve fund.

Production

Natural gas producers in Russia can be divided into the following segments:

- Gazprom;
- integrated oil and gas companies; and
- other gas producers, which include independent gas producers and isolated gas producers ("Independents").

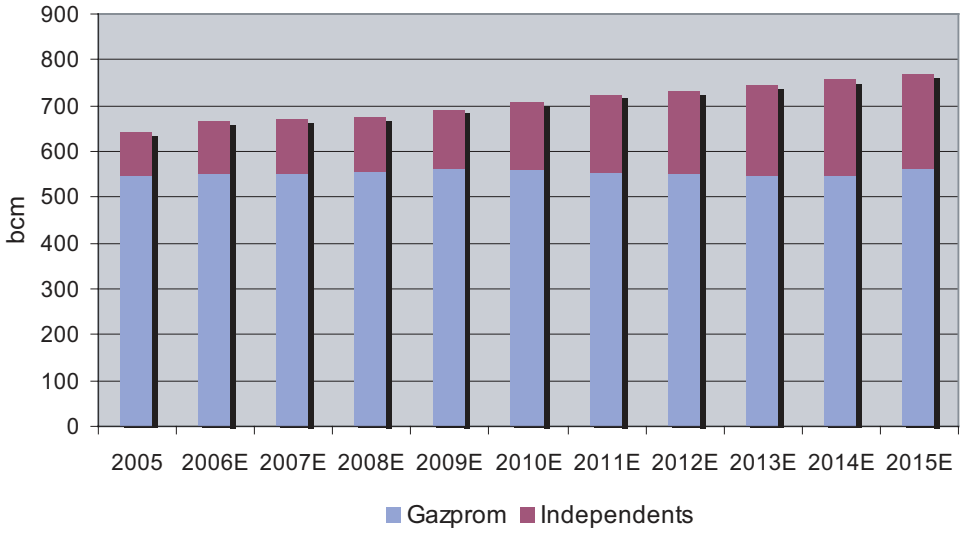
Non-Gazprom producers have typically sold their gas at unregulated prices under one or more of the following trading arrangements:

- independent sale to end-customers;
- sale at the wellhead to trading agents; and
- sale to Gazprom under long-term contracts or to cover temporary shortages in domestic gas supply commitments.

See "Transportation Infrastructure — The Unified Gas Supply System" below for a discussion of how non-Gazprom gas producers can obtain access to the UGSS to deliver their gas. In addition, gas sales may now be effected at unregulated prices through a newly established wholesale spot market known as the Mezhregiongaz Electronic Trading Platform where gas is priced for delivery at one of four hubs, or balance points. See "— Pricing — Mezhregiongaz Electronic Trading Platform" below.

The following graph shows the expected breakdown of gas production as between Gazprom and other Russian producers through 2015.

Gas Production in Russia by Types of Producers

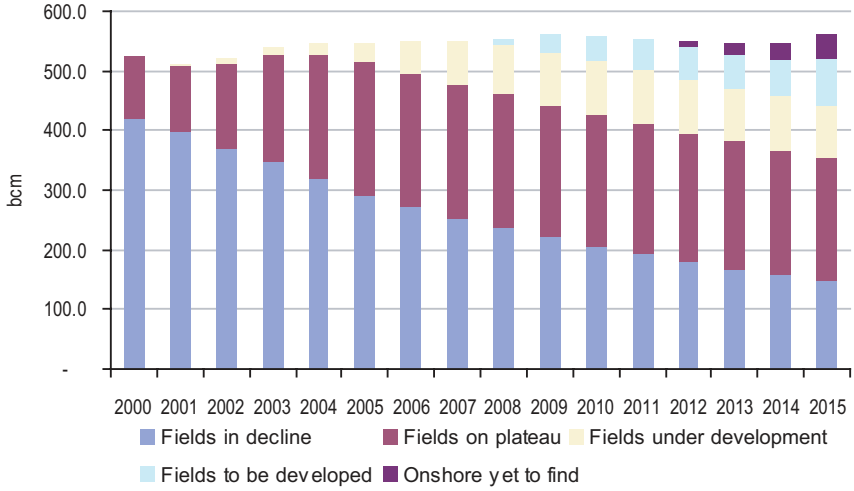


Source: UBS Investment Research

Gazprom

Gazprom is the world's largest natural gas company in terms of reserves, production and transportation volumes. According to Gazprom, it produced approximately 547bcm of natural gas in 2005, or approximately 85 per cent. of total Russian gas production. However, as the following chart shows, production at Gazprom's historically largest fields in Western Siberia, which currently account for and are expected to continue to account for the bulk of Gazprom's production, is in decline and expected production from new fields and as yet to be discovered fields is unlikely to do more than maintain Gazprom's production at or about current levels for the foreseeable future.

Gazprom Base Case Production by Major Fields: 2000 to 2015

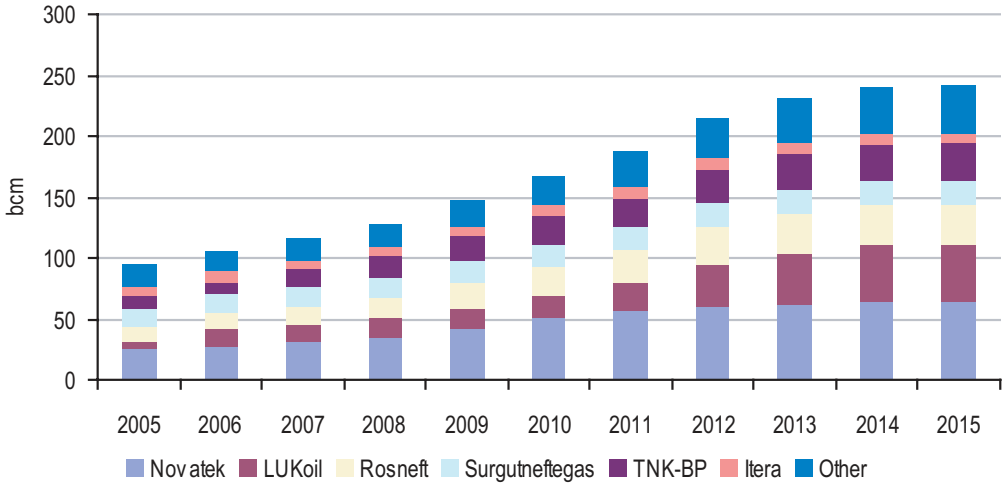


Source: UBS Investment Research

Non-Gazprom Producers

The following table illustrates the expected aggregate increase in production by Russian producers other than Gazprom.

Production by Integrated Oil and Gas Companies and Independents: 2005 to 2015



Source: UBS Investment Research

Integrated Oil and Gas Companies

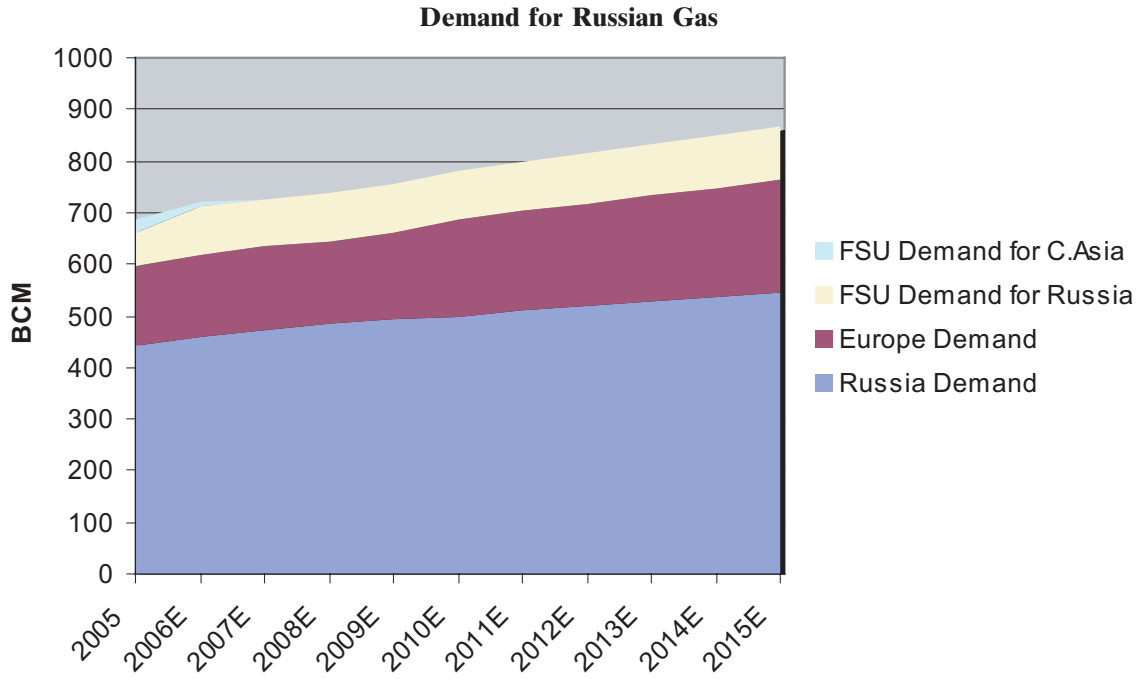
Russia's large integrated oil and gas companies (such as OAO LUKoil, OAO Surgutneftegas, TNK-BP and OJSC OC Rosneft) have substantial proved gas reserves and undeveloped gas resources, a significant portion of which is associated gas that is not flared off during oil production. As the prospects of domestic gas price liberalisation have increased and Gazprom's export obligations have grown, these integrated oil companies have accelerated development and production of their gas reserves. In 2005, total gas production by Russia's four major integrated oil and gas companies (OAO LUKoil, OAO Surgutneftegas, TNK-BP and OJSC OC Rosneft) was 44bcm.

Independents

In 2005, total gas production by the Independents amounted to approximately 50bcm. The Independents include large independent gas producers, such as OAO Novatek and OOO Itera ("Itera"), and a number of smaller independent gas producers with a market profile similar to that of the Company.

Demand

Total demand for Russia's natural gas is expected to rise from 661bcm in 2005 to approximately 779bcm in 2010 and 866bcm in 2015. The single most important factor spurring this growth is likely to be domestic Russian demand, which is forecast to increase from 441bcm in 2005 to approximately 546bcm in 2015.



Source: UBS Investment Research

Domestic demand

Overall domestic demand for Russian domestic gas was 441bcm in 2005. According to Gazprom, domestic deliveries via UGSS shipments increased by 1.9 per cent., to 340bcm. Gazprom also reported another 52bcm of gas was used for the technical needs of Gazprom and consumed in the production process.

External demand

Natural gas is gaining an increasing share of the world energy market, in part because it is generally perceived to be an efficient and environmentally clean fuel. According to the BP Review 2006, natural gas consumption, as a percentage of energy consumption in Western Europe, has increased in recent years from 18 per cent. in 1994 to 24.1 per cent. in 2005.

The BP Review 2006 reported that Western European gas consumption is expected to continue to increase. The Company believes that in the short to medium term, the increasing use of gas-fired electricity generation will continue to drive increases in European demand. At the same time, the Company believes that European natural gas production will decline, resulting in a widening gap between demand and indigenous supply that will require Europe to import increasing volumes of natural gas. On the other hand, the Russian-Ukrainian gas disputes in the winter of 2005-2006 that led to temporary disruptions of Russian gas supplies to Western Europe have led some governments, including those of Great Britain and Germany, to publicly reconsider the viability of nuclear and clean coal technologies, which may have a long-term negative impact on the demand for Russian gas in those countries. The Russian-Belorussian oil and gas transit disputes during the winter of 2006-2007 have reinforced the belief that Russia was an unreliable energy supplier.

In 2005, total Russian gas exports increased by 2 per cent. to 251bcm. According to RPI, Inc., a leading advisory firm specialising in the energy industry of Russia, deliveries to Europe amounted to 154bcm, while the remaining 97bcm was delivered to former Soviet Union countries.

Gas Supply Deficit and Impact on Independents

The Company believes that Gazprom's expected production from new fields and as yet to be discovered fields, while offsetting declining production from existing fields, is unlikely to be sufficient to meet growing domestic and international demand without significant additional production from integrated oil and gas companies and Independents such as the Company.

Although Independents do not generally have the right to export gas, market conditions in Western Europe, Central and Eastern Europe and the former Soviet Union other than Russia are relevant to

Independents such as the Company insofar as they influence Gazprom's export targets. To the extent that Gazprom diverts a larger portion of its relatively stagnant production to meeting supply commitments abroad, integrated oil and gas companies and Independents can increase their production to satisfy the additional domestic demand that would otherwise be unmet.

Transportation Infrastructure

The Unified Gas Supply System

Gazprom owns and operates the UGSS. The Russian Federal Law No. 69-FZ "On Gas Supply in the Russian Federation," dated 31 March 1999, as amended (the "Gas Supply Law"), defines the UGSS as a centrally managed, technologically and economically regulated system of gas production, transportation, storage and supply. See "Part VI — Regulation." Ownership of the UGSS makes Gazprom responsible for the reliability of gas supply in Russia, maintenance and development of the pipeline network and ensuring Russia's compliance with international treaties on gas supply.

As of 31 December 2005, the UGSS was the world's largest gas trunk pipeline system, with 155,000km of pipelines (not including pipelines for the transportation of gas condensate and stand-alone gas distribution networks). According to Gazprom, in 2005 it transported natural gas an average distance of approximately 2,400km for domestic consumption and 3,400km for export. Furthermore, in 2005 it transported 699.7bcm of natural gas, an increase of 2 per cent. over the 684.4bcm of natural gas it transported in 2004. Of this, transportation on behalf of third parties accounted for approximately 114.9bcm (16.4 per cent.) and 99.9bcm (14.6 per cent.) of the total natural gas transported in 2005 and 2004 respectively.

The UGSS transports natural gas principally from large Western Siberian fields toward the more heavily populated regions of European Russia, and onward to other former Soviet Union countries and Europe. Other parts of the UGSS originate in the natural gas fields of the Southern Russia-Volga region, including the Orenburgskoye and Astrakhanskoye fields, near the Company's licence areas. Two large pipeline systems enter Russia from Kazakhstan and connect with the UGSS, transporting natural gas from fields in Turkmenistan, Uzbekistan and Kazakhstan. One of these, the SAS, passes through the Company's Karpenskiy Licence Area. According to RPI, Inc., pipelines from the SAS operate at 60 to 80 per cent. of annual capacity.

Under the Gas Supply Law, Gazprom, as the owner of the UGSS, is obliged to provide third-party access to the UGSS, provided that there is spare transport capacity at the relevant time and place requested by the third-party, the proposed natural gas shipments meet established quality and technical parameters, input and output connections and quality control stations are available and there are supplies of natural gas and customer demand for the relevant time period.

Historically, Gazprom has been able to deny third-party gas producers access to the UGSS, citing a lack of spare capacity. Indeed, according to RPI, Inc., UGSS has between 32 and 38 bottlenecks which limit the transmission capacity and operational flexibility of the UGSS. However, Gazprom's management board recently approved a proposal to expand and upgrade facilities as necessary to accommodate access requests from third-party gas producers. The costs of the expansion and upgrades would be borne by the third-party gas producers, which they would finance either by paying increased transportation tariffs, or by providing a loan to Gazprom which would be repaid through reduced transportation tariffs. In any case, Gazprom will retain ownership and operation of the UGSS, and may still be able to influence access to the UGSS by application of access criteria other than capacity.

Other Networks

A number of large pipeline construction projects, such as Blue Stream, are currently being undertaken. The Company believes these projects are designed primarily to ensure the reliability of Russian gas exports to the European natural gas market, by circumventing countries of the former Soviet Union which have in the past disrupted or redirected Russian gas supplies, often in connection with disputes over transportation tariffs. Such projects may therefore be expected to help support European demand for Russian gas over the medium to long term. They do not, however, address Western Siberian bottlenecks. Accordingly, the Company believes that these projects should not abate the upward pressure on the Russian domestic gas prices expected by the Company.

Pricing

Regulation of Wholesale Prices

Among the principal domestic fuels, the Russian government currently regulates only Gazprom's wholesale local natural gas prices. The price of natural gas sold by integrated oil and gas companies and Independents is not directly regulated, but because of Gazprom's control of the UGSS, market prices are heavily influenced by the regulated price. The Company believes natural gas prices and the prices for alternative fuels are distorted as a result of the price-setting mechanism for Gazprom's regulated prices.

The regulation of natural gas prices has undergone significant change starting from the collapse of the Soviet Union. From 1990 to 1996, gas prices were regulated by irregular administrative orders. One price review took place in 1993, another in 1995 and two in 1996. Since 1997, the Federal Energy Commission and its successor, the FST, have regulated gas prices on a more consistent basis.

Currently, regulated prices are differentiated by type of consumer (household or industrial) and by price bands for different geographical zones that are established based on the relative distance from the gas production region to the consumer.

Regulated prices for natural gas supplied to industrial consumers in the Russian Federation are typically higher than those for natural gas supplied to household consumers. Today, the total price paid by industrial consumers for natural gas includes the regulated wholesale price for industrial consumers, a tariff for transportation through the gas distribution network and a marketing and sales services fee.

Proposed Deregulation of Wholesale Prices and Netback Parity

On 30 November 2006, the Russian government approved a joint proposal of the Ministry of Energy and Industry, the Ministry of Economic Development, the Ministry of Finance, the FAS and the FST which, among other things, set the following gas supply objectives for the Russian gas and electric power industries:

- electric power producers (and potentially for other categories of gas consumers) are to enter into five-year gas supply contracts to purchase gas from Gazprom, the pricing structure of which would be designed to achieve Netback Parity by 2011; and
- to ensure the availability of gas to meet its commitments to electric power producers, Gazprom is to enter into back-to-back five-year gas supply contracts to purchase gas from Independents and integrated oil and gas companies.

The proposal also outlines Russian gas price policy through 2011:

- as previously planned, the annual gas price increase for 2007 will be capped at 15 per cent.;
- in 2008, the annual gas price increase for industrial consumers will be capped at 25 per cent.; and
- in 2009 and 2010, three semi-annual increases of up to 13 per cent., followed by a final increase of up to 12 per cent. for industrial consumers, are contemplated.

In addition, the government has set an explicit long-term target for domestic industrial tariffs to reach Netback Parity by 2011. According to the Ministry of Energy and Industry, based on November 2006 export prices, Netback Parity would be at US$125/mcm. Under the proposal, actual price increases and other proposed changes would be implemented by the adoption of regulations to be proposed to the government by FST and other agencies. Among other things, the regulation is supposed to tie the gas prices in the five-year supply contracts to the prices of alternative fuels.

Proposed Increase of Regulated Gas Prices: 2007-2011

	2007		*2008*		*2009*		*2010*		*2011*
	1H	*2H*	*1H*	*2H*	*1H*	*2H*	*1H*	*2H*	
Increase, up to.....	15%	—	25%	—	13%	13%	13%	12%	Netback Parity
RUR, up to	1,352	1,352	1,691	1,691	1,910	2,159	2,439	2,732	3,291*

* According to the Ministry of Energy and Industry, US$125/mcm represented Netback Parity in November 2006 based on then-prevailing export prices, which would have been RUR3,291/mcm based on then-prevailing US$/RUR exchange rates. There can be no assurance that the domestic gas price will be equal to RUR3,291/mcm in 2011, or that such price will represent Netback Parity at that time.

Source: UBS Investment Research. Original figures in US$ were converted to RUR at a rate of US$1=RUR26.4.

In response to this proposal, some electric power generation companies have already announced plans to switch to alternative fuels, such as peat and coal, once gas price increases begin to take effect. While the demand for gas appears to be inelastic in the short-term, if it proves to be elastic in the medium to long term, gas price increases may not imply improved profitability for gas producers in those longer time horizons.

Mezhregiongaz Electronic Trading Platform

On 22 November 2006, Mezhregiongaz, a Gazprom subsidiary, held its first gas trading session using an electronic trading platform, with a trading volume of 119,000mcm. Six additional sessions have since been held, with the most recent taking place on 12 March 2007. Gazprom, Rosneft, TNK-BP, Itera, Novatek, LUKoil and Trans Nafta, among others, participated as sellers in one or more trading sessions. Most buyers were regional electric power producers and local gas distributors.

In the seven sessions, the average sales price of gas exceeded FST's average tariff by more than 35 per cent. In the 12 March Mezhregiongaz session, gas traded at RUR1,762.4/mcm (approximately US$67.5/mcm), net of transportation costs. Gas traded via Mezhregiongaz is priced at four so-called balance points, all of which are located in West Siberia. The buyer then has to pay Gazprom a transportation tariff for the gas to be delivered to the point of delivery. Following the 9 February 2007 trading session, it was reported that a number of buyers were unhappy with Gazprom's transportation tariffs, leading to low trading volumes in that session. However, subsequent sessions have shown a rebound in trading volumes.

It is expected that 10bcm will be traded through Mezhregiongaz during 2007, of which 5bcm will come from Gazprom and 5bcm from integrated oil and gas companies and Independents. Although such volumes currently represent a small portion of Russian gas sales, the Company believes that the further development of this trading platform can help to bring some transparency to unregulated gas pricing.

Transportation Tariffs

Prior to 2006, a transportation tariff per 1,000 cubic metres per 100km was established for the transportation of gas produced in the Russian Federation by independent producers through the UGSS for subsequent sale to Russian consumers at unregulated prices.

Pursuant to the Order of the FST of 26 December 2006 No. 474-e/2 "On Tariffs on Gas Transportation Services Through the System of Main Gas Pipelines of Gazprom for Independent Organizations," (as amended by Order of the FST of 27 February 2007 No. 29-e/5 from 1 March 2007 (the "FST Order"), the transportation tariff is determined based on the gas entry zone and gas exit zone, in accordance with schedules to the FST Order.

Transportation Tariffs (without VAT): 2001-2007*

	For the period ending on							
Tariff per mcm per 100km	*1 Aug 2001*	*1 Mar 2002*	*1 Aug 2002*	*1 Aug 2003*	*1 Oct 2004*	*1 Oct 2005*	*1 Aug 2006*	*1 March 2007*
In Russian roubles (excluding VAT)	10.00	12.00	13.80	16.56	19.37	23.84	Av. 26.39	Av. 30.34

* Tariffs starting from 1 August 2006 are determined on the length of gas transportation and thus shown only as average.

Source: FST regulations

Licence Disputes in Russia

As discussed further in "Part VI — Regulation," the licensing regime in Russia for the exploration, development and production of crude oil and natural gas is governed primarily by the Subsoil Law and a number of regulations issued thereunder. The Subsoil Law provides that fines may be imposed and licences may be suspended, restricted or terminated if the holder of a licence fails to comply with licence requirements or fails to make timely payments of levies and taxes for the use of the subsoil. There have been several licence disputes in recent years arising from alleged breaches governed by the Subsoil Law.

The Sakhalin-II project, which began in 1996, was operated by Royal Dutch Shell, Mitsui and Mitsubishi through a joint venture company Sakhalin Energy. The second stage of the project, now in progress,

provides for the development of the Piltun-Astokhskoye and Lunskoe fields, as well as for the construction of a pipeline, liquefied natural gas plant and oil terminal. However, in September 2006, the Russian Ministry for Natural Resources revoked its conclusion on the environmental impact assessment of the Sakhalin-II project. Further investigations by Rosprirodnadzor found multiple violations of environment protection measures. On 7 December 2006, twelve licences for water use held by a Russian company, Starstroy, a contractor working on the Sakhalin-II project, were suspended for two months due to violations of the Water Code of the Russian Federation. Revocation of the water use licences would have made construction of the pipeline and other infrastructure virtually impossible, and a significant part of the Sakhalin-II project would have had to have been abandoned.

In addition, criminal proceedings were initiated for the unauthorised felling of timber on the licence area. Faced with this mounting regulatory pressure, Royal Dutch Shell ceded control of Sakhalin-II to Gazprom on 11 December 2006, in what has been characterised in the international press as a de facto expropriation.

Another recent dispute over subsoil licence rights concerns Tambeyneftegaz and its subsidiary, Yamal SPG. Tambeyneftegaz, controlled by Russian businessman Nikolai Bogachev, held a subsoil licence to the Yuzhno-Tambeyskoye field, which contains natural gas and gas condensate reserves (the "Tambey Licence"). In June 2005 Gazprom acquired 25.1 per cent. of the shares in Tambeyneftegaz through Gazprombank-invest, a member of Gazprom's group. In July 2005 the Tambey Licence was transferred from Tambeyneftegaz to its subsidiary, Yamal SPG. An additional issue of shares was due to be held by Yamal SPG, after which foreign investors (among them Repsol, Shell and Petro Canada) would have held 49 per cent. of shares of Yamal SPG. As a result of the licence transfer and new share issuance, Gazprom would have been unable to influence the development of the Yuzhno-Tambeyskoye field and the production and marketing of its hydrocarbons.

In June 2006 Gazprom filed suit in the Moscow Arbitration Court to annul the transfer of the Tambey Licence from Tambeyneftegaz to Yamal SPG on the grounds that the latter does not hold the other licences necessary to commence operations on the field (such as construction licences and water use licences) and that the necessary equipment for such operations was not transferred to Yamal SPG. Market analysts speculate that this suit was linked to Yamal SPG's plans to export gas in a manner that would circumvent Gazprom's pipelines. In effect, once the Tambey Licence was transferred to Yamal SPG, Gazprom could no longer influence the development of the Yuzhno-Tambeyskoye field and the extraction of hydrocarbons therefrom.

In August 2006, Gazprom's claim was upheld by the Moscow Arbitration Court, but an appeal was filed and the decision did not enter into force. In November 2006, Gazprombank-invest acquired 25.1 per cent. of the shares in Yamal SPG from Nikolai Bogachev's group. As the above examples indicate, in certain cases the grounds for licence disputes appear to be driven by political and business considerations, in addition to purely legal considerations. Under these circumstances, any breaches of licence conditions or uncertainties can be used as leverage by Gazprom or another influential competitor to force a gas field licence holder or operator to cede control for a price lower than what would otherwise have constituted fair market value. See "Part IV — Risk Factors — Environmental, health and safety laws and regulations may impose material costs on the Company or restrict its operations, and failure to comply with such laws and regulations may put its licences at risk of revocation" and "Part IV — Risk Factors — The Company and its subsidiaries are subject to many risks associated with the Russian legal system which may materially adversely affect the Company's business, financial condition, results of operations or prospects."

Moreover, the Russian legal system does not formally recognise precedents in prior cases as a source of law. The Russian courts are not bound by previous decisions on similar cases and there is no guarantee that the court will take a particular view of the facts in a case, even if it has taken such view in the past. Therefore it is difficult to predict with certainty the future of licence disputes in Russia. See "Part IV — Risk Factors — Lack of independence and experience of the judiciary, difficulty of enforcing court decisions and the unpredictable acknowledgement and enforcement of foreign court judgments or arbitral awards in Russia and governmental discretion in enforcing claims give rise to significant uncertainties."

PART IV

RISK FACTORS

An investment in the Shares involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained elsewhere in this document, before making any decision to invest in the Company. Each of these risks could have a material adverse effect on the Company's business, prospects, financial condition or results of operations, or on the trading price of the Shares and investors could lose all or part of their investment.

Estimates, expectations and plans in this document are statements of future expectations or intentions of the Company and the Directors. Actual future results, including the Company's resources, recoveries and work programme, plans and schedules, could differ materially due to changes in market conditions and regulation affecting the gas industry. Gas price levels, political or regulatory developments, timely completion of work programme/commitments/projects could all have a material adverse effect on the Company's estimates, expectations and plans, growth prospects, financial condition and results of operations, or on the trading price of the Shares, all of which could have a material adverse effect on the value of the investment in the Shares. A non-exclusive list of factors that could cause actual future results to differ materially from such forward-looking statements is set out below under the caption "— Risks Relating to the Shares and the AIM Market–Actual results could differ materially from those anticipated in forward-looking statements, and may depend upon factors that are beyond the Company's control."

The Company has described the risks and uncertainties that it believes are material, but these risks and uncertainties may not be the only ones the Company faces. Additional risks and uncertainties, including those the Company currently is not aware of or deems immaterial, could have the effects set forth above.

Risks Relating to the Company's Business

The Company's exploration and production licences may be suspended or revoked prior to the end of their terms.

The licensing regime in Russia for the exploration and production of hydrocarbons, including natural gas and gas condensate, is governed primarily by the Subsoil Law and numerous regulations issued thereunder. The Subsoil Law provides that a subsoil licence may be revoked if, among other things, the holder fails to comply with licence requirements, does not make timely payments of levies and taxes for use of the subsoil, systematically fails to provide information, becomes bankrupt or fails to fulfil any other licence obligations.

The Company is in the process of addressing certain compliance failures by the previous operator of the Karpenskiy Licence Area that would, if not addressed, subject the Karpenskiy Licence to a heightened risk of revocation. The operator of the Karpenskiy Licence Area before PGK was LUKoil-NVN, working under subsoil licence No. SRT 12678 NR. In March 2005, Rosprirodnadzor conducted a review of LUKoil-NVN's compliance with the terms of its licence. Rosprirodnadzor found, among other things, that LUKoil-NVN failed to meet deadlines for fulfilling certain seismic and drilling obligations, and failed to comply with certain other obligations under its licence. On this basis, Rosprirodnadzor recommended the initiation of proceedings to revoke licence No. SRT 12678 NR.

These deadlines and other unfulfilled obligations were incorporated into the terms of the Karpenskiy Licence when it was re-issued in the name of PGK in March 2006 under licence No. SRT 13522 NR. In a letter to Woodhurst dated 22 February 2007, Rosprirodnadzor confirmed that PGK continues to be responsible under its licence No. SRT 13522 NR for, among other things, meeting deadlines to fulfil certain seismic and drilling obligations that had not been fulfilled by LUKoil-NVN under licence No. SRT 12678 NR or by licencees under other predecessor licences. Rosprirodnadzor recommended that PGK address such issues by amending the corresponding licence agreement. Amendments to the licence are currently being drawn up to address these and other issues, including the redenomination of certain payment obligations to regional budgets that were improperly transposed from pre-1997 documentation without reducing them by a factor of 1000 to reflect the 1997 redenomination of the ruble. If however, the Russian authorities refuse to adopt such amendments, the licence could be terminated and the payment obligations could be significantly higher.

The Company is also subject to performance risks common to all subsoil licence holders. For example, licensees are required to produce a minimum volume of hydrocarbons over the term of the licence. There can be no assurance that these production requirements can or will be met, particularly where the

minimum production requirements exceed the amount of proved plus probable reserves. On the other hand, producing more than 110 per cent. of the government approved volumes per annum for a particular field would also constitute a violation of the related licence, which can limit the licensee's ability to take advantage of favourable market conditions. Failure to comply with these or other terms could result in limitation, suspension or revocation of the Company's licences.

The rights of any subsoil licensee may also be challenged on the basis of defects in the process of issuing its subsoil licence. Vague and inconsistent requirements of the Subsoil Law and the regulations thereunder can make it difficult to conclude that any given subsoil licence has been issued in full compliance with applicable law. Moreover, while the law may be read to permit revocation of a licence based only on defects relating to the issuance of that licence, a more aggressive interpretation of the law would suggest that defects in the issuance of any predecessor licences could also constitute a basis for challenging an existing or successor licence.

Predecessor subsoil licences relating to the Karpenskiy Licence Area have been held by a number of Russian legal entities and have been reissued a number of times prior to the reissuance of the Karpenskiy Licence to PGK. Although the Company is not aware of any defects in the process of issuing or reissuing such predecessor licences or PGK's Karpenskiy Licence, there can be no assurance that any such issuance or reissuance would, if challenged, be found to have complied fully with applicable law. If any such issuance or reissuance were to be successfully challenged on the basis that the issuance process did not comply with applicable law, the Karpenskiy Licence could be revoked.

Should any of the Company's subsoil licences be revoked prior to their expiration, it will have to bear conservation/rehabilitation costs of the respective extraction infrastructure and territory. Any suspension, termination or failure to obtain or renew necessary licences could have a material adverse effect on the Company's business, prospects, results of operations, financial condition or on the price of the Shares.

The Russian government, directly and through its influence over Gazprom, the owner of the UGSS, effectively controls the Company's industry and may determine that independent gas producers should not have a significant role in the Russian gas industry.

As described in the sections titled "Part III — Overview of the Russian Gas Industry" and "Part VI — Regulation," all material aspects of the Russian natural gas industry are subject to or materially affected by government regulation. Moreover, through its share ownership, representation on the board of directors and role as regulator, the government exerts a strong influence over Gazprom, the dominant participant in the Company's industry. As a result, the Russian government effectively controls the Company's industry. The significant participation in the Russian natural gas industry of independent gas producers is a relatively recent development.

If the government was to determine, through legislation, administrative action or otherwise, that independent gas producers should have a less significant role in the Russian gas industry than envisioned in what the Company understands to be the Russian government's current energy strategy, it could take actions (including through Gazprom) that could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares and possibly even threatening the Company's ability to continue as a going concern. This may adversely affect the Company's business, prospects or the market price of the Shares. See also "— Risks Relating to the Russian Federation."

If the Company moves into production, it will be dependent on Gazprom for the transportation of natural gas and unstable condensate.

If the Company moves into production, it expects to transport substantially all of its natural gas through the UGSS. The UGSS is responsible for gathering, transporting, dispatching and delivering substantially all natural gas supplies in Russia and is owned and operated by Gazprom. Under existing legislation, Gazprom must provide access to the UGSS to all independent suppliers on a non-discriminatory basis provided there is capacity not being used by Gazprom. However, these equal access regulations may not remain in force, Gazprom may fail to comply with them in the future and the terms of the access offered may not be commercially reasonable. In practice, Gazprom exercises considerable discretion over access to the UGSS because it is the sole owner of information relating to capacity. There can be no assurance that this legislation will remain in place or that Gazprom will continue to provide independent suppliers with access to the UGSS or that the terms of access offered will be commercially reasonable. A change in the existing legislation, or a failure by Gazprom to comply with the legislation, such that Gazprom ceases to provide access to the UGSS on a non-discriminatory or commercially reasonable basis or takes other action to impede the access of independent gas producers such as the Company to transportation capacity would materially adversely affect the Company's business and prospects.

If the Company moves into production, it will also be dependent on Gazprom for the transportation of its unstable gas condensate. Gazprom is under no statutory obligation to transport this condensate. There can be no assurance that Gazprom would accept the Company's deliveries or that it would be able to enter into an agreement with Gazprom to transport unstable gas condensate on commercially reasonable terms. In addition, agreements with Gazprom may be on terms unfavourable to the Company or inconsistent with its business strategies. If the Company is unable to arrange for transportation of unstable gas condensate with Gazprom, at all or on commercially reasonable terms, the Company's business prospects or the market price of the Shares may be adversely affected.

The Company's ability to transport natural gas may be limited by disruptions or the capacity constraints of the UGSS.

The UGSS comprises an extensive network of pipelines and compressor installations that have been developed over the past 40 years. Most of the pipelines in the UGSS are over ten years old with certain parts being over 30 years old. A significant part of the pipeline network is protected by chemical processes of limited duration and large segments of the network are located in regions with harsh climates where construction, maintenance and refurbishment are difficult and costly. As a result, the UGSS may experience outages or capacity constraints during required maintenance periods and it is likely that maintenance work will increase in the future. If the Company moves into production of natural gas, a major disruption in the UGSS would have a material adverse effect on the Company's business and results of operations.

Gazprom is able to deny third-party gas producers access to the UGSS in the event that it lacks spare capacity. If price movements toward Netback Parity lead Gazprom and other producers to accelerate development plans and increase production, it may be more difficult for the Company to compete successfully for access to UGSS capacity. This may prevent the Company from increasing natural gas production in response to positive price trends in the future, which could have a material adverse effect on the Company's results of operations and prospects.

Proposed changes in the Subsoil Law could adversely affect the Company's ability to participate in certain future auctions for exploration and production licences and could subject the Company to a statutory requirement to sell its natural gas to the Russian government.

Pursuant to the latest draft restatement of the Subsoil Law proposed by the Russian government, only Russian persons will be entitled to participate in auctions for subsoil use rights. Under the draft restatement, Russian legal entities directly or indirectly controlled by, or under common control with, foreign citizens and/or foreign legal entities may be prohibited from participation in such auctions as may be determined by federal laws or as may be determined on a case-by-case basis by authorities vested with the authority to conduct such auctions. The sale of Shares in this Placing will likely result in an increase in the number of foreign citizens and/or foreign legal entities that beneficially own the Company's Enlarged Issued Share Capital. If the draft restatement becomes effective, there can be no assurance how it may be interpreted or applied, and thus whether or not the Company and its subsidiaries might be determined to be directly or indirectly controlled by, or under common control with, foreign citizens and/or foreign legal entities. As a result, the Company could be prevented from obtaining further subsoil use rights.

If, as contemplated by the proposed draft restatement, another federal law is adopted requiring producers of strategic natural resources to sell all or a portion of their production to the government and if natural gas continues to be classified by the government as a strategic natural resource, then once the Company moves to production, it may be required to sell all or a portion of its natural gas or other hydrocarbon production to the Russian government.

Other restrictions on foreign investment in the oil and gas and related industries are also reportedly under consideration, including but not limited to a requirement that foreign persons or entities obtain prior approval for the acquisition of any form of control over companies operating in such industries. Any of these proposals, if adopted, may materially adversely affect the Company's business, financial condition, results of operations, prospects or the market price of the Shares.

Exploratory drilling involves numerous risks, including the risk that the Company will not encounter commercially productive reservoirs of hydrocarbons, and even if the Company makes commercial discoveries, it may be unable to finance capital expenditures related to field development programmes or otherwise bring its fields into production.

A variety of factors may require the Company to curtail, delay or cancel drilling operations or implementation of field development programmes, or cause it to incur unforeseeable and unpredictable

cost overruns, including, among other things, unexpected drilling conditions, abnormal pressure or other irregularities in geological formations, equipment failures or accidents, mechanical difficulties, adverse weather conditions, difficulty complying with legal, governmental or licensing requirements, suspension or termination of licences and shortages or delays in the availability of drilling rigs and equipment deliveries.

The Company's drilling activities may be subject to enhanced risks of failure, delay and cost overruns. In addition to drilling in project areas with challenging environmental conditions, the Company intends to drill its principal wells to depths below 4.5 kilometres. Such deep well drilling requires large quantities of steel pipe for its drilling activities, which exposes the Company to adverse movements in steel prices. In addition, the gas that PGK intends to produce is under abnormally high pressure, making its wells technically challenging. Accordingly, the Company's drilling activity in respect of any particular well, project area, field or licence area, or in its entirety, may fail to result in commercial discoveries of hydrocarbons.

Even if the Company's drilling programme results in commercial discoveries of hydrocarbons, implementation of field development programmes will require substantial capital expenditures. There can be no assurance that the Company will be able to arrange successfully for the financing and construction of gas processing facilities, at all or on commercially reasonable terms. Moreover, production of gas and other hydrocarbons from the Company's licence areas may only be commercially feasible if Trans Nafta and other producers develop their neighbouring fields.

The Company's business, notably the development of the Karpenskiy Licence Area, requires and will continue to require for the foreseeable future significant capital expenditure, with a substantial part of these outlays being made before the Company is in a position to generate revenues. Accordingly, delays, curtailments or cancellation of the Company's drilling programmes or, in the event of commercial discoveries, field development programmes may have a material adverse affect on the Company's ability to meet its production targets which, in turn may materially adversely affect the Company's business, financial condition, results of operations prospects and the market price of the Shares.

Failure to develop its fields as planned may lead to a decline in the Company's reserves.

The Company intends to continue to explore for further reserves in its licence areas and seeks to add new reserves to its reserve base. However, the Company cannot assure investors that its exploration programmes will be successful. Except to the extent the Company completes successful exploration and development projects or acquires properties containing proven reserves, or both, the Company's reserves will decline as its natural gas and liquid hydrocarbons are produced and its reserves are depleted. The Company's future production is highly dependent upon the Company's ability to develop its existing reserve base and, in the longer term, finding or acquiring additional reserves. If the Company is unsuccessful in developing its current reserve base and if the Company fails to add new reserves through exploration or acquisitions, its total proved reserves will decline, which would adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

The natural gas and gas condensate data in this document are only estimates, and the Company's actual production, revenues and expenditures with respect to its reserves may differ materially from these estimates.

The natural gas and gas condensate data included elsewhere in this document represent only estimates. Reserves valuation is a subjective process of estimating underground accumulations of natural gas and gas condensate that cannot be measured in an exact manner. The accuracy of any reserve estimate depends on the quality and reliability of available data, engineering and geological interpretation and subjective judgment. Additionally, these estimates are based on many assumptions that may turn out to be inaccurate and changes in these assumptions, as well as subsequent results of drilling, testing and production, may result in material revisions to the estimates of the Company's hydrocarbon reserves. Moreover, reserve estimates may differ materially from the quantities of natural gas and gas condensate ultimately recoverable.

This document contains two reserve reports, a reserve report produced by the Petroleum Consultant and an earlier report produced by Ryder Scott. These two reports arrive at differing conclusions with regard to the geological structures of the Company's licence areas. While the Company believes the Petroleum Consultant's Report more accurately reflects the geological structure of its licence areas, it is possible that the Ryder Scott Report is more accurate. For instance, while the Company believes that the geological structure of the Karpenskiy Licence Area is a single-reef structure, it is possible that the structure is more

similar to a multi-reef structure, as indicated in the report prepared by Ryder Scott. This may adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

Environmental, health and safety laws and regulations may impose material costs on the Company or restrict its operations, and failure to comply with such laws and regulations may put its licences at risk of revocation.

The Company expects to incur significant capital and operating expenditures in order to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety, including abandonment and site restoration costs relating to its gas properties. The Company must limit the level of pollutants that it releases and undertake remediation in the event of environmental contamination, and would have to commit to do so in connection with applications for additional exploration and production licences.

Portions of the Karpenskiy Licence Area are located in the Saratovskiy Federal Nature Reserve and Tulpannaya Steppe Natural Sanctuary, which are protected by Russian environmental law. This law imposes limits on activities within a protected area. Planned economic activity in a protected area must be approved by the Russian government. The Otis tarda, a certain rare and endangered bird protected by Russian environmental law, is found to inhabit the Karpenskiy Licence Area. The law requires that all facilities built in the habitat of the endangered bird should be planned to minimise the impact on the bird's natural habitat.

From time to time, articles have been posted on the Internet which suggest that a predecessor licence for the Karpenskiy Licence Area was issued to LUKoil-PREM without coordination with the environmental authorities, and that the Chornaya Padina 1 well was located near to or within the bounds of the natural sanctuary described above, which affected the habitat and population of the Otis tarda. In July 1998, Greenpeace Council sued ZAO LUKoil-Saratov, which, at that time, held the licence for the Karpenskiy Licence Area. The plaintiff demanded that ZAO LUKoil-Saratov cease and desist from any activity near the protected area within the Karpenskiy Licence Area. Although the court ruled in favour of ZAO LUKoil-Saratov, there can be no assurance that the Company would be able to defend successfully any similar action in the event that it decides to drill on or near to the Chornaya Padina 1 site in the future.

The Company believes that it is currently following and intends to continue to follow all environmental requirements during operations in the Pre-Caspian Licence Area and in the Karpenskiy Licence Area and to this regard intends to follow the recommendations made to it by Branan Environment in its environmental report on PGK dated February 2006. See paragraph 9 of "Part IX — Additional Information — Branan Report." The Company believes that it is also currently following and intends to continue to follow all environmental requirements during operations in the Vostochny-Makarovskoye Licence Area.

While the Company believes there are no grounds for any government prohibition of its proposed activities, these regulatory burdens may increase the Group's costs by requiring it to make significant capital expenditures to modify operations, install pollution control equipment, perform site clean-ups, curtail or cease certain operations, pay fees or fines or make other payments for discharges or other breaches of environmental standards. In addition, new laws and regulations, the imposition of tougher requirements in licences, increasingly strict enforcement of, or new interpretations of, existing laws, regulations and licences, or the discovery of previously unknown contamination may require further expenditures. Additional costs of compliance and potential liabilities due to environmental damage may materially adversely affect the Company's financial condition, results of operations and prospects.

Moreover, following accusations that Royal Dutch Shell violated environmental laws, Royal Dutch Shell has agreed to cede its controlling stake in Sakhalin-II, the world's biggest liquefied gas project located in the far east of Russia, to Gazprom. See "Part III — Overview of the Russian Gas Industry — Licence Disputes in Russia." There may be tougher future environmental controls or further threats to revoke environmental licences, specifically on foreign-owned gas producers in Russia. See also "— Social instability in the Russian Federation could lead to increased support for centralised authority and a rise in nationalism, which could harm the Company's business." The revocation (or threatened revocation) of any of the Company's licences could materially adversely affect the Company's business, financial condition, results of operations, prospects or the market price of the Shares.

The Company has been and, following the Placing, will continue to be controlled by three limited partnerships, whose interests could conflict with those of the minority shareholders.

Following the Placing, 57.3 per cent. of the Company's Enlarged Issued Share Capital will be beneficially owned by three limited partnerships, Baring Vostok Private Equity Fund III L.P.1, Baring Vostok Private Equity Fund III L.P.2 and Baring Vostok Fund III Co-Investment L.P. (together, referred to in this document as "Baring Vostok Private Equity Fund III"), held through its nominee company, Cavendish Nominees. The general partner in and investment adviser to Baring Vostok Private Equity Fund III is Baring Vostok and, accordingly, Baring Vostok exercises effective control of the Company and will continue to do so following the Placing. Baring Vostok, in turn, is controlled by the Company's non-executive Chairman, Mr. Kalinin, and another of its non-executive Directors, Mr. Calvey. In addition, the Company's chief executive officer, Mr. Ivanov, and its chief financial officer, Mr. Stobie, have historical or ongoing ties with Baring Vostok.

The Company believes that the involvement of Baring Vostok and Baring Vostok Private Equity Fund III in its operations has been, and will continue to be, important in the pursuit and implementation of its strategy. However, there can be no assurance that Baring Vostok Private Equity Fund III will remain the controlling beneficial owners in the future and the Company believes that its business could suffer if such controlling beneficial owners ceased to participate actively in its operations.

On the other hand, Baring Vostok and Baring Vostok Private Equity Fund III may have the power to cause the business of the Company to be conducted for their own benefit rather than for the benefit of all of the Company's shareholders. Although the Company has entered into a relationship agreement with, among others, Baring Vostok Private Equity Fund III and Baring Vostok to ensure that they do not preclude the independent conduct of, or otherwise exercise undue influence over, the affairs of the Company, Baring Vostok Private Equity Fund III and Baring Vostok will nevertheless continue to have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting following the Placing and, as long as they hold, directly or indirectly, the majority of the Company's Enlarged Issued Share Capital, will control appointment and removal of directors. Baring Vostok Private Equity Fund III will also be able to control or significantly influence the outcome of any vote on, among other things, any proposed amendment to the Company's charter, takeover proposal, proposed substantial sale of assets or other major corporate transactions. Additionally, Baring Vostok Private Equity Fund III may have the ability to cause the Company to de-list from AIM and return to the status of a privately held company. There can be no assurance that the interests of Baring Vostok Private Equity Fund III and/or the interests of Directors and managers with ties to Baring Vostok Private Equity Fund III would not come into conflict with those of the other holders of Shares from time to time. Such conflicts may be resolved to the detriment of the other holders of Shares, including investors acquiring Shares in the Placing, which could adversely affect the value of their investment in the Company's securities.

The Company's internal financial controls and management information systems may not be as robust as those of its competitors.

Whilst the Company intends to install modern management information systems and financial controls necessary to manage its business and financial reporting effectively, such systems and controls may not yet be comparable to those of the Company's competitors and any significant deficiencies or material weaknesses in the Company's internal controls or in the Company's International Financial Reporting Standards consolidated financial statements not being reported on a timely basis could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects and the value of the Shares. This may adversely affect the Company's financial condition or the market price of the Shares.

The Company may be unable to recover funds from the Company's Russian subsidiaries.

From time to time, the Company transfers funds to its Russian subsidiaries in the form of loans, advances or equity contributions. The Company cannot assure investors that its subsidiaries will be able to pay principal or interest on loans or advances or distribute dividends without incurring significant costs, expenses, fees or charges. This may adversely affect the Company's business or financial condition.

The Company depends on its senior managers and other key personnel.

The Company's growth and future success depends on its senior management as well as on the Company's ability to attract employees with relevant expertise. The loss of some or all of the Company's key management (against which the Company has not insured) or its inability to attract new qualified employees could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

The Company's limited assets, human resources and dependence on outsourcing may impair its ability to implement its growth strategy and may weaken its exploration and production activities, its financial and operational controls and corporate governance, all of which may have a material adverse effect on its growth prospects and its financial condition.

As of 31 December 2006, the Company and its subsidiaries employed 12 persons and as at 1 April 2007, the Company and its subsidiaries employed 13 persons. At present it has no exploration or production assets other than its licences.

Although the Company is planning to build its own operational capabilities, it currently relies principally on outside service providers to perform its exploration, development and production operations. See paragraph 7 of "Part IX — Additional Information — Material Contracts." Whilst the Company believes that the activities of such outside service providers are at present effectively supervised and coordinated by the Company, effective oversight may become increasingly difficult to ensure as the Company's operations continue to grow. This may impair the Company's ability to operate its licence areas efficiently, to implement its growth strategy and to maintain a robust operational controls environment.

There is a limited pool of oil and gas and other highly trained professionals willing to work in Russia. The competition to recruit and retain such professionals is therefore intense, and the Company may have to compete against Russian and international oil majors with substantially greater financial resources. Accordingly, the Company may not be able to recruit and retain the additional personnel that it would take to reduce its dependence on outsourcing. At the same time, the Company may not be able to contract for expanded functions with independent oilfield services companies on terms it considers to be commercially reasonable, because a scarcity of available drilling rigs and qualified personnel is causing high inflation of prices for these services. Accordingly, the Company's limited human resources and dependence on outsourcing may have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Failure by the Company or its subsidiaries to comply with anti-monopoly regulation in Russia could have a material adverse effect on its business.

Anti-monopoly laws in Russia regulate companies deemed to be a dominant force in, or a monopolist of, a market. Under Russian anti-monopoly legislation, transactions involving voting shares (or certain fixed assets or rights to such assets) of companies with a combined asset value under Russian accounting standards exceeding a certain threshold, or companies registered as having more than a 35 per cent. share of a certain commodity market, and resulting in a shareholder (or a group of shareholders or their controlling persons) holding more than 25 per cent., 50 per cent. or 75 per cent. of the voting capital stock of such company (or in a transfer between such companies of such fixed assets or rights to assets the value of which exceeds a certain amount), must be approved in advance by the FAS. If approval is not sought or not obtained, or notice is not duly made, FAS has the right to claim invalidation of a transaction in court within one year from the moment of its execution or implementation, if it decides that the transaction negatively affects competition or results in strengthening of a dominant position in a market.

Neither the Company nor Woodhurst obtained the prior approval of the FAS for the acquisition of PGK or GNS. Woodhurst filed an application for FAS approval after the transactions had been consummated. In its letters No. AG/21245 and No. AG/21246, both dated 14 December 2006, FAS noted that the acquisitions of each of PGK and GNS required prior FAS approval. FAS concluded, however, that the acquisitions did not cause a limitation of competition. Woodhurst paid a fine of RUR100,000 (approximately US$3,817) in respect of each acquisition.

Generally, any successful challenge by FAS or any other competent authority of the Company's or any of its members' transactions may expose the Group or certain of its officers, Directors or shareholders to fines or penalties and may result in the invalidation of certain agreements or arrangements. This may adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

Risks Relating to the Company's Industry

The governmental authorities may choose not to extend exploration and production licences after the end of their terms.

The term of a licence can be extended upon the licence holder's request if necessary to finalise exploration, appraisal, production or remediation activities, provided, that, the licence holder did not violate the terms of its licence. In such case, no tender or auction is conducted. The Subsoil Law does not include detailed regulations on the procedure for extending a subsoil licence. As a matter of practice,

licence holders often reach agreement with the authorities on such extension. However there is no guarantee that a licence extension will be granted. The failure of the governmental authorities to extend a licence after expiration may reduce the Company's cash flows and materially adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

Government regulation currently keeps gas prices in Russia lower than international gas prices and independent Russian gas producers have limited ability to charge prices higher than those set by the Russian government, unless the domestic gas market is liberalised.

Gazprom sells over 75 per cent. of all the natural gas sold in Russia and the prices it charges for natural gas in Russia are subject to control by the Russian government under the Gas Supply Law. See "Part VI — Regulation." The prices the government has set for the sale of Gazprom's natural gas in Russia are significantly lower than prices Gazprom charges off-takers in Western Europe. The Company expects to sell all of its natural gas in Russia and almost all of its customers will be eligible to purchase natural gas from Gazprom at regulated prices. Thus, even though the Company may be eligible to sell natural gas at unregulated prices, the prices it is likely to be able to obtain in practice will be strongly influenced by regulated prices. There can be no assurance that natural gas prices in Russia will increase even if energy prices elsewhere in the world do, that the regulation of natural gas prices in Russia will be relaxed or that Russian government proposals to achieve Netback Parity for domestic natural gas prices will be realised. Accordingly, the Company may have limited pricing flexibility with respect to any sales of natural gas which could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares, particularly if regulated prices are decreased or if the Company experiences higher than anticipated operating costs.

A decline in the price the Company would receive for its natural gas and liquid hydrocarbons, as a result of declines in world prices or otherwise, would have a negative effect on its results of operations and could result in a reduction in its reserves.

The Company's revenue, profitability and cash flow will depend upon the prices it would receive for its natural gas and liquid hydrocarbons. Unless the market for domestic natural gas is deregulated, the prices the Company would charge for its natural gas will be strongly influenced by the prices the Russian government sets for the sale of natural gas by Gazprom, and there can be no assurance that these regulated prices will not decline. If world prices for natural gas decline to levels below those established by the Russian government, the government could come under pressure to reduce natural gas prices in Russia. Moreover, the prices the Company may be charging for any liquid hydrocarbons it produces will be determined by prices established on the global market. Thus, a decline in the price for natural gas and liquid hydrocarbons on world markets would have a material adverse effect on the Company's business, results of operations and prospects.

World markets for natural gas and liquid hydrocarbons are highly volatile. Prices may fluctuate widely in response to relatively minor changes in supply and demand, market uncertainty and a variety of other factors beyond the Company's control. These factors include: domestic and global economic conditions, political and economic conditions in oil and gas producing countries and in countries consuming oil and gas products, the ability of the Organization of Petroleum Exporting Countries to agree to and maintain oil production controls, weather conditions, domestic and foreign government regulation, and the price and availability of alternative fuels. The Russian economy is heavily dependent on its oil and gas exports, and a steep or sustained decline in the price of these products could negatively affect the Russian economy, potentially resulting in a Russian rouble devaluation. In any such situation, the Company's business, financial condition, prospects or the market price of the Shares could be materially adversely affected.

Changes in the relationship between the Russian government and countries that border Russia and transit Russian natural gas to European markets could cause a decrease in the amount of Russian natural gas exported and a consequent increase in the supply of gas onto the Russian domestic natural gas market, potentially reducing the price the Company would receive for its natural gas.

As the Company does not expect to be able to export its natural gas, if the Company moves into production, its revenue will be dependent on its ability to sell natural gas on the Russian market. Gas that is exported from Russia passes through certain transit countries, such as Ukraine and Belarus, before reaching European natural gas markets. If the relationship between the Russian government and the government of a transit country alters, this could result in increased transit tariffs for pipeline use, reduced pipeline space for transiting gas, or refusal to transit any Russian gas through that country. Such events may result in the Russian gas previously exported to foreign markets being sold instead in the internal

Russian market. This increase of available natural gas could have a detrimental effect on the price at which the Company would be able to sell its gas. Any of these events could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Although Russian domestic gas prices may temporarily increase if government regulation of natural gas prices were to be abandoned there can be no assurance that free market prices would remain at a higher level.

While deregulation of the Russian natural gas industry might cause a temporary increase in the price paid by consumers for natural gas, there can be no assurance that the free market price would remain at a higher level. Lower prices may reduce the amount of natural gas and liquid hydrocarbons that the Company can produce economically. This may result in the Company having to make substantial downward adjustments to its estimated proved reserves. If this occurs, or if the Company's estimates of development costs increase, production data factors change or its exploration results deteriorate, accounting rules may require the Company to write down, as a non-cash charge to earnings, the carrying value of the Company's gas properties for impairments. Deregulation of natural gas prices in Russia may therefore adversely affect the Company's business, financial condition, results of operations or prospects.

If the Company moves into production, increases in government-established natural gas transportation tariffs could have a material adverse effect on the Company's financial condition, results of operations and prospects.

In Russia, the FST regulates natural gas transportation tariffs. Regulated natural gas transportation tariffs have risen in recent years and the Company expects them to continue to rise. See "Part VI — Regulation." If natural gas transportation tariffs continue to rise and the Company is unable to pass on these additional costs to its end-customers, or the impact of increased transportation tariffs on the Company's wholesale customers requires it to decrease the natural gas prices it charges on a non-delivered basis, the Company's financial condition, results of operations and prospects could be materially adversely affected.

If the Company moves into production of liquid hydrocarbons, it may be dependent on OAO Russian Railways, the government-owned rail transportation monopoly, for the transportation of its liquid hydrocarbons.

If the Company moves into production of liquid hydrocarbons, it may be dependent on government-owned monopolies to transport them.

The Company's ability to transport liquid hydrocarbons by rail depends on the access to railway tank cars owned by OAO Russian Railways, or RZD, a government-owned entity. There can be no assurance that the Company will be able to obtain access to a sufficient number of tank cars in the future. An inability to access a sufficient number of tank cars could adversely affect the Company's ability to transport its liquid hydrocarbons.

RZD is a monopoly whose transportation tariffs (other than transit tariffs) are set by the FST. There can be no assurance that there will not be increases in the transportation tariffs that the Company is required to pay RZD to transport its liquid hydrocarbons. Increases in these tariffs may reduce the net price the Company realises for its liquid hydrocarbons since it is unlikely to be able to pass these additional costs on to its customers. Further increases in these transportation tariffs could have a material adverse effect on the Company's financial condition, results of operations or prospects.

The Company will face competition from other independent gas producers if it moves into production or seeks to acquire other assets.

In addition to competing with Gazprom, the Company would face competition from other independent gas producers. The Company's exploration and production business will face competition from other independent oil and gas companies in each of the following areas:

- seeking to obtain licences for future exploration and production through auctions and tenders run by governmental authorities;
- marketing its natural gas production;
- obtaining capacity to transport its natural gas; and
- hiring personnel, purchasing equipment and expertise necessary to explore, develop and produce hydrocarbons at its licence areas and fields.

The Company's ability to obtain additional exploration and production licences will be dependent upon its ability to evaluate and select suitable licence areas and to obtain necessary government approvals in this highly competitive environment. In addition, the Company's ability to market and transport its natural gas, once in production, will depend upon its ability to successfully compete for contracts with customers and for sufficient transportation capacity on the UGSS. This competition may adversely affect the Company's business, financial condition, results of operations and prospects.

How, where and when the Company develops its reserves and explores for new reserves is subject to the approval of the Russian government.

The Russian government must approve all subsoil exploration and development plans. The government does not always agree with the initial plans a company may submit, and therefore, a company's plans are sometimes modified to meet the government's requirements, even if the company does not believe that these requirements represent the best use of the company's capital. Thus, in the future the Company may be required to make capital expenditures on projects that the Company believes to be less attractive than those that it would otherwise choose to undertake. This may adversely affect the Company's business or prospects.

The Company may not be able to obtain or maintain permits, authorisations or land use rights necessary for the exploration and development of its licence areas.

The Company is or may be required to obtain and maintain other licences, permits, authorisations, environmental assessments, land use rights and approvals to explore its licence areas, build and operate gas processing facilities and otherwise develop its fields, transport its natural gas and gas condensate and comply with its exploration and production licences. Failure to do so could prevent, delay or diminish its ability to explore and bring its fields into production and generate revenue, which would materially adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

There are numerous operating risks inherent in the gas industry and insurance may not be adequate, affordable or available to protect the Company against all these risks.

The insurance industry is not yet well developed in Russia and many forms of insurance protection are unavailable or unavailable on commercially reasonable terms, including coverage for business interruption. The Company does not presently have insurance coverage, including coverage for its facilities and operations, specifically, for any business interruption, third-party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to its operations. Until the Company is able to obtain adequate insurance coverage, there is a risk that losses and liabilities arising from events that are typically insurable in more developed markets could significantly increase the Company's costs and have a material adverse effect on its operations, financial condition and prospects.

Under Russian law, any of the Company's Russian subsidiaries conducting hazardous operations, such as extraction and processing of natural gas, will be required to maintain a minimum insurance against damages to life, health and property of third parties. Failure to obtain and maintain such coverage may result in fines or suspension of operations for up to 90 days and could materially adversely affect the Company's business, financial condition or results of operations.

Government regulation has restricted suspension of supplies to certain customers for failure to make payments.

In accordance with the Gas Supply Law, consumers in Russia are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by a number of government resolutions. The government has, however, issued a number of resolutions regulating the restriction or suspension of supplies to certain customers. These consumers include, among others, medical institutions, military units, nuclear plants, communication organisations and certain vital utilities. In the future, the Company may have customers among these consumers benefiting from these regulations. This may adversely affect the Company's business or results of operations.

Risks Relating to the Russian Federation

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic

and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making an investment in the Shares. This risk may adversely affect the Company's financial condition, prospects or the market price of the Shares.

Social instability in the Russian Federation could lead to increased support for centralised authority and a rise in nationalism, which could harm the Company's business.

Social instability and calls for national security in the Russian Federation, coupled with difficult economic conditions, could lead to increased support for centralised authority and a rise in nationalism. These sentiments could lead to restrictions on foreign ownership of companies in the Russian Federation or large-scale nationalisation or expropriation of foreign-owned assets or businesses. The Russian Federation could also increase regulatory pressures for failures or alleged failures to comply with fire, health, safety and environmental rules in order to gain control over a company. Most recently, Royal Dutch Shell plc was threatened with revocation of its environmental licences for its Sakhalin-II project, a US$20 billion venture in far east Russia, for alleged environmental violations. In order to avoid the loss of its licences, on 11 December 2006 Royal Dutch Shell agreed to cede control of Sakhalin-II to Gazprom.

The Company does not anticipate the nationalisation or expropriation of its assets or the assets held by PGK or GNS, in part because neither the Company nor any of its subsidiaries were created as a result of privatisation of any state enterprise; however, as nationalisation is not limited to cases of reprivatisation, this possibility cannot be ruled out. In addition, as opposed to Royal Dutch Shell plc's large assets in Sakhalin, the Company believes that the Group's assets are small and thereby not of a size typically targeted by the Russian government for expropriation. However, there is limited experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Company may not be able to obtain proper redress in the courts, and it may not receive adequate compensation if in the future the Russian government decides to nationalise or expropriate some or all of the assets of the Company or its Russian subsidiaries. See "Part III — Overview of the Russian Gas Industry — Licence Disputes in Russia."

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. For example, Russian military and paramilitary forces have been engaged in Chechnya in the recent past and continue to maintain a presence there. In addition, groups allegedly associated with the Chechen opposition and international terrorist organisations have committed various acts of terrorism in population centres in Russia, including Moscow, resulting in significant loss of life, injury and damage to property. The spread of violence, or its intensification, could have significant political consequences, including the imposition of a state of emergency in some parts or throughout the Russian Federation.

Any of the foregoing events could materially and adversely affect the Company's business, financial condition, results of operations, prospects or the market price of the Shares.

If past interested party transactions in which the Company or the Company's subsidiaries were involved are successfully challenged, their invalidation could have a material adverse effect on the Company's business, financial condition, results of operations, prospects or the market price of the Shares.

The Company owns 100 per cent. of equity interests in its current subsidiaries. The Company, its subsidiaries, their previous owners and their related persons in the past have carried out transactions which may be considered to be "interested party transactions" under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders or participants depending on the nature of the transaction and parties involved. The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations. The Company cannot assure investors that the Company or its subsidiaries' applications of these concepts will not be subject to challenge by them, or by their former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Past transactions may be challenged under mandatory provisions of Russian law, negatively affecting the Company's business.

The Company and its Russian subsidiaries, PGK and GNS, and the previous owners of these companies, have taken a variety of actions involving establishment of new business entities, property and equity acquisitions and disposals, valuations of property, so-called "major transactions", "interested party transactions" and other types of transactions with state authorities, state-owned entities and other transactions and actions that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions, shareholders of the relevant companies (or their predecessors-in-interest) or other interested parties, could result in invalidation of such transactions or actions or imposition of other liabilities. The applicable provisions of Russian law are subject to different interpretations and there can be no assurance that the Company or any of the other relevant companies would be able to successfully defend any challenge brought against such transactions or actions.

Russian law also provides for pre-emptive rights of a limited liability company and/or its participants to purchase interests in the company. Generally, for a participation interest in a Russian limited liability company to be sold to a third-party, the other participants and the company itself must be notified of such sale and waive their pre-emptive rights. Although the Company is not aware of any breach of pre-emptive rights, if this procedure was not observed during the transfer of PGK and GNS from their initial owners to the Company, the transaction could be deemed invalid. Invalidation of any such transactions or actions or imposition of any such liability may, individually or in the aggregate, have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Economic and political instability in Russia could adversely affect the Company's business.

Since the dissolution of the Soviet Union, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

The Saratov region, in which the Company has substantial involvement, is one of the most heavily subsidised regions of Russia, and as such could be particularly vulnerable to economic and political downturns. This could have a disproportionately adverse effect on the Company's business and prospects.

In addition, the local and international press have reported significant criminal activity, including organised crime, in Russia. In addition, they have also reported high levels of corruption, including the bribing of officials and the press by competitors and others for the purpose of interfering with normal business activities.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-denominated securities, the Central Bank of Russia stopped its support of the Russian rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an

immediate and severe devaluation of the Russian rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by a major banking crisis in the Russian banking sector after the events of 17 August 1998, as evidenced by the termination of the banking licences of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases. Recently, the Russian economy has experienced positive trends, such as an increase in the gross domestic product, a relatively stable national currency, strong domestic demand, rising real wages and a reduced rate of inflation; however, these trends may not continue or may be abruptly reversed. This may adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

The Company, and its Russian subsidiaries are only able to conduct banking transactions with a limited number of creditworthy Russian banks as the Russian banking system remains underdeveloped.

Russia's banking and other financial systems are not well developed or regulated and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. There are currently a limited number of creditworthy Russian banks with which the Company, and its Russian subsidiaries can conduct banking transactions. Most creditworthy Russian banks are located in Moscow and there are fewer creditworthy Russian banks in the regions outside of Moscow. Rumours of bank failures, additional bank failures and any downgrade of Russian banks by credit rating agencies may result in a crisis throughout the Russian banking sector. A prolonged or serious banking crisis or the bankruptcy of a number of banks could adversely affect the Company's business and its ability to complete banking transactions in Russia.

Limitations and restrictions on the conversion of Russian roubles to hard currency in Russia, or the inability to repatriate such hard currency funds, could increase the Company's costs when making payments in hard currency. This may adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

The Russian Federation's physical infrastructure is inadequate and in poor condition, which could disrupt normal business activity.

The Russian Federation's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, electric power generation, transmission and distribution, district heating systems and water utilities, communication systems and building stock. For example, in May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The deterioration of the Russian Federation's physical infrastructure harms the national economy, disrupts access to communications and can interrupt business operations. Although the federal government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems, any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of infrastructure in Russia harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and could interrupt business operations. Such factors could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Fluctuations in the global economy may materially adversely affect the Russian economy and the Company's business, financial condition, results of operations or prospects.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Russian businesses could face severe liquidity constraints, further materially adversely affecting their economies. Additionally, because Russia produces and exports large amounts of oil and gas, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the prices of oil and gas could slow or disrupt the Russian economy or undermine the value of the rouble against foreign currencies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets. This may adversely affect the Company's business, financial condition or prospects.

Conflict between central and regional authorities and other conflicts could create an uncertain operating environment hindering the Company's long-term planning ability and could materially adversely affect the value of investments in Russia, including the value of the Company's Shares.

The Russian Federation is a federation of 86 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders the Company's long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent the Company from effectively and efficiently implementing its business strategy. This may adversely affect the Company's business, financial condition, prospects or the market price of the Shares.

Non-compliance with real estate legislation and governmental and administrative real estate regulations in Russia could materially affect the Company's business, financial condition, results of operations or prospects.

In order to use and develop land or other real property in Russia, approvals and consents of various federal, regional or local governmental authorities, such as the various environmental, sanitation and epidemiological control authorities, are required. The approval and consent requirements vary from locality to locality; they are numerous, sometimes contradictory and are subject to change without public notice and are occasionally applied retroactively. The enforcement of such requirements is inconsistent and is often arbitrary and selective. Failure to obtain the required approvals and consents may lead to severe consequences to landowners and leaseholders or other property holders. No assurance can be given that the Company, and its Russian subsidiaries are and will at all times be in full compliance with all real estate laws and governmental and administrative real estate regulations in Russia. If any of the Company's, and its Russian subsidiaries' existing or prospective sites is found not to be in compliance with all applicable regulations, it may be subject to fines or penalties or the Company's, and its Russian subsidiaries' rights to such properties may be affected which could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Rights to land are necessary for licencees to carry out operations on their licence areas. Preliminary consent to provide allotments for subsoil use purposes has been obtained from the local governments by PGK and GNS. Such preliminary consent is sufficient for the issuance of the relevant subsoil licences, but it is not sufficient to carry out drilling operations or hydrocarbon extraction. Land rights will need to be acquired once PGK and GNS are ready to commence drilling; however, there is no guarantee that PGK and GNS will be able to acquire such rights or the terms and conditions of such agreements to acquire these rights will be acceptable to PGK and GNS. Such factors could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Legal Risks Relating to the Russian Federation

The Company and its subsidiaries are subject to many risks associated with the Russian legal system which may materially adversely affect the Company's business, financial condition, results of operations or prospects.

Russia is still developing the legal framework required by a market economy. The laws in Russia regulating ownership, bankruptcy control and corporate governance of Russian companies are relatively new and, by and large, have not yet been tested in the courts. Disclosure and reporting requirements do not guarantee that material information will always be available, and antifraud and insider trading legislation is generally rudimentary. The concept of fiduciary duties on the part of the management or directors to their companies or the shareholders is not well developed.

In addition, substantive amendments to several fundamental Russian laws (including those relating to the tax regime, corporations and licensing) have only recently become effective. The recent nature of much Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform, and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments, may result in ambiguities, inconsistencies and anomalies, the enactment of laws

and regulations without a clear constitutional or legislative basis, and ultimately in investment risks that do not exist in more developed legal systems. For example, although the bankruptcy law establishes a procedure to declare an entity bankrupt and liquidate its assets, relatively few entities have been declared bankrupt in Russia, and many of the bankruptcy proceedings that have occurred have not been conducted in the best interests of creditors. All of these weaknesses could affect the Company's ability to enforce its rights or to defend itself against claims by others. Further, no assurance can be given that the development or implementation or application of legislation (including government resolutions or presidential decrees) will not have a material adverse effect on foreign investors (or private investors generally).

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any substantial assets of the Company, potentially without adequate compensation, would have a material adverse effect on the Company.

Many Russian laws are structured in a way that provides for significant administrative discretion in interpretation, application and enforcement. Reliable texts of laws and regulations at the regional and local levels may not be available, and are not usually updated or catalogued. As a result, the applicable law is often difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications, for which there is limited judicial and administrative guidance. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance.

Russian laws often provide general statements of principles rather than a specific guide to implementation, and government officials may be delegated or exercise broad authority to determine matters of significance. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law, especially in the area of currency control, may involve severe penalties and consequences that could be considered as disproportionate to the violation committed. Such factors could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Lack of independence and experience of the judiciary, difficulty of enforcing court decisions and the unpredictable acknowledgement and enforcement of foreign court judgments or arbitral awards in Russia and governmental discretion in enforcing claims give rise to significant uncertainties.

The independence of the judicial system and its immunity from political, economic and nationalistic influences in Russia remains largely untested. Judicial precedents generally have no binding effect on subsequent decisions. Not all legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The judicial systems can be slow. Enforcement of court orders can in practice be very difficult. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. The Company may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies.

In addition, Russia is not a party to any multilateral or bilateral treaties with most western jurisdictions, including the United Kingdom, for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in a western jurisdiction, it is highly unlikely to be given direct effect in the courts of Russia. However, Russia (as successor to the Soviet Union) is party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). A foreign arbitral award obtained in a state that is party to the New York Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the New York Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation and non-violation of Russian public policy). There is also a risk that Russian procedural legislation will be changed by way of introducing further grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of Russian courts or other officials, thereby introducing delays and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation. Such factors could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Unlawful, selective or arbitrary action by the regulatory authorities may have an adverse affect on the Company's business.

Governmental, regulatory and tax authorities have a high degree of discretion and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with or contrary to law. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension, or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share-issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to void transactions. Authorities also have the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or possibly terminate contracts. The Company's competitors may receive preferential treatment from regulatory authorities, potentially giving them a competitive advantage over the Company. Such factors, or selective or arbitrary action by the regulatory authorities, if directed at the Company, could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Lack of developed corporate and securities laws and regulations in Russia may limit the Company's ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States and Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the Federal Service for the Financial Markets;
- the Ministry of Finance;
- the FAS;
- the Central Bank of the Russian Federation; and
- various professional self-regulatory organisations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect the Group's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to the Group. As a result, the Group may be subject to fines or other enforcement measures despite its best efforts at compliance. Such factors could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Shareholder or participant liability under Russian legislation could cause the Company to become liable for the obligations of its Russian subsidiaries.

The Civil Code and the Federal Law on Joint Stock Companies, or the Joint Stock Companies Law, and the Federal Law on Limited Liability Companies, or the Limited Liability Companies Law, generally provide that shareholders in a Russian joint stock company or participants in a limited liability company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one person is capable of determining decisions made by another person or entity. The person or entity capable of determining such decisions is deemed an "effective parent." The person whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Joint Stock Companies Law and the Limited Liability Companies Law, an effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability exists by virtue of a dominant stake in the charter capital, is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, the Company or Woodhurst could be liable in some cases for the debts of its subsidiaries. This liability could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

The Company's Russian subsidiaries may be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law, which could materially adversely affect the Company's business, financial condition, results of operations or prospects.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganisation or during its operation. For example, in Russian corporate law, if the net assets of a company calculated on the basis of an unconsolidated balance sheet prepared in accordance with Russian accounting standards as at the end of the second or any subsequent financial year of a company's operation are lower than the statutory minimum amount of charter capital (RUR10,000), this can serve as a basis for a court to order the liquidation of the company, upon a claim by governmental authorities. The creditors of such company may also demand acceleration of performance of any obligations owed to them, which could lead to bankruptcy or insolvency proceedings being initiated against PGK if the latter is unable to fulfil such creditors' claims. Any such liquidation of the Company's Russian subsidiaries could lead to additional costs, which could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

According to the balance sheet of PGK for 2006, its net assets are currently less than the statutory minimum amount of charter capital. This situation is quite common for many Russian oil and gas companies that have not yet reached the production stage and, therefore, do not generate any revenue. While PGK may theoretically be subject to compulsory liquidation by the Russian tax authorities, or to creditors' claims, in practice this rarely happens outside any political context. Furthermore, according to recent court practice, in case of proceedings aimed at the liquidation of PGK, its practical ability to pay back its debts will be taken into account, as well as any measures aimed at increasing its amount of charter capital. The Company intends to use part of the proceeds of the placing to ensure that the net assets of PGK are above the statutory minimum level. However, if PGK continues to have net assets below the minimum statutory amount of charter capital, it may be forced into liquidation, or be required by creditors to perform all of its obligations owed to them, which could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

The Company's Russian subsidiaries may not be able to deduct interest on certain borrowings in full amount under the Russian thin capitalisation rules.

Russian thin capitalisation rules limit the amount of interest that can be deducted by Russian subsidiaries on debts payable to their non-resident shareholders. Until 1 January 2006, these rules applied only to loans issued to a Russian company by a foreign shareholder owning directly or indirectly more than 20 per cent. of the share capital of the Russian company. Additionally, thin capitalisation rules that came into effect on 1 January 2006 extend the rules' application to loans issued to a Russian company by another Russian company that is affiliated with the foreign shareholder as well as to loans secured by such foreign shareholder or its affiliated Russian company. It is not yet clear how these new rules will be applied in practice by the Russian tax authorities. Such factors could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Characteristics of and changes in the Russian tax system could materially adversely affect the Company's business, financial condition, results of operations and an investment in the Shares.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others:

- income tax or profit tax;
- value-added tax, or VAT;
- mineral resources extraction tax;

- import and export duties;
- unified social tax; and
- corporate property and land taxes.

The tax environment in Russia historically has been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. This uncertainty potentially exposes the Company and its Russian Subsidiaries to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden and the suspension or termination of the licences of the Company's subsidiaries.

In addition, tax laws, such as the Russian Federation Tax Code (the "Russian Tax Code"), have been in force for a short period relative to tax laws in more developed market economies, and the government's implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the government and within government ministries and organisations, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are authorised by law to impose severe fines, penalties and interest charges. Extensive court practice in respect of these questions does not exist. Therefore, it is often impossible to predict in advance how the Russian tax authorities will apply tax legislation in practice, and this uncertainty potentially exposes the Company to significant fines and penalties and enforcement measures despite the Company's best efforts at compliance, and could result in a greater than expected tax burden. In practice, however, Russian tax authorities can be expected to interpret the tax laws in a manner that rarely favours taxpayers, and recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments.

Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the tax year. The fact that a year has been reviewed by tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period. Therefore, because previous tax audits do not preclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Because the terms "obstructed" and "hindered" were not previously defined, tax authorities had broad discretion to argue that a taxpayer "obstructed" or "hindered" an inspection and ultimately could seek penalties beyond the three-year term. Effective in 2007, amendments to Article 113 of the Russian Tax Code codified the decision of the Russian Constitutional Court, and defined "hindrance" and "obstruction", however these definitions are themselves general. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Financial statements of Russian companies are not consolidated for tax purposes. Accordingly, for example, each of the Company's Russian subsidiaries, pays its own Russian taxes and may not offset its profit or loss against the loss or profit of the other Russian companies within the Group. In addition, inter-company dividends are subject to a withholding tax of 9 per cent., if being distributed to Russian companies, and 15 per cent., if being distributed to foreign companies. If the receiving company itself pays a dividend, it may offset tax withheld by the lower-level company against its own withholding liability in respect of the onward dividend, although not against any withholding made on a distribution to a foreign company. Relief from withholding tax on distributions to a foreign company must be sought under double tax treaties. These tax requirements impose additional burdens and costs on the Company's operations, including management resources.

Russian laws governing transfer pricing allow the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices of similar transactions by more than 20 per cent. within a short period of time). Special methods for calculation of taxable income are applicable to the trading of securities and derivatives.

The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to these uncertainties, the Russian tax authorities may challenge the prices

of a broad scope of transactions made by or between certain entities within the Group, and propose adjustments. If such price adjustments are upheld by the Russian courts and implemented, the assessed amount of prior tax underpaid or unpaid and related interest and penalties could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

The Russian Ministry of Finance is planning to present a draft law to the government introducing amendments to the transfer pricing rules. However, no specific draft legislation has yet been submitted to the Russian Parliament for consideration. It is therefore unknown whether the new rules will have an adverse effect on the position of Russian taxpayers. The proposed changes may, among other things, shift the burden of proving market prices from the tax authorities to the taxpayer, increase the powers of the tax authorities to enforce transfer pricing legislation, cancel the existing permitted 20 per cent. deviation threshold and introduce specific documentation requirements for proving market prices.

Russian tax authorities may challenge transactions if they believe that such transactions are made with a view to avoiding tax liabilities. In 2004, the Russian Constitutional Court ruled that such transactions are subject to challenge by any interested party, including the tax authorities. Successful challenge on these grounds may result in unwinding of the transaction, and possibly also in confiscation of the proceeds thereof. Russian tax law does not set forth distinct criteria of what constitutes tax avoidance. Accordingly, while the Company believes that it has structured its investments in compliance with applicable Russian tax laws, there can be no assurance that such investments cannot be challenged or that any such challenges could be successfully defended. If any agreements or other transactions by or between certain entities within the Group are successfully challenged on this basis, the Company may lose the property received in these transactions, and, if any such transaction provided for future benefits, the Company may also lose such future benefits. This could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Recently the Supreme Arbitrage Court of the Russian Federation issued Resolution No.53 dated 12 October 2006 (the "Resolution") which introduced the concept of "unjustified tax benefit" for application by all arbitrage courts throughout Russia. Broadly, the concept is a step towards the application of general anti-avoidance rules and case law found in other tax jurisdictions, i.e. the results of "artificial" transactions (formal structures without proper support in substance) will be disregarded and tax consequences will be based on the actual substance of the transactions. Under the Resolution, a tax benefit may arise when the tax liabilities are reduced as a result of decreasing a tax base, applying a tax deduction or tax exemption, applying a lower tax rate or receiving a tax refund (offset). A tax benefit could be considered as unjustified, in particular, when the transactions are carried out and accounted for tax purposes with no commercial substance and solely for the purposes of receiving tax benefits. Although the Company believes that it complies with the current regulations, it does not exclude the risk that tax authorities could interpret the Resolution in a different way, applying it to the Company's operations and claiming additional taxes based on the concept of "unjustified tax benefit". Current application of the Resolution to producing and trading structures has not been widely tested in court. Therefore, the Company is not currently in a position to comment on or predict further development of the court practice and its impact on interpretation of the current legislation by Russian tax authorities.

The Russian tax system has recently been revised. The new tax system is intended to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the revised tax system relies heavily on the judgments of local tax officials and they have recently made several material tax claims against major Russian companies. Even if further reforms to tax laws are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures. Such factors could have a material adverse effect on the Company's business, financial condition, prospects or the market price of the Shares.

Risks Relating to the Shares and the AIM Market

Investment in AIM quoted securities may carry a higher risk than an investment in Shares quoted on the Official List.

The Shares will be traded on AIM rather than the Official List. An investment in shares traded on AIM may carry a higher risk than an investment in shares quoted on the Official List. In addition, the market in the Shares on AIM may have limited liquidity, making it more difficult for an investor to realise its investment on AIM than to realise an investment in a company whose shares are quoted on the Official List. Investors should therefore be aware that the market price of the Shares may be more volatile than

that of shares quoted on the Official List, and may not reflect the underlying value of the net assets of the Company. Investors may therefore not be able to sell at a price which permits them to recover their original investment.

The Share price of AIM quoted companies can be highly volatile.

The share price of AIM quoted companies can be highly volatile. The price at which the Shares are quoted and the price at which investors may realise their investment in the Shares will be influenced by a large number of factors, some of which may be specific to the Company and its operations and some of which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Shares (or the perception that the same may occur, as, for example in the period leading up to the expiration of the Lock-Up Deeds), legislative changes and market, economic, political or regulatory conditions.

Because there has been no prior active public trading market for the Shares, the Placing may not result in an active or liquid market for the Shares.

There is no trading history regarding the Shares and Admission should not be taken as implying that a liquid market for the Shares will develop or be sustained after the Placing. The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Following the listing and placement of Shares, Baring Vostok Private Equity Fund III will continue to own approximately 57.3 per cent. of the Shares and the voting rights attendant thereto. Accordingly, Shares may not be traded in sufficient volumes to give liquidity to holders of the Shares.

Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the Shares does not develop, the price of the Shares may become more volatile and it may be more difficult to complete a buy or sell order for such Shares.

There can be no guarantee as to future performance.

There is no certainty and no representation or warranty is given by any person that the Company will be able to achieve any level of performance referred to in this document, whether express or implied. This may adversely affect the Company's financial condition, results of operations, prospects or the market price of the Shares.

Actual results could differ materially from those anticipated in forward-looking statements, and may depend upon factors that are beyond the Company's control.

Investors are cautioned that actual results could differ materially from those anticipated in forward-looking statements. The forward-looking statements contained in this document reflect estimates and assumptions made by the Company and by the Petroleum Consultant, which involve a number of inherent risks and uncertainties, both general and specific, many of which are beyond the Company's control. Accordingly, risks exist that the predictions, forecasts, projections and other forward-looking statements contained in this document will not be achieved. A number of important factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- Inflation, interest rate and exchange rate fluctuations;
- The price of gas on European markets;
- The prices of gas and condensate on domestic markets;
- Success at finding commercially exploitable quantities of gas and condensate in its exploration projects;
- Access to sufficient capital to finance exploration, development and production at fields in the Company's licence areas, including the construction of gas processing facilities, as well as to finance licence acquisitions;
- Competing effectively for acquisitions and in tenders to obtain exploration and production licences relating to additional licence areas;
- Access to pipelines, particularly UGSS and SAS;
- Relations with Gazprom and Trans Nafta;
- The effects of changes in laws, regulations, taxation or accounting standards or practices, or in the interpretation and enforcement of existing laws, including without limitation with respect to environmental matters and licensing;

- The effects of, and changes in, the policy of the Russian government, including without limitation the effect of domestic gas price policy on achieving Netback Parity;
- The effects of competition in the geographic and business sectors in which the Group operates;
- Prices and availability of alternative fuels, including in the European export markets for Russian gas;
- The development of Russia's strategic gas policy vis-à-vis Western Europe, Ukraine and Belarus;
- Weather conditions and natural disasters; and
- Ability to manage the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. Investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Company operates, and should not place undue reliance on forward-looking statements. Failure to achieve the predictions, forecasts, projections and other forward-looking statements contained in this document may have an adverse effect on the Company's financial condition, results of operations, prospects or the market price of the Shares, and such effect may be material.

It may be difficult for UK investors to satisfy judgments obtained against the Company.

Substantially all of the Company's assets will be located in the Russian Federation. As a result, it may be difficult for a UK investor to satisfy court judgments obtained in the English courts against the Company.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. No such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation.

The Russian Federation is a party to the New York Convention. However, it may be difficult to enforce arbitral awards in the Russian Federation due to (i) the inexperience of Russian courts in international commercial transactions, (ii) official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors and (iii) corruption and/or Russian courts' inability to enforce such orders.

Other Risks

The Company has not independently verified information it has sourced from third parties.

The Company has sourced certain information contained in this document from third parties, including private companies and Russian government agencies, and the Company has relied on the accuracy of this information without independent verification. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than those of countries with more developed market economies. Official statistics may also be produced on different bases than those used in such other countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. In addition, the veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and charged in connection with their misuse of economic data. This may adversely affect the market price of the Company's Shares.

Additionally, the Company relies on and refers to information and statistics from various third-party or unofficial public sources and its own internal estimates. The information from its internal estimates has not been verified by reference to any independent sources. While the Company accepts responsibility for having correctly reproduced information obtained from third-party or unofficial public sources, it has not independently verified information it has obtained from such sources. Unless otherwise stated, all such data are presented in nominal terms and have not been restated to reflect the effects of inflation.

The foregoing factors are not exhaustive and do not purport to be a complete explanation of all the risks and significant considerations involved in investing in the Company.

PART V

PETROLEUM CONSULTANT'S REPORT

Schlumberger Logelco Inc

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Republic of Panama

Schlumberger

20 April 2007

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Gentlemen,

Volga Gas
Petroleum Consultant's Report (the "Report")

As instructed by Volga Gas (the "Company"), Schlumberger Logelco Inc., have prepared a Report dated 12 March 2007 in regard to the proved, probable and possible condensate and gas reserves in the Vostochny-Makarovskoye License Area and the prospective resources in the Karpenskiy License Area in respect of which the Company and its subsidiaries hold exploration and production licenses.

It is proposed that the Report will be published in an admission document in connection with the Company's admission to AIM. Therefore, the Report is prepared in accordance with the Guidance Note for Mining Oil & Gas companies issued by the London Stock Exchange in March 2006.

The Report, which this letter introduces, should be referred to in its entirety for the full description of each asset and associated material liabilities, the data available to us, our evaluation methods, and our qualifications.

We confirm that there has been no material change of circumstances or available information since the Report was compiled and we are not aware of any significant matters in connection with our evaluation that are not covered by the Report which might be of a material nature with respect to the proposed Admission.

Very truly yours,

Philippe Guerendel
Business Manager Data & Consulting Services
Schlumberger Logelco Inc.

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EXECUTIVE SUMMARY

At the request of the Company, we have prepared estimates, as of March 7th 2007, of the extent of the proven, probable and possible petroleum reserves, prospective resources and the net present value of the reserves in respect of certain assets of the Company's wholly-owned subsidiaries. The interests evaluated consist of three license areas located in the Privolzhsky Region of Russia - Vostochny-Makarovskoye, Karpenskiy and Pre-Caspian. Interests in these three license areas are held in two separate wholly-owned subsidiary companies.

The Karpenskiy License Area covers 4,180km^2 and is located in the Saratov region of European Russia (See Figure 1). We evaluated the prospective resources in respect of the Yuzhny-Ershovskoye structure. Saratovneftegeophysika is currently acquiring 3D seismic over the Yuzhny-Ershovskoye and Yuzhny-Mokrousovskoye sub-salt structures prior to the Company drilling two deep wells.

The Vostochny-Makarovskoye License Area covers 17.8km^2 and is located in Volgograd region of European Russia (See Figure 6). We evaluated proved, probable and possible reserves in the Bobrikovsky and Yevlansko-Livenskiy layers in the Vostochny-Makarovskoye License Area and calculated net present value of the reserves discounted at 10% per annum.

The Pre-Caspian License Area covers 1,437km^2 in the Saratov region and is close to the Karpenskiy License Area (see Figure 1). We did not undertake any evaluation of the Pre-Caspian License Area. Accordingly we have presented no reserves or resources associated with the license area and included only such information as was directly provided by the Company. The Company intends to commence exploration of the license through the acquisition of 2D seismic in 2007.

This Report is completed in accordance with the Guidance Note for Mining, Oil and Gas Companies issued by the London Stock Exchange in March 2006. The reserves reported are evaluated using the standards established by the Society of Petroleum Engineers (SPE) and the World Petroleum Congresses (WPC). The SPE definitions are included as Appendix 1 to this Report.

Estimates of reserves and resources are based on the information made available to us. Estimates may change as additional information is obtained. Estimates are also subject to the uncertainties inherent in the application of judgmental factors. The quantities of condensate and gas that may be recovered may differ significantly from the estimates presented in this Report.

The Company provided ownership information. We have accepted this information as presented and have made no independent verification, as such is beyond the scope of this assignment. Appendix 3 summarizes the Company's ownership in the licenses reported.

Reserves and resources presented in this Report are all net to the Company, as the Company owns 100% of, and maintains 100% economic interest in, each of its license areas.

Summary of License Areas

Karpenskiy License Area

The Karpenskiy License Area is located in the marginal zone of Caspian Depression within the Volgograd-Karachaganak petroleum province. Seismic data acquired by Lukoil companies between 1996 and 2002 makes it possible to delineate large Devonian-Carbonate masses associated with Late Devonian-Early Permian carbonate buildups. The potential of these sub-salt deposits is indicated by the region-wide presence of hydrocarbons in the giant oil and gas fields of Karachaganak, Tengiz and Astrakhan.

The target intervals are the lower Bashkirian – Middle Frasnian reef buildups. Lukoil drilled Chornaya Padina 1 in 2001. It penetrated the supra-salt, salt and sub-salt deposits. However it did not penetrate the reefs but penetrated the synchronous clay-carbonate deposits of inferred front-reef facies, which does not provide a full understanding of reef lithology and reservoir quality. Nevertheless, core descriptions may provide an indirect indication of proximity of the reef.

The drilling rig used for drilling of the Chornaya Padina 1 was not rated for the abnormally high reservoir pressure that was encountered. Therefore, for safety reasons the period of testing was significantly reduced. However, irrespective of the test duration it was impossible to determine whether gas produced at the surface was originally free gas in the reservoir or gas dissolved in formation liquids. Well Chornaya Padina 2, drilled in 2002, was abandoned for technical reasons before it penetrated the sub-salt reefs.

The Company is currently acquiring 100km^2 of 3D seismic on the Yuzhny-Ershovskoye structure (see Figure 4) and intends to acquire an additional 160km^2 on the Yuzhny-Mokrousovskoye structure once this seismic has been acquired. The Company states that they intend to drill two wells on these structures on completion of processing and interpretation of the seismic data.

To evaluate prospective resources we used a reservoir structure model built in Petrel on the basis of 16 reprocessed seismic profiles and well logs from Chornaya Padina 1 and 2. Prospective resources were estimated using a range of probabilistic outcomes and a Monte Carlo technique was used to estimate resource distributions. Because these are prospective resources, no economic calculations were made.

The table below provides a summary of net prospective resources applicable to the Company:

Prospective Resources	Low Estimate	Best Estimate	High Estimate	Risk Factor
Condensate (m bbls)	18,851	42,394	59,827	0.23
Gas (bcm)	15.3	34.5	48.6	0.23

Vostochny-Makarovskoye License Area

The Vostochny Makarovskoye License Area is located in the Volga-Urals Petroleum Province (see Figure 9). There are two commercial gas zones within the license area: organogenic limestones of the Evlansko-Livenskiy and the sandstones of the Bobrikovsky horizons. The license area has been covered by 2D seismic and has had three wells drilled on it: Wells 30, 42 and 62. Wells 30 and 42 encountered commercial quantities of gas. The field was not brought in to production. The Company is currently building a detailed field development plan and states that the field will start commercial production in 4Q 2008.

We undertook a detailed interpretation of reprocessed 2D seismic data and available log data to build a petrophysical model. We estimated reserves for proved, probable and possible using probabilistic

techniques. We quantified key volumetric parameters over a range of probabilistic outcomes and used a Monte Carlo technique to estimate the reserve distributions.

The future gross revenue is after deduction of mineral extraction tax and other deductions are comprised of operating costs, property tax, profit tax, VAT, drilling and completion costs, facility and construction costs.

The summary of our estimates for Vostochny-Makarovskoye with figures net to the Company at an effective date of 31 December 2006 are as follows:

	Net		
	Proved	Proved & Probable	Proved, Probable & Possible
Reserves			
Condensate (m bbls)	3,886	18,892	52,283
Gas (bcm)	2.1	7.2	18.3
Net Present Value Discounted at 10% per annum, $MM	44.0	282.9	767.3

The discounted future net income shown above was calculated using a discount rate of 10 percent per annum compounded monthly. Future net income was discounted at two other discount rates which were also compounded monthly. These results are shown on each estimated projection of future production and income presented in summary form as follows:

	Discounted Future Net Income (10^6 $)		
Discount Rate Percent	*Total Proved*	*Proved & Probable*	*Proved &Probable & Possible*
10	44.0	282.9	767.3
12	37.0	252.3	682.3
15	28.3	213.9	577.0

Pre-Caspian License Area

The Pre-Caspian License Area is also located in the marginal zone of Caspian Depression within the Volgograd-Karachaganak petroleum province. It is situated approximately 50km to the west of the Karpenskiy License Area. It is possible that the carbonate reef structures identified on the Karpenskiy License Area extend down in to the Pre-Caspian License Area, although significant exploration activity would be required to identify specific targets. The Company states that it intends to start acquiring 2D seismic during 2007.

The Pre-Caspian License area is at an early stage of exploration and accordingly no reserves or resources were attributed to it.

INTRODUCTION

The reserves and resources presented in this Report have been prepared in accordance with the reserves definitions adopted by the Society of Petroleum Engineers ("SPE") and the World Petroleum Congresses ("WPC").

Information Sources

The results of this Report are derived from the application of reservoir engineering and geological studies to data directly from the subject fields. We also used analog field data and public sources of information. The fundamental data used included those data acquired in the drilling of wells (logs, cores, tests, and fluid samples) and geophysical seismic data. The Company provided the data to us and confirms that it has provided all available information. We did not independently gather any information other than that available in the public domain. The full scope of work undertaken on the Karpenskiy License Area and the Vostochny-Makarovskoye License Area are included at Appendix 9.

Having analyzed the available data, we made various judgments about the reservoirs in terms of geology, physical dimensions, and recovery process. We realized that numerous parameters were not known with certainty. As a result, our reserves and resources estimates were prepared using a probabilistic methodology as an alternative to a deterministic approach.

Site Visit

We have not made any field examination of the license areas as we deemed that an on-site visit would not provide any additional data that is material to the evaluation of the reserves or resources.

Assets
The Company's three licenses are located in the Privolzhsky Region of European Russia. The Karpenskiy and Pre-Caspian License Areas are located in the Volgograd-Karachaganak petroleum province (See Figure 1). The Vostochny-Makarovskiy License Area is located in the Volga-Urals Petroleum Province (See Figure 9).

Summary Table of Assets

Asset	Operator	Interest	Status	Licence Expiry Date	Licence Area	Comments
Karpenskiy License	OOO Pre-Caspian Gas Company	100%	Exploration	15 August 2021	4,180km^2	3D seismic underway. Drilling to commence in 1H 2008
Pre-Caspian License	OOO Pre-Caspian Gas Company	100%	Exploration	23 November 2031	1,437km^2	Commencement of exploration in 2H 2007
Vostochny-Makarovskoye License	OOO Gasnefteservice	100%	Development	1 August 2026	18km^2	Gas conditioning unit installation in 2H 2008

OVERVIEW OF THE REGION, LOCATION AND ASSETS

Description of The Company's Assets

Karpenskiy License Area

The Company's wholly-owned subsidiary, OOO Pre-Caspian Gas Company, holds license SRT 13522 NR (the "Karpenskiy License"). As per the order issued by RosNedra (the government agency responsible for control of usage of natural resources in Russia), OOO Pre-Caspian Gas Company is required to pay a sum of RUR312 per sq. km. (approximately $11.7 per sq. km. or about $49,000 for the whole license area) annually to maintain its license. The payment scheme will be changed if and when the reserves are proved and new rates will be set as per regulations of the Russian Federation.

The Company represents that it owns 100% of its subsidiary OOO Pre-Caspian Gas Company and has not entered in to any agreement for the sharing of the economic benefit of the production from the license area. The Company has informed us that it is in technical breach of various obligations under its Karpenskiy License, principally in relation to the relevant exploration schedule and certain related works. As a result of these breaches there is a risk that the relevant authorities may suspend, restrict or terminate the respective license.

There are two sub-salt exploratory wells drilled in Karpenskiy License Area by a LUKoil subsidiary in 2000-2002 to penetrate the Yuzhny-Ershovsky structure. Well Chornaya Padina 1, located on the outskirts of the structure, was drilled to 5916 m TVD, and penetrated the supra-salt, salt, and sub-salt intervals. Well Chornaya Padina 1 has been liquidated. Well Chornaya Padina 2 was drilled at the structure's apex; it was halted due to technical problems, and did not reach the top of the sub-salt interval. Chornaya Padina 2 has subsequently been liquidated. The Company purchased all the field data including well logging, testing and seismic acquired by LUKoil subsidiary.

Geographic Location, Natural Environment and Infrastructure

The Karpenskiy License Area is situated in the south of Saratov oblast, the Fyodorovsk district, 28 km from the Mokrous railway station (Fig.1). The city of Saratov, administrative centre of the Saratov Region, is located approximately 150km to the west. The License area is crossed by the Central Asia–Center gas pipeline ("SAS"). The Mokrous pump station, a compressor station on the SAS, is approximately 30km to the north from the centre of the Yuzhny-Ershovsky structure (Fig.2). The local road network is poorly-developed. The main drivable route is the 33-km long Mokrous–Semyonovka–Borisoglebovka road, which joins the Saratov–Uralsk highway near Mokrous.

Figure 1 - Location of Karpenskiy License Area

The climate is severely continental; the summers are hot and dry, the winter is cold, but snowfall is not heavy. Transitions from season-to-season are very quick. Snow cover appears early in December, and can be as thick as 25–30 cm. The vegetation is typical of the steppe and there is no forest cover. In the southeast of the area is the Maly Uzen River, which is 4.5 km from well Chornaya Padina 1.

Topographically the area is located in the southern part of the Syrtov plain (Syrtovskaya Ravnina), which gently rises towards the Caspian Coastal Lowland at approximately 0.2m/km. The steppe is between 76.9 and 55.1 meters above sea level.

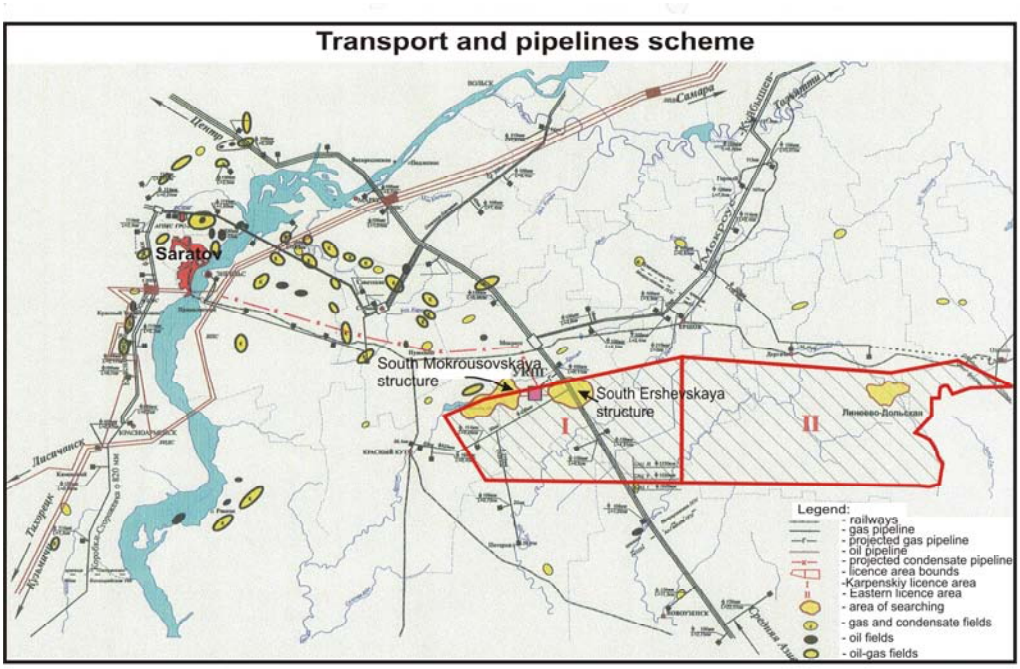

Figure 2 - Transport Infrastructure Close to the Karpenskiy License Area

A number of fields have been discovered in the supra-salt complex: Kurilovskoye oil, Talovskoye and Starshinsovskoye gas fields in the immediate vicinity of the Karpenskiy License Area, and the Sportivnoye field to the south of it.

Oil and Gas Bearing Potential

The Karpenskiy License Area is situated within the Volgograd–Karachaganak petroleum area (Fig.3) which, in its turn, is located in the inner edge zone and covers the bordering shelf of the Caspian depression—from the Karasal monocline in the southwest to the Karachaganak–Kobalda zone of tectonic highs in the northeast. From seismic data it is possible to delineate large Devonian–Carboniferous carbonate massif as well as with individual Late Devonian–Early Permian carbonate build-ups. The Karpenskiy License Area includes the Yuzhny-Ershovsky tectonic high, which is an extension of the Pugachyov–Kotelnich Sill.

The presence of oil and gas accumulations in supra-salt deposits within the Karpenskiy License Area (the Kurilovskoye oil field, Talovskoye and Starshinovskoye gas fields) and south of it (the Sportivnoye field) are evidence of the Devonian–Permian petroleum potential of the Karpenskiy License Area. Examples of genetic relationships between the supra-salt and sub-salt petroleum fluids are known from the South Emba River basin and from the Aktybe and Astrakhan oblasts; they were reported and proven in many publications regarding the eastern part of the Caspian depression (Dalyan, Posadskaya, 1971.)

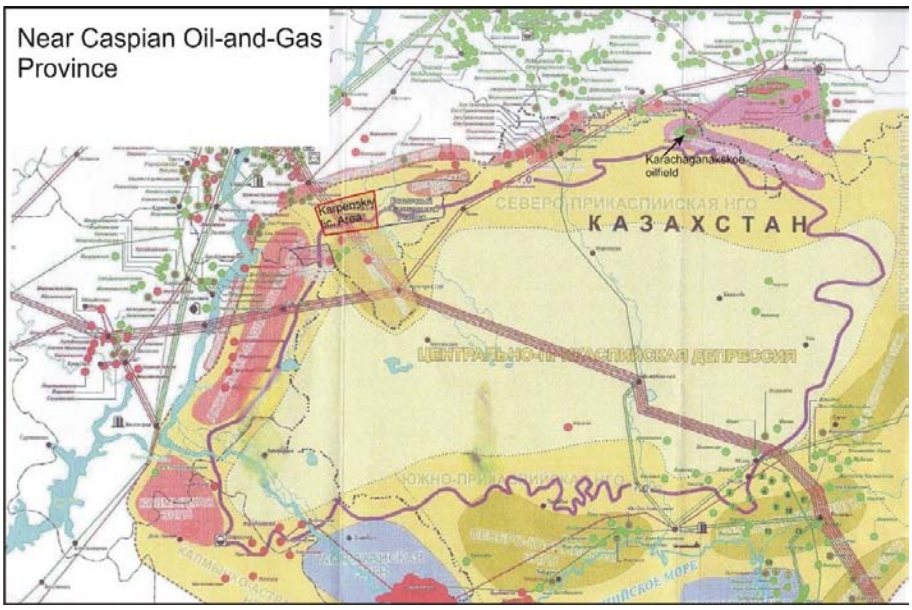

Figure 3 - The Near Caspian Oil-and-Gas Province

Evidence of the high petroleum potential of the sub-salt deposits of the Karpenskiy License Area is provided by the region-wide petroleum occurrence in the Permian, Carboniferous, and Devonian intervals. This potential is demonstrated by oil and gas flows at neighboring fields and by discoveries of giant oil and gas accumulations, such as the Karachaganak oil-gas-condensate field, Tenghiz oil field, Astrakhanskoye gas-condensate field, occurring in large carbonate organogenic masses.

The promising hydrocarbon interval is confined to the lower Bashkirian–middle Frasnian reef buildups. Because well Chyornaya Padina 1 (drilled by a LUKoil subsidiary in 2000-2002) did not penetrate the reef buildups, but penetrated synchronous clay-carbonate deposits of inferred reef front facies, we have a clear understanding of those reef front facies only. They do not provide us with a full understanding of reef lithology and reservoir quality. Nevertheless, core samples from the front reef rocks from well Chyornaya Padina 1 show a large percentage of organogenic-detrital materials (corals, stromatopores, crinoids). Those fragments are of different size, roundness, and sorting. The fragments may be seen as an indirect indication of the reef proximity. The reef build-ups could be a source of such materials. The deposits have vugs, both open and filled with crystalline calcite and dolomite. The rocks host inclusions and spots of bitumen. In some cases the vugs are filled with bitumen or pyrite. Indication of significant volumes of organogenic deposits in the sediment composition provide for moderate quality reservoir properties.

The drilling rig used for drilling of the Chornaya Padina 1 was not rated for the abnormally high reservoir pressure encountered. Therefore for safety reasons the period of testing was reduced to the minimum. However, irrespective of the test duration it was impossible to determine whether gas produced on the surface was originally free gas in the reservoir or gas dissolved in formation liquids. During the stable flow test, the well was flowing naturally with three consecutive choke sizes—4, 6, and 8 mm. The average duration of each choke test was 1.5 hours. The flow rates and pressures were measured at the wellhead. The flow rate measurements were performed in a vertical gas separator, and downstream gas flow rate was measured with a DICT measuring unit. The fluid flow rates were measured by volumetric method in a tank. During the well operation in different modes the well liquid rates on average was equal to 227 m3/day (1,428bbl/day), and gas rate varied from 1,5-5 thousand m^3/day. The reservoir pressure of 610 atm obtained during the pressure build-up test is actually reservoir pressure measured at the wellhead. Further conversion of the reservoir pressure into pressure at the reservoir level is impossible due to lack of data on dynamic fluid level. The reservoir pressure was assumed on the basis of the well operation data acquired during the well tests at the stabilized regime. We calculated the reservoir pressure for Chornaya Padina 1

to have been 870 atmospheres.

Between 1973-2002, the Karpenskiy License Area was covered by approximately 5,000km of 2D seismic survey acquired initially on behalf of the USSR and subsequently on behalf of various LUKoil subsidiaries. During 1999-2002 2240km of 2D seismic was acquired. Line density is 1.5km/km^2, which is not sufficiently detailed for structural mapping. The top of the Frasnian horizon marked in the well Chernaya Padina 1 was traced by the seismic lines covering Yuzhny-Ershovsky structure. The top of this horizon relates to the upper boundary of the dome-shape high, which is assumed to be a carbonate-organic structure located on top of the carbonate Devonian system (Fig.4).

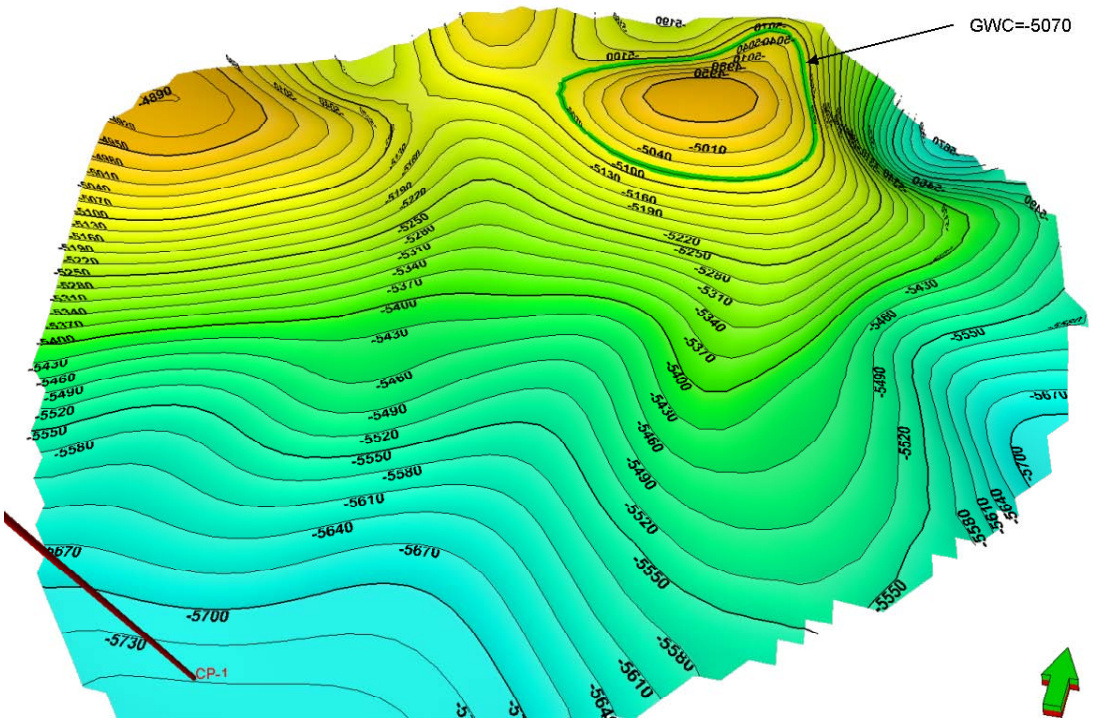

Figure 4 - Yuzhny Ershovsky Structure, Karpenskiy License Area

By analogy, for resource estimation in the Upper Devonian–Carboniferous organogenic limestones of the Yuzhny-Ershovsky structure, we used porosity values of 6.7–10.7%, i.e. the same as in synchronous limestones of the Karachaganak oil-gas-condensate field. The anticipated maximum closure of the organogenic buildup is 140 m. The petroleum accumulation is estimated to be of a massive type.

Saratovneftegeophysika is acquiring 3D seismic data, on the basis of geometry designed by WesternGeco. Sartovneftegeophysika is using the latest Input/Output 4th generation acquisition system. The Company has retained WesternGeco and Schlumberger's data and consulting services division ("DCS") to process and interpret the data. The purpose of the 3D seismic acquisition is to reduce uncertainty before the drilling of a well on each of the two identified structures.

Tectonic Structure

The Karpenskiy License Area is located in the subedge part of the Caspian Depression, which is a large low structure covering 0.5 million km^2. It has an isometric shape, and is filled with sedimentary deposits up to 20 km thick (Fig.5).

The crystalline basement of the depression (as with the entire East European Platform) is considered by many studies as being formed of Archean–Early Proterozoic paragneisses, amphibolites, various gneisses

and schists, ferruginous quartzites, and granites. In some areas, a younger, Baikalian, age of the basement is inferred. In the Karpenskiy License Area, the basement is as deep as 7–7.5 km.

The Caspian Depression is the largest area in the world manifesting salt tectonics. The sedimentary cover consists of three different lithological sequences: (1) the lower (sub-salt) interval of the Devonian–Lower Permian terrigenous–carbonate deposits; (2) the middle (salt) interval of the Kungurian (upper Lower Permian) salt-bearing deposits; and (3) the upper (supra-salt) interval of the Meso-Cenozoic mostly terrigenous deposits.

The supra-salt interval has been studied better than the salt and sub-salt intervals. It is subdivided into the Upper Permian–Triassic, Mesozoic–Paleogene, and Neogene–Quaternary structural stages. Those structural stages are separated from each other by angular and / or stratigraphic unconformities; pre-Jurassic and pre-Akchagylian. Regional tectonic events were combined with halogenesis of the Permian deposits. This has resulted in complicated structural patterns in the supra-salt interval. The supra-salt interval has been changed by many region-wide downwarps and uplifts added with abundant salt domes of intricate shape.

The salt complex is considered to be a separate unit because of its substantial thickness and high degree of tectonic deformation. It consists of rock salts with interlayers of anhydrites and less abundant terrigenous and carbonate rocks of the Kungurian age. The salt complex thickness ranges between 3 and 5 kilometers. The salt deposits are widespread in the depression's inner zone, where they make up an irregular mosaic of salt domes of various shape and height. As geophysical data suggests, the height of the salt domes in the central part of the depression reaches 9–10 km, it gradually reduces to 3-3.5 km towards the edges. In the outer edge zone the salt complex has a flat geometry and pinches out within 30–100 km distance from the outer edge.

The sub-salt interval has been penetrated in many locations in the margins of the Caspian Depression. The penetrated sub-salt sections consist of three litho-stratigraphic intervals: the Upper Devonian–Tournaisian carbonate–terrigenous (2000 m), Carboniferous carbonate (1000 m), and Lower Permian terrigenous (1200 m).

In the west, north, and east margins of the Caspian Depression, the sub-salt unit is complicated by flexural step-like margins in the Upper Devonian–Tournaisian, Carboniferous, and Lower Permian carbonate deposits. Within the shelf zone, there is an abrupt (within 2–4 km) thinning-out of the carbonate deposits towards the interior of the depression. This was discovered both through drilling and by seismic data, which displayed convergence of seismic tops and bases of carbonate deposits. The rim is approximately 1500-km-long, which constitutes a part of a gigantic arch. The height of the rim is between 1.1–1.7 km.

The rim area is dominated by bioherms. North of the rim, there are fine-grained and organogenic-detrital limestones; and south of it, the sequence consists of dark-colored, clayey, laminated, occasionally silicified carbonate rocks.

The carbonate rims, separating the Caspian Depression from the rest of the East European Platform, began to develop in the Late Devonian time. The rims limit carbonate platforms located at different altitudes. Their height increases southward from 20-30m to 350–700 m (near the bordering bench), and then rapidly reduces to 30–100 m.

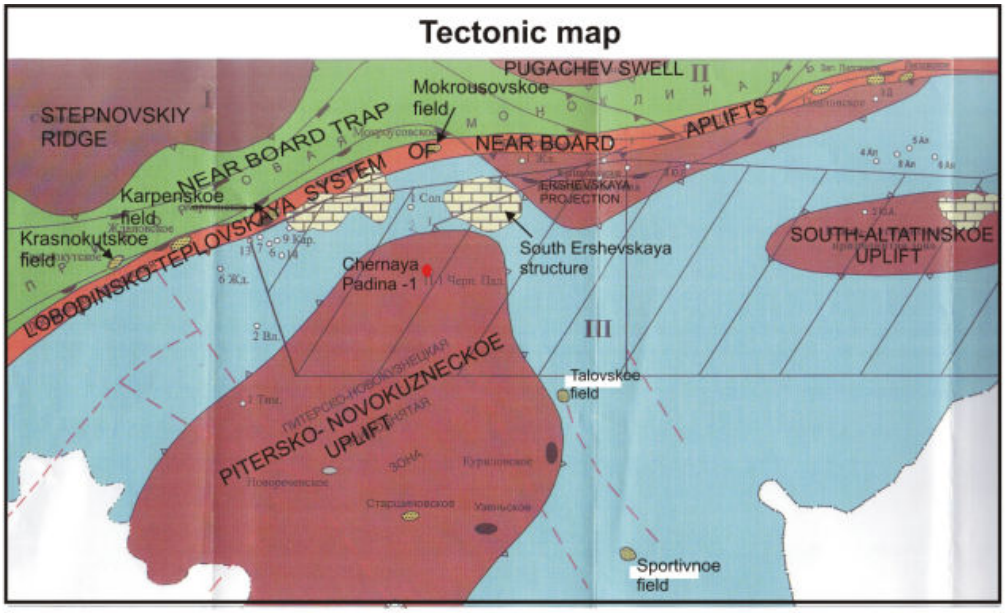

Figure 5 - Karpenskiy License Area, Regional Tectonics

The basal part of the carbonate Upper Devonian–Tournaisian formation, above the upper flexure, consists of limestones, dolomitized limestones, and dolomites. South of the carbonate step, organogenic limestones change to bituminous-siliceous and siderite rocks of a "Domanic" type, or by bituminous laminated dolomitized varieties.

It is believed that the carbonate rims divided a shallow-water shelf and a relatively deep-water part of the basin, from which fresh water was supplied to facilitate organic life. Lateral variability of the thickness of the Upper Devonian–Tournaisian carbonate deposits, that was found in the carbonate rims, suggests that the bordering rims evolved differently after their origination. So, the thickness of these deposits in the Yuzhny-Ershovsky locality is 330 meters lower than it is in the Krasnokutsk locality.

In the Early Carboniferous, the area of non-compensated downwarping shifted to the central part of the Caspian basin, and a new flexure was formed over the Upper Devonian–Tournaisian carbonate rim. The rim was formed because of an abrupt change of the Okian–Serpoukhovian thickness. This sequence has the same facies changes that were observed in the Upper Devonian—from a shallow shelf with thick carbonates on its margins to a relatively deep-water environment. In the Yuzhny-Ershovsky locality, in contrast to the neighboring margins of the Caspian Basin, a decrease of thicknesses towards the center was not reported. It means that the non-compensated downwarping revealed along the Krasnokutsk, Karpensk, and Mokrous (Figure 5) was restricted to an inherited high in the Yuzhny-Ershovsky locality.

In the late half of the Middle Carboniferous, the non-compensated downwarp was filled with terrigenous materials. Distribution of thicknesses in the Middle Carboniferous compensative terrigenous deposits is seen from the seafloor topography that was formed by the early Middle Carboniferous over carbonate sediments. Thus, around the Krasnokutsk and Karpensk lines, the low-thickness deep-water sediments of Late Devonian–Early Carboniferous age are overlain by a 1000-m thick Middle Carboniferous terrigenous sequence. Close to the Yershov locality, in the zone of an inherited high, the thickness of terrigenous deposits is an order of magnitude lower.

So, we may suppose that the initial stage of the Late Devonian–Tournaisian carbonate sedimentation has started in a basin with rugged floor; the floor highs were associated with basement uplifts not completely leveled by terrigenous sedimentation.

In the late Middle Carboniferous through the Early Permian, a thick carbonate sequence was deposited; it constitutes a Permian border rim — a high-amplitude flexure between two platforms. South of the edge rim, there was a comparatively deep-water basin supplying fresh water to the bordering area.

The present-day structural geometry of the investigated deposits was largely formed by rapid down-warping of the Caspian Basin in the Kungurian and subsequent time. As a result, the border of the thick Asselian–Artinskian was lowered by a few hundreds meters along its northern edge. The structures of this zone were leveled to a great extent, and the Permian carbonate rim acquired its contemporary shape. Naturally, it was not possible without faulting in the junction zone. The presence of normal faults in the sub-salt deposits of the border zone is confirmed by thinning of some intervals or their falling out of sequence. Well West Teplov 15 intersected a normal fault with displacement of about 80 m that was inferred from thinning of the Sakmarian interval.

In the Yuzhny-Ershovsky locality, the depth to some of the stratigraphic intervals is hundreds of meters less than in the neighboring areas. Moreover, it is known that the most stable highs of the Pugachyov–Kotelnich ridge were located close to the south prominences of the Zhiguli–Kotelnich Arch. The Yuzhny-Ershovsky locality is situated on an extension of one of those highs. It demonstrates that the Pugachyov–Kotelnich ridge extends to the Caspian Depression and crosses its border somewhere around the Yuzhny-Ershovsky locality.

Stratigraphy

Stratigraphy of well Chornaya Padina 1 is based on paleontological and lithological data. The target sub-salt interval falls into deposits of the Devonian, Carboniferous, and Permian age.

The *Devonian system* is represented by the Middle and Upper Devonian (Givetian through Famennian). The *Givetian* deposits (5940 – 5875m) are organogenic-detrital dolomitized limestones. The detritus is non-sorted, with fragments of corals, stromatolites, and crinoids. The deposits referring to the lower Frasnian and upper Givelian are missing. It was assumed that they were eroded or were not deposited due to upward tectonic movements in the region. The *Middle Frasnian* (5877-5843 m) is composed of dolomitized limestones grading into dolomites, biohermal and coarse-detrital. The undivided *Upper Frasnian–Lower Famennian* sequence (5843-5731) consists of alternating sandstones, siltstones, and shales. Toward the top of the section, the rocks become more fine and inter-layers of carbonates appear.

The *Upper Devonian–Lower Carboniferous* sequence (5730-5689 m) is also undivided. It consists of alternating limestones and carbonaceous shales. The Carboniferous falls into the Visean, Bashkirian, and Moskovian. The lower Visean terrigenous unit (5689-5611 m) consists of pyritiferous shales hosting beds of dolomites and terrigenous–carbonate rocks. The upper Visean–Bashkirian carbonate assemblage (5611-5583 m) is clay–siliceous–carbonate with fragments of radiolarians, sponges, foraminifers, crinoids, and algae. The Moskovian terrigenous strata (5579-4610 m) consist of shales with siltstone and sandstone interbeds.

The *Upper Carboniferous–Permian* carbonate sequence (4570-4440 m) is divided into three parts. Its lower portion consists of bio-chemogenic hard, fractured limestones. The middle portion, of dolomites, limestones, and siliceous rocks. The latter are very dense, pyritiferous, and fractured. The upper portion consists of clay-siliceous bitumen-bearing rocks.

The *Permian* falls into the Artinskian and Kungurian intervals. The Artinskian (4400-4370m) consists of carbonate–sulfate rocks. The Kungurian (4370-514m) is mainly salt with admixture of sulfates and K-Mg salts.

Cretaceous system in its lower section (514-364m) is characterized by sandstone, siltstone and shale sequence.

Neogene system is represented by Akchagyl tier (interval 364-73m), which in turn is represented by sandstone and shale sequence.

Quaternery system (73-0 m interval) is represented by quartz sandstones interbedded with sandstones and shale.

Vostochny-Makarovskoye

The Company's wholly-owned subsidiary OOO Gasnefteservice, holds license VLG 01323 NR. The license is valid until 1 August 2026 (the "Vostochny-Makarovskoye License"). The license area is 17.8 km^2. The Company under the corresponding license agreement is required to make the following regular subsoil payments to the government: a. years 1 & 2 – RUR5,000 per km^2 (approximately \$190/km^2 or about \$3400 annually for the license area), b. years 3 & 4– RUR10,000 per km^2 (approximately \$380/km^2 or about \$6800 annually for the license area, c. year onwards – RUR15,000 per km^2 (approximately \$570 or about \$10150 annually for the license area). The Company has represented that it owns 100% of its subsidiary OOO "Gasnefteservice" and has not entered into any agreement for the sharing of the economic benefit of the production from the license area.

Three wells – 30, 42 and 60 - were drilled and tested by a LUKoil predecessor in 1980th on the license area.

Geographic Location, Natural Environment and Infrastructure

The Vostochny-Makarovskoye License Area is located in the Zhirnovsk district of the Volgograd region (Fig.6 and Fig.7).

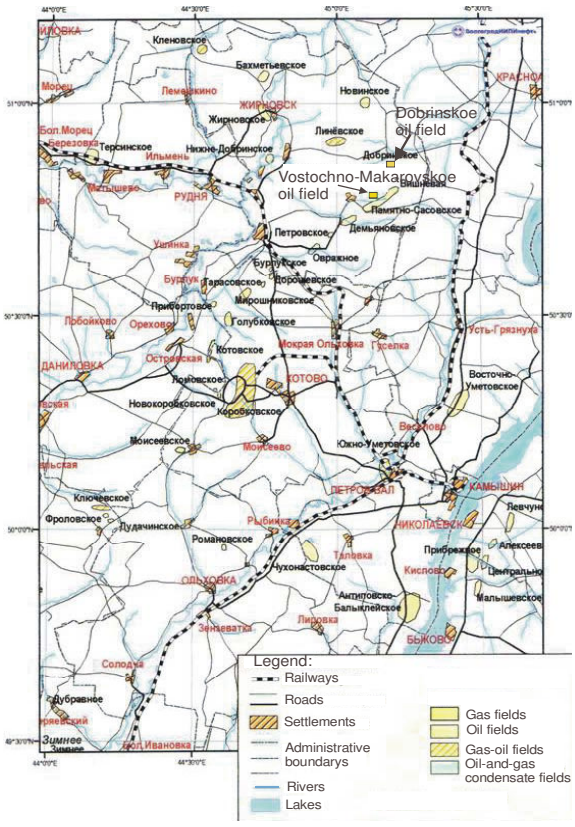

Figure 6 - Regional Location, Vostochny-Makarovskoye License Area

A railway and hard-top highway connecting Volgograd and Saratov are 17 km away from the field. The Petrov Val railway station is located 76 km south of the field, and the Volga River port of Kamyshin is 80 km away on the Volgograd water reservoir. A network of soft-top roads covers the area. Generally these are only in service during the dry season.

The Vostochny-Makarovskoye License Area is situated in the north of the Volga highlands. The topography of the right-bank of the highlands is gently hilly and cut by irregular drainage pattern of the Volga's right bank gullies. The slopes of the gullies are steep and some have seasonal water flows and isolated permanent water stretches. The altitude is between 314 and 267 meters above sea level.

Figure 7 - Infrastructure, Vostochny-Makarovskoye License Area

The vegetation cover is predominantly grassy. Oaks, maples, poplars, and elms grow along the banks of the rivers and gullies.

The climate is severely continental. There is snow cover from December until the middle of March, although thaws are frequent. Spring is short, and autumn long and dry. The summer is hot, with temperatures reaching 36–38°C. The coldest month is January, when the temperature may drop to -40°C. Northeast winds dominate in winter; southeast winds dominate in summer. The wind speed averages 3.1 to 4.2 m/s, and can sometimes reach 28 m/s. Average annual precipitation is between 358 and 423mm. The heaviest months of precipitation are November–April.

The largest local towns are Zhirnovsk and Kamyshin.

Oil and Gas Bearing Potential

The Vostochny-Makarovskoye gas-condensate field is situated in the Volga–Ural Petroleum Province (Fig.9). Commercial oil and gas discoveries on the right bank of the Volga River in the Volgograd region are confined to the Middle Devonian terrigenous deposits, Upper Devonian Pashiysk horizon, the reef buildups within the Upper Devonian carbonate series, the terrigenous series of the Vereiskian, Melekesskian, and Bobrikovskiy, Carboniferous carbonate rocks of the Lower Bashkirskiy, Serpukhovskiy, and Tournaisian age, Permian terrigenous and carbonate deposits. There are two

commercial gas reservoirs in the Vostochny-Makarovskoye License Area. They are located in the organogenic limestones of the Evlansko–Livenskiy horizon and the Bobrikovskiy sandstones.

The gas accumulation in the Evlansko–Livenskiy carbonates is of a massive type. The productive rocks are organogenic limestones, 65–88% of which consist of organic detritus, and dolomites. The organic material is cemented by fine-grained crystalline calcite. The accumulation has an upper-shale seal. Since no core measurements are available for the Vostochno Makarovskoye field, all volumetric characteristics were taken from the neighboring fields. The average open porosity value is approximately 10%.

The testing of the Evlansko–Livenskiy carbonate reservoir intervals was performed with the use of tubing-conveyed formation testers. The exception was an interval between 2597.0–2607.0 m in well 30, which was perforated.

In well 30, several zones within the interval of 2,245.7–2,313.7m TVD yielded gas. The perforated interval between 2,312.7–2,322.7m yielded gas and condensate. In well 42, the interval of 2,533.3–2,558.3m flowed formation water. In well 62, the interval of 2639.1–2914.1 m was tested dry (see Table 1).

The Bobrikovskiy interval is one of the main producing horizons in the Volga–Ural Petroleum Province. On Vostochny-Makarovskoye, the Bobrikovskiy interval is of a tabular-arched shape. The Bobrikovskiyskiy reservoirs are composed of sandstones, gray, dark-gray, fine, poorly cemented, and siltstones, fine, irregularly clayey, in intercalation with dark-gray clays. The seal is formed by shales occurring at base of the Tulskiy interval. The average porosity of the effective intervals indicated by core samples is 18%. In well 30, the gas-water contact was at 1629.7m TVD which was determined by well log interpretation.

The reservoirs of the Bobrikovskiy were tested while drilling. In well 30, interval of 1608.4–1618.9 m tested gas. In well 42, an interval of 1615.4–1624.4 m tested gas either (see Table 2).

Table 1 - Evlansko-Livenskiy Test Results

Well	Horizon	Test interval, m	Result
30	Evlansko-livenskiy	-2245,7-2283,7	Gas, Q_g=58,3 thousand m^3/day P_{res}=265 atm
		-2283,7-2302,7	Gas, Q_g=76 thousand m^3/day
		-2298,7-2313,7	Gas, Q_g=69,5 thousand m^3/day P_{res}=268 atm
		-2312,7-2322,7	Gas, Q_g=30 thousand m^3/day Q_c=14 m^3/day P_{res}=265 atm
42		-2533,3-2558,3	Water, Q_w=194 m^3/day
60		-2639,1-2714,1	Dry test
		-2785,1-2801,1	Dry test
		-2811,1-2914,1	Dry test

Table 2 - Bobrikovskiy Test Results

Well	Horizon	Test interval, m	Result
30	Bobrikovskiy	-1604,1-1618,9	Gas, Q_g=210 thousand m^3/day P_{res}=180 atm
42		-1608,4-1618,4	Dry test
		-1615,4-1627,4	Gas, Q_g=41 thousand m^3/day P_{res}=176 atm
		-1618,4-1632,4	Gas, water Q_{liq}=173 m^3/day P_{res}=179 atm
		-1608,4-1624,4	Gas, Q_g=120 thousand m^3/day P_{res}=173 atm

While defining structural tops of the Evlansko–Livenskiy horizon and of the Bobrikovskiy, we used data from wells 30, 42, and from 2D seismic sections. The seismic lines may be as far as 1300 m from each other, therefore higher resolution seismic survey and additional exploratory drilling may add many details to the structure (Fig.10, Fig. 11).

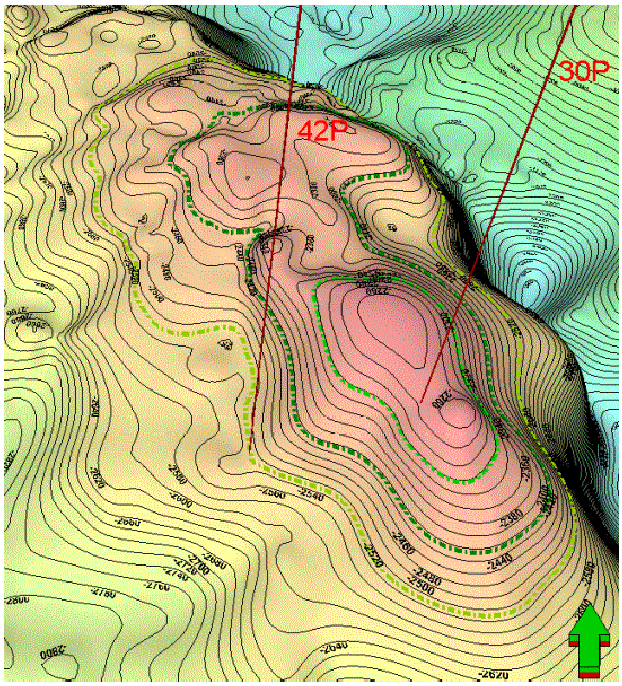

Figure 8 - Evlansko-Livenskiy Horizon Showing GWC for Proved, Probable and Possible

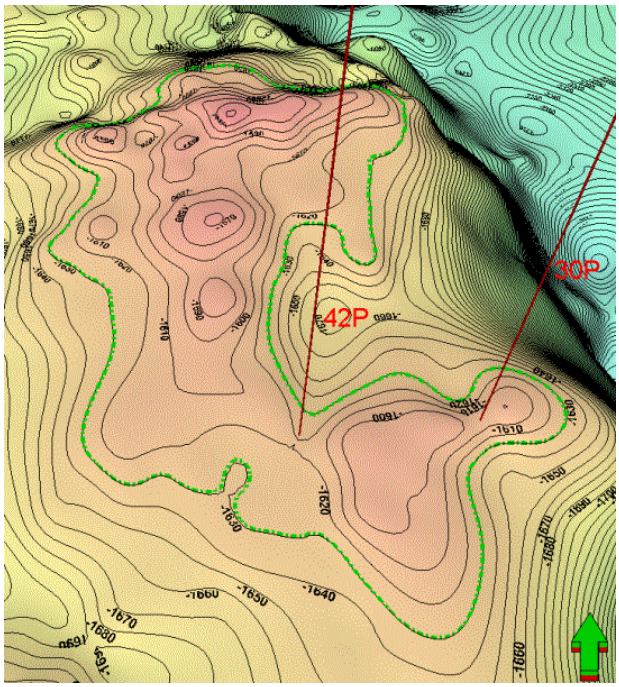

Figure 9 - Bobrikovskiy Horizon with GWC at 1629.7 m

TECTONIC STRUCTURE

Tectonics of the Northern zone of the Umetov-Linyov Depression, on the east side of which Vostochny-Makarovskoye is located, is known from seismic surveys and deep drilling results.

This zone is elongated and has a north–south trend. In the east, it is bordered by the Privolzhskiy Mega-arch. The basement of the Umetov-Linyov Depression is as deep as 6000–7000 m below sea level. A system of faults and narrow flexures borders them from each other.

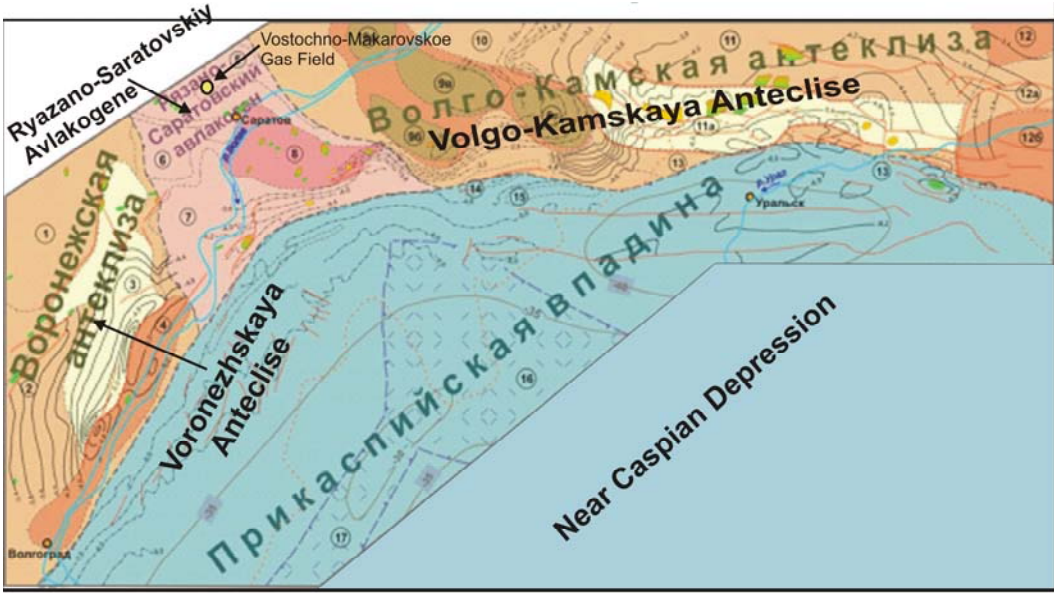

Figure 10 - Tectonic Features, Vostochny-Makarovskoe

Generalization and analysis of deep drilling and seismic data makes it possible to assume that in the pre-Sargayev terrigenous Devonian deposits were uplifted, and this uplifting has caused sedimentation hiatuses in the most risen marginal zones. The terrigenous Devonian becomes thicker northward and in the depression interior.

The structural model of the Vostochny-Makarovskoye area is based on seismic data.

The Vostochny-Makarovskoye high is expressed in tops of Devonian and Carboniferous productive deposits as a N–S trending brachyanticline. The current state of knowledge suggests that all productive zones have the same structure, but the structure's flanks get steeper with depth.

The high, at the depth of the Evlansko-Livenskiy horizon, has an area of 4.58 mln. m^2 within the closed contour line 2430 m and a closure of 180 m. The apical part of the Vostochny-Makarovskoye high has a two-dome shape. The highest elevation of the South Dome is within the –2280-m contour line, same of the North Dome is within the –2360-m contour line.

At a depth of the Bobrikovskiy, the high has an area of 6.73 mln.m^2 within the –1630-m contour line and a closure measuring over 30 m. The crestal part is outlined by the –1600-m contour line.

In the Permian time, whilst the Caspian Depression was developed rapidly, its vast eastern areas subsided and the sulfate-halogenous Kungurian deposits were formed. Then the Lower Permian was overlain by younger deposits with a regional eastward dip.

The sedimentary cover is divided into five well-distinguishable structural–facies complexes.

Complex 1 consists of terrigenous Devonian deposits with buried uplifts, the structural layout of which is dictated by the basement block structures. The basement blocks vertical displacement is as large as a few hundreds of meters.

Complex 2 consists of Devonian and Carboniferous carbonate deposits.

Complex 3 consists of Lower Permian sulfate–halogenous deposits. Moreover, the carbonate deposits often contain biostrome and bioherm buildups occurring as small discontinuous chains along tectonically active zones.

Complex 4 consists of the Upper Permian and Triassic.

Complex 5 consists of Mesozoic and younger deposits. It displays regional dipping to the east. The deposits have laterally extensive and uniform lithology and thickness. At some localities they may be involved in gentle anticlines, structural noses, and flexures.

STRATIGRAPHY

Stratigraphy of the Vostochny-Makarovskoye area falls into Paleozoic, Mesozoic, and Cenozoic units.

Exploratory wells penetrated the Middle Devonian. These deposits were described in the neighboring areas, i.e., in the Umetov–Linyov Depression and Antipov-Shcherbakov structural–facies zone.

Paleozoic

Middle Devonian

Eifelian

Morsovo horizon

The Morsovo horizon is composed of sulfate–dolomite rock assemblage, which consists of alternating dolomite, anhydrite, shale, and marl beds. Its maximum penetrated thickness is 167 m.

Mosolovo horizon

The Mosolovo horizon consists of limestones, light-gray, with greenish hue, clayey, dolomitized. Its maximum penetrated thickness is 130–140 m.

Chernoyar horizon

The Chernoyar horizon consists of low-resistivity shales with subordinate limestones. A thickness is 93–104 m.

Givetian

Vorobyov horizon

The Vorobyov horizon consists of shales, gray, dark-gray; in the middle section of which occur three beds of siltstones occasionally grading into fine sandstones, quartzose, laminated. A thickness is 20–25 m.

Starooskol horizon

The Starooskol horizon is composed of shales, dark-gray, fine, laminated. The shales host beds of limestones and siltstones, which occasionally grade into fine sandstones. Siltstones and sandstones consist of quartz. Limestones, gray, organic, occasionally clayey, massive, fractured.

A thickness is 110–130 m.

Mulin horizon

The Mulin horizon is a homogeneous shale unit with some interbeds of siltstones, sandstones, and marls. A thickness is 20–28 m.

Upper Devonian

Frasnian

Pashiysk horizon

The Pashiysk horizon consists of alternating siltstones, sandstones, and shales. Scarce limestone beds were found. The shales are gray, foliated, with slickensides; the siltstones and sandstones are light-gray, with a greenish hue, dense, quartz, limy, micaceous, occasionally clayey.

The Pashiysk horizon, at many oil fields of the region, contains oil accumulations.

A thickness is 50–60 m.

Kynov horizon

The Kynov horizon occurs tops the terrigenous Devonian. It is composed of shales with occasional interlayers of marls and limestones. A thickness is 109–119 m.

Sargayev horizon

The Sargayev horizon is composed of limestones, dark-gray, fine-grained, occasionally recrystallized, dense, hard, dolomitized. A thickness is 50–58 m.

Semiluki and Rudkin horizons

These horizons consist of limestones, cavernous, porous, occasionally fractured.

A thickness is 66–72 m.

Evlansko–Livenskiy horizon

The Evlansko–Livenskiy horizon consists of dolomites and limestones, varying from light-gray, reef, detrital, dolomitized to dark-brown, very fine, dense, fractured, irregularly recrystallized, clayey with interlayers of limy shales. A thickness is 152–202 m.

Famennian

The Famennian is consists of pelitic limestones with shale interbeds (the Zadon horizon), and of limestones, marls, and limy shales (the Yelets horizon). The upper part consists of limestones with dolomite interlayers, marls and shales with inclusions of gypsum and anhydrite. A thickness of the Famennian is 507–892 m.

Lower Carboniferous

Tournaisian

The Tournaisian consists of light-gray, very fine and fine-grained, fractured, cavernous limestones with shale and siltstone interlayers. A thickness is 116–120 m.

Visean

The Visean is divided into the Bobrikovskiy, Tulskian, Aleksinskian, and Venevskian. The Bobrikovskiy is represented by a sequence of quartz sandstones and siltstones with interbeds of dark-gray clays. The Tulskian is composed of organogenic–detrital limestones and siltstones. The Aleksinskian consists of limy clays with sandstone, shale, siltstone interbeds.

An aggregated Visean thickness is 331–336 m.

The Umetov and South Umetov fields produce oil and gas from the Lower Carboniferous.

Serpukhovian

The Serpukhovian consists of the Tarusskian, Steshevskian, and Protvinskian. It is composed of limestones, dense, fine-grained, occasionally organogenic-detrital. The lower part consists of marly rocks.

A thickness is 73–115 m.

Middle Carboniferous

Lower Bashkirian

The Lower Bashkirian consists of limestones, dense, fine-grained, occasionally organogenic-detrital. A thickness is 16–40 m.

Upper Bashkirian— Melekesskian

The Melekesskian is composed of clays, dark-gray to black, dense, silty, with interbeds of sandstones, gray, very fine, clayey. A thickness is 91–98 m.

Moscovian — Vereiskian

The Vereiskian consists of inequigranular polymictic sandstones with interbeds of dark-gray limy clays and siltstones. A thickness is 159–167 m.

The terrigenous Melekesskian and Vereiskian host gas accumulations of the Umetov depression and the South Umetovskoye field.

Moscovian— Kashirskian

The top and base sections of the Kashirskian consist of limestones, micro grained, occasionally clayey, with interlayers of variegated shales and limy clays. The middle section is dominated by limy clays, mildly silty, with interbeds of fine sandstones and siltstones. A thickness is 106–117 m.

Moscovian — Podolskian–Myachkovian

The Podolskian–Myachkovian is composed of limestones, light-gray, gray, recrystallized, hard, occasionally fractured and dolomitized. In the middle portion of the Podolskian occur two reference units of dark-gray clays. A thickness is 201 - 205 м.

Upper Carboniferous

The upper Carboniferous consists mainly of limestones, light-gray and brownish-gray, dolomitized, cavernous, with thin interbeds of limy clays and fine-grained dolomites. A thickness is 341–351 m.

Lower Permian

Asselian–Sakmarian

The Asselian–Sakmarian deposits rest upon an erosional surface of the Carboniferous. The deposits are dolomites, gray and light-gray, dense, massive, with interlayers of anhydrites and dolomitized limestones. A thickness is 22–24 m.

Artinskian

The Artinskian rests unconformably over older deposits. It consists of anhydrites, gray, bluish-gray, dense, fractured, with interlayers of dolomites, gray, micro grained. Fractures are filled with gypsum, calcite, or clay matter. The dolomite beds host oil and gas accumulations. A thickness is 21 - 23 м.

Kungurian

The Kungurian unconformably rests upon the Artinskian. It consists of salt with occasional anhydrite beds.

Ufimian

The Ufimian unconformably rests upon the Kungurian. It consists of anhydrites with interlayers of dolomites, light- and dark-gray with bluish hue. The upper part of the section consists of clays, brick-red, dense, with inclusions and stringers of anhydrite. A thickness is 20–22 m.

Kazanian

The Kazanian is represented by the Lower Kazanian only. It unconformably rests upon the Ufimian. Consists of dolomites and limestones, light-gray and white, irregularly leached, often recrystallized. The top section occasionally includes a member of variegated clays. A thickness is 10–12 m.

Tatarian

The Tatarian overlays an erosional surface of the Kazanian. It consists of clays, brick-red, greenish-gray, alternating with siltstones and sandstones, poorly cemented, fine, quartz, clayey. A thickness is 9–11 m.

Mesozoic

Jurassic

The Jurassic unconformably overlays the Triassic. It consists of sand-clay deposits with dominating clays, gray, silty. Sands and siltstones are traced as interbeds occurring close to top and base of the sequence. A thickness is 287–293 m.

Cretaceous

Lower Cretaceous

The Lower Cretaceous consists of sands, quartz, inequigranular, with interbeds of silty clays. The base section is dominated by clays, with irregular distribution of silt admixture, with interbeds of quartz siltstones.

Upper Cretaceous

The Upper Cretaceous was partly eroded during the pre-Neogene transgression. The preserved portion is composed of clays, sands, chalk-like marls, chalk. A thickness is 22–30 m.

Cenozoic

Paleogene

The Paleogene forms a drape cover on the erosional surface of the Upper Cretaceous. The deposits consist of opoka-like silty clays, quartz-glauconite sandstones and siltstones. Their thickness increases from west to east from 8 to 13 m.

QUATERNARY

Sand-clay Quaternary deposits rest upon the erosional surface of the upper Cretaceous. The deposits consist of alluvial sands, loams, clays, and clayey sands. A thickness is 4–7 m.

Pre-Caspian License Area

The Company's wholly-owned subsidiary, OOO Pre-Caspian Gas Company (PGK), holds license SRT 01112 NR (the "Pre-Caspian License"). The license is valid until 23 November 2031. The license requires, inter alia, the company to acquire 400km, 600km and 500km of 2D seismic in 2007/8, 2008/9 and 2009/10 respectively. The Company is also required to drill three exploration wells before November 2011. Upon completion of these exploration and appraisal activities the Company is required to develop a technical and economic plan which has to be approved by Rosnedra before it can begin full-scale development of these fields. Under the terms of the license Pre-Caspian Gas Company is required to pay a sum which for the first three years is RUR172,444 (approximately $6,507) each quarter to maintain its license. There are no economic terms specific to the Pre-Caspian License that are not covered in the general laws and regulations of the Russian Federation. The Company represents that it owns 100% of its subsidiary OOO Pre-Caspian Gas Company and has not entered in to any agreement for the sharing of the economic benefit of the production from the license area.

Geographic Location, Natural Environment and Infrastructure

The Pre-Caspian License Area covers 1,437km^2 and is situated in the south-west of Saratov oblast (See Fig.1) in the Rovenskoye and Krasnokytskovo regions. The Karpenskiy License Area is located approximately 50km to the east. The city of Saratov, administrative centre of the Saratov Region, is located approximately 100km to the west. The Mokrous pump station, a compressor station on the SAS, is approximately 100km to the east. The local road network is poorly-developed. The Saratovneftegas-owned Rovnoe-Zolotaya Steppe oil and gas pipeline passes through the west of the license area.

As with the Karpenskiy License the climate is severely continental; hot dry summers and long, cold winters with snow covering the ground from December through March. The area is mostly agricultural with sparse tree coverage. The steppe is between 50m and 100m above sea level.

Oil and Gas Bearing Potential

The Pre-Caspian License Area is located in the Volgograd-Karachaganak petroleum area (Fig 3.) The potential for the Pre-Caspian License is derived by analogy with the geology of the Karpenskiy License Area. For supra-salt structures the nearby Sportivnoye, Talovskoye and Starshinskoye fields, which were opened in the 1960's are cited. For the sub-salt structures it is believed that the carbonate massives which have been identified on the Karpenskiy License Area continue west in to the Pre-Caspian License Area. The Company has stated that its 2D seismic programme will seek to identify both supra and sub-salt structures.

Three deep structural wells have been drilled on the area. A structural well is designed to determine regional geology and cannot be produced from even if successful. Well Saratov 1 was drilled to 5,185m between February 1970 and May 1973. Well Dyakov 2 was drilled to 2,545m between July 1989 and August 1990 before being liquidated. Well Yuzhny-Dyakovskaya 1 was drilled to 5,518m between May 1990 and January 1992. Both Saratov 1 and Yuzhny-Dyakovskaya 1 encountered gas and gas/water at various depths.

RESERVES AND RESOURCES

The resources and reserves included in this Report are estimates only and should not be construed as being exact quantities. They may or may not be actually recovered. Moreover, estimates of resources may increase or decrease as a result of future operations.

This Report is completed in accordance with the Guidance Note for Mining, Oil and Gas Companies issued by the London Stock Exchange in March 2006. The reserves reported are evaluated using the standards established by the Society of Petroleum Engineers, Inc. and the World Petroleum Congresses (SPE). The SPE definitions are included as Appendix 1 to this Report.

Projections of future production and cash flows associated with depletion of the reserves are shown in the Exhibits. Reserves (proved, proved plus probable, and proved plus probable plus possible) are estimated for Vostochny-Makarovskoye field. For financial and operating decisions, it may be inappropriate to combine the proved, probable, or possible reserve volumes or the revenues projected therefrom without adjustment for uncertainty.

Karpenskiy License Area contains prospective resources. No economic projections are made for resources. The reported resource volumes are not adjusted for risk. The risk factor is the chance or probability of discovering hydrocarbons in sufficient quantity for them to be tested to the surface.

Karpenskiy License Area

The potential of Karpenskiy License Area were classified as prospective resources because the available seismic profiles confirmed a structure, but more data is required to confirm unequivocal closure. Well Chornaya Padina 1 penetrated the synchronous reef front deposits, it is therefore not possible to determine reef lithology. The potential of these prospects was determined by probabilistic analysis using the Monte-Carlo method. In evaluating the prospective resources the Yuzhny-Ershovskoye structure was derived from interpretation of geological and seismic information. The gas-water contact was assumed at the depth of 5070m based on the assumption that the entire organogenic structure can be fully filled with gas.

Parameters	
Porosity, %	6.7 – 10.7
Formation Pressure, atm	860 - 1170
Gas saturation, fraction	0 – 0.85
Gas specific gravity	7.49 – 1 830
GWC, m	5,070

In our calculations we took into consideration the uncertainties caused by ambiguity of the following input parameters: reservoir porosity, gas volumetric factor, gas saturation factor.

For calculation of the probabilistic distribution of the gas in-place (GIP) reserves for each of the parameters we assigned upper and lower values and the shape of their probabilistic distribution on the basis of the available data. This allowed us to determine the boundary values of variation parameters and also by analogy with neighboring fields with similar reservoir fluid properties.

On the abovementioned assumptions, the probabilistic distribution of the in-place gas resources was obtained by means of 50 thousand iterations.

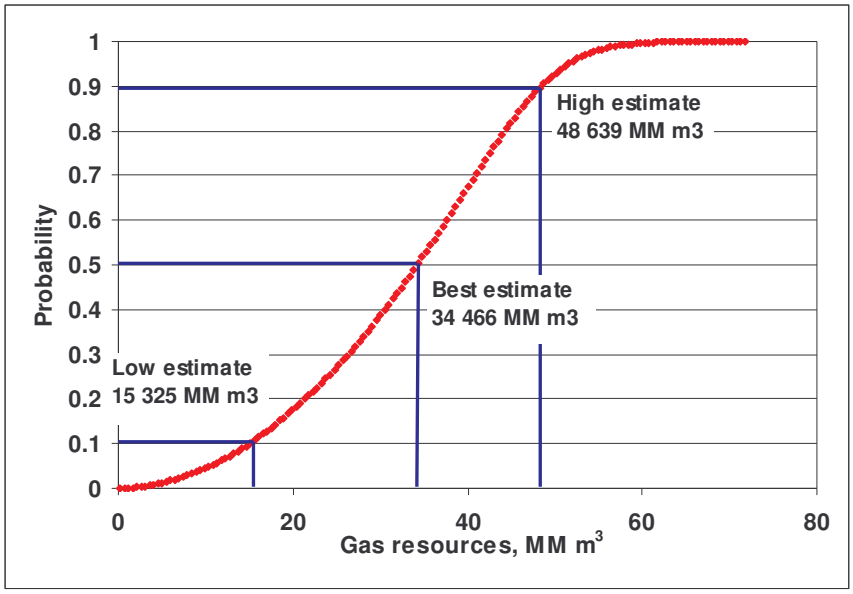

Figure 11 - Cumulative Gas Resources, Karpenskiy License Area

The Prospective Resources shown above are unrisked resources. Risked resources are calculated by multiplying the unrisked resources by an estimated "Risk factor". The "Risk factor" is the chance expressed as a percentage of a prospect containing hydrocarbons.

The "Risk factor" incorporates the following:

- **Trap** (Structure and Seal): The expectation of there being an adequate hydrocarbon trapping mechanism and the trap is effectively sealed.
- **Reservoir**: The expectation of effective reservoir rocks being present.
- **Charge** (Source and Migration): The expectation of there having been a source of sufficient hydrocarbon generated in the system and that this generated hydrocarbon could have migrated into the trap.

The overall "Risk factor" is calculated as the product of the three probabilities. For the Karpenskiy License Area two factors (Trap and Reservoir) have probabilities 0.5 and the last factor (Charge) – 0.9. The "Risk factor" for the prospect is 0.225. The range of potential gas exploration resources is summarized in the following table:

Karpenskiy License Area	Prospective Resources Low estimate	Best estimate	High estimate
Unrisked Prospective Resources			
Gas (bcm)	15.325	34.466	48.639
Condensate (m bbl)	18,851	42,394	59,827
Risked Prospective Resources			
Gas (bcm)	3.448	7.755	10.944
Condensate (m bbl)	4,335	9,750	13,760

The Company has engaged Saratovneftegeophysika to acquire 100km^2 of 3D seismic over the Yuzhny-Ershovsky structure. It expects to acquire a further 160km^2 of 3D seismic over the Yuzhny-Mokrousovsky structure. Once that data has been processed and interpreted the Company expects to commence a two well drilling programme.

The Company has also informed us that it will commence a supra-salt drilling programme once it has completed re-processing of data which it acquired from Lukoil.

Vostochny-Makarovskoye License Area

The potential of Vostochny-Makarovskoye area was classified as proved, probable and possible reserves because seismic lines confirmed structure and wells were tested at economic rates. The reserves were determined by probabilistic analysis. The probability distribution function for gas saturated rock volume was based on seismic and geologic interpretation. The probability distribution functions of the other volumetric parameters were based on well data and data from neighbouring fields.

The reservoir properties used to calculate resources are summarized in the following table*:*

Parameters	Vostochny-Makarovskoye	
	Evlansko-Livenskiy horizon	Bobrikovskiy horizon
Porosity, %	9 - 11	12 – 18.7
Formation Pressure, atm	265 - 268	173 - 180
Gas saturation, fraction	0.75 – 0.85	0.75 – 0.85
Gas specific gravity	0.700 – 0.796	0.682 – 0.796
GWC, m	2323 - 2530	1629.7

The range of prospective reserves is summarized in the following table and figures:

Vostochny-Makarovskoye	Gas/Condensate Reserves		
	90 %	50%	10%
Gas, bcm	2.170	7.204	18.253
Condensate, m bbls	3,886	18,892	52,283

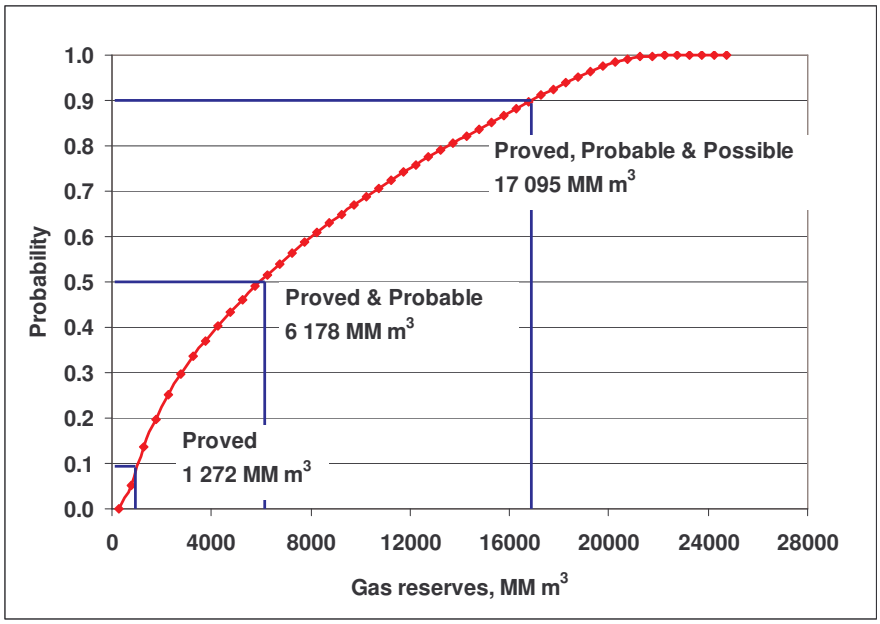

Figure 12 - Cumulative Distribution Function of Geological Reserves for Vostochny-Makarovskoye; Evlansko-Livenskiy Horizon

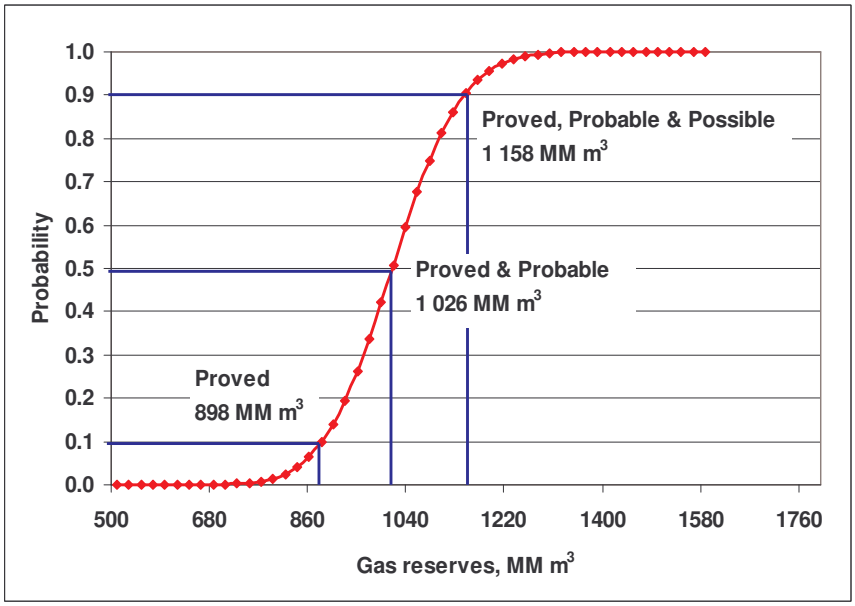

Figure 13 - Cumulative Distribution Function of Geological Reserves for Vostochny-Makarovskoye; Bobrikovskiy Horizon

Future Production Rates

Test data results and other related information from different reports were used to estimate the initial production rates for Vostochny-Makarovskoye. Production profiles were calculated based on assumption that reservoir has depletion drive mechanism.

Hydrocarbon Prices

This Report presents values for exploration resources and reserves that were estimated using prices specified by the Company. Operating expenses and capital costs estimated herein are based on current costs as provided by the Company. Future costs were adjusted as necessary to reflect changes in production rates or operating conditions.

The Company has informed us about an off-take agreement between ZAO Trans Nafta and OOO Gazneftеservice, which will allow it to sell gas at price not less than RUR 1600/mcm ($60/mcm). Title to the gas will pass after the gas conditioning unit and it will be Trans Nafta's responsibility to access UGSS and find end-customers. The Company stated that it has an agreement in principle with ZAO Trans Nafta to share access to UGSS (Unified Gas Supply System) which will be close to ZAO Trans Nafta's adjacent Dobrinskoye field.

The Company is not required to sell its gas at the government-regulated price, which is currently approximately $52/mcm. As a result of a recent government decision on domestic gas pricing it is reported that the domestic gas price will reach net-back parity (the price at which domestic sales equal export sales minus transportation costs) in 2011, after an agreed series of annual and semi-annual increases.

As a result of the above changes the Gross Revenue for Vostochny-Makarovskoye was estimated using the following escalating gas price:

	2007	**2008**	**2009**	**2010**	**2011+**
Gas Price ($/mcm)	70.77	88.46	112.97	125	125
Condensate Price ($/bbl)	44.6	44.6	44.6	44.6	44.6

Cost Assumptions

Costs were estimated using the following pricing data which was specified by the Company. These prices were deemed effective as of7th March 2007. We believe that these prices are reasonable.

- CAPEX - total expenditures for capital assets. They include expenditures for drilling and completion of production wells and development of surface infrastructure.
- OPEX - the current company's expenditures associated with gas production and sales. OPEX consist of expenditures for gas extraction, some taxes (united social tax, insurance tax, land tax and others not described below) and fees included in costs and depreciation charges.
- Natural Resources Production Tax (NRPT) for Condensate – 17.5%
- Natural Resources Production Tax (NRPT) for Gas Rub/1Km^3– 135
- Profit Tax – 24%
- Property tax – 2.2%
- VAT – 18%

No transportation tariff has been included as gas will be sold at the tie-in point to the trunk-pipeline, which is 7-10km away from Vostochny-Makarovskoye area.

The drilling schedule presumes two wells to be drilled before the end of 2007, two wells to be drilled during 2008 and two wells to be drilled during 2009 for the development scenario of Proved & Probable reserves development. In calculations of production profiles for development scenario of Proved & Probable & Possible, the area of development expands and to involve the entire area into production it is

necessary to drill a further 3 wells. As a result the field is recommended to be developed with 9 wells. The data acquired during drilling of the first two wells will be used to update the geological structure of the reservoir and built hydrodynamic model that will ensure more accurate selection of two more wells locations. The construction schedule for surface infrastructure, including but not limited to gas processing facilities, collection lines and connection to UGSS, presumes spending of $40 million for development scenario of Proved & Probable and $50 million for Proved & Probable & Possible respectively. Both amounts are to be spent equally in 2007 and 2008. The Company also provided numbers for lifting cost plus fixed costs, which included all anticipated gas and condensate costs associated with operation of the project and the company. No deduction was made for indirect costs such as loan repayments and interest expenses.

The following data was specified by the Company and was used as the basis for our NPV calculations. We believe that such assumptions are reasonable:

Cost per well	$4,000,000
Total facilities Capex	$30,000,000 - $50,000,000
Annual field overhead ($)	$1,100,000
Opex ($/mcm)	$5
Workover costs ($ per workover)	$500,000
% of well stock worked over per annum	33%
Gas transport tariff ($/mcm)	n/a
Exchange rate Rub/USD	26
Export share, %	0

Future net revenues discounted at 10% per annum are shown to illustrate the time value of future receipts compared to the undiscounted amounts. The cash flow summaries presented in the exhibits show discounted future net revenues at various discount rates. Estimates of future net revenues and discounted future net revenues are not intended and should not be interpreted to represent fair market value for the estimated reserves.

The data in the table below sets out the net present value discounted at 10% per annum for Vostochny-Makarovskoye:

	Net		
	Proved	Proved & Probable	Proved, Probable & Possible
Reserves			
Condensate (m bbls)	3,886	18,892	52,283
Gas (bcm)	2.170	7.204	18.253
Net Present Value Discounted at 10% per annum ($MM)	44.0	282.9	767.3

Sensitivity analysis of economic calculations

Sensitivity analysis was run to determine dependence of the financial model of Proved & Probable reserves extraction to risk factors and uncertainties during the project implementation. As part of the sensitivity analysis we analyzed fluctuations of project economic results based on a 10% step change from the base value for the following input parameters:

- Gas price
- Capital investments
- Current gas production costs
- Production levels

The analysis demonstrated that the economic model is very sensitive to gas and condensate prices fluctuation, and to the gas production rate. The calculations based on the data, provided by the Company, demonstrate that with changes of any parameters the discounted cash flow remains positive.

Parameters	Case					
	-10%		Base		10%	
	NPV 10%, $MM	IRR,%	NPV 10%, $MM	IRR,%	NPV 10%, $MM	IRR,%
OPEX	284.88	126%	282.9	125%	280.8	127.4%
CAPEX	288.00	139%	282.9	125%	277.8	114%
PRICE	244.04	112%	282.9	125%	319.74	139%
Production profile	248.6	112%	282.9	125%	317.2	138%

The changes in revenue return to the Company depending on the accepted assumptions are given in Appendix 7.

The analysis described above was conducted for the total period of the license validity until 2026.

Even though the results behind the current economic model look much more attractive, the right production scenario should be re-evaluated after two new wells are drilled and geologic and hydrodynamic model are created.

Gas production profiles by years, CAPEX, OPEX and economic factors are indicated in Appendix 6.

Pre-Caspian License Area

The Company presented no data to allow us to identify any reserves or resources.

Other Considerations

None of the reserve volumes or the estimated future net revenues therefrom have been adjusted for uncertainty. For financial and operating decisions, it may be inappropriate to combine the proved, probable, or possible reserve volumes or the revenues projected therefrom without adjustment for uncertainty. The estimated future net revenues reported should not be construed as fair market value estimates.

The evaluations presented in this Report, with the exceptions of those parameters specified by others, reflect our informed judgments based on accepted standards of professional investigation but are subject to those generally recognized uncertainties associated with interpretation of geological, geophysical, and engineering information. Government policies and market conditions different from those employed in this study may cause the total quantity of oil or gas to be recovered, actual production rates, prices received, or operating and capital costs to vary from those presented in this Report. Minor precision inconsistencies in subtotals or totals may exist in the Report due to truncation or rounding of aggregated values.

OTHER ASSETS

There are no other assets material to the Company.

CONCLUSIONS

The estimates of reserves presented herein are based upon a detailed study of the properties which were presented by the Company. The Company has informed us that they have furnished us all of the accounts, records, geological and engineering data, and reports and other data required for this investigation. The ownership interest, prices, and other factual data furnished by the Company were accepted without independent verification.

We have presented a summary of the Company's assets at Appendix 3, a summary of proved, probable and possible reserves at Appendix 4 and prospective resources at Appendix 5. A summary of post-tax net present value of the reserves for Vostochny-Makarovskoye, the only asset with reserves, are analyzed separately (i.e. for proved, probable, possible and total for proved, probable and possible) and are included in the tables at Appendix 6, sensitivity analysis at Appendix 7.

All interpretations, recommendations or reservoir descriptions are opinions based on inferences from measurements and empirical relationships and on assumptions, which inferences and assumptions are not infallible, and with respect to which competent specialists may differ. In addition, such interpretations, recommendations and reservoir descriptions may involve the opinion and judgment of the Company. Contractor cannot and does not warrant the accuracy, correctness or completeness of any interpretation, recommendation or reservoir description. The Company has full responsibility for its use of the deliverables and any interpretations, recommendations and reservoir descriptions provided by Schlumberger hereunder. Under no circumstances should any interpretation, recommendation or reservoir description be relied upon as the sole basis for any drilling, completion, well treatment, production or other financial decision, or any procedure involving any risk to the safety of any drilling venture, drilling rig or its crew or any other individual. The Company has full responsibility for all such decisions and for all decisions concerning other procedures relating to the drilling or production operation.

QUALIFICATIONS AND BASIS OF JUDGMENT

Competence

Schlumberger Logelco Inc. has provided services and expertise to hundreds of clients engaged in various aspects of the petroleum industry. The firm has a group of highly experienced professionals and support staff who have conducted reserve evaluations in most of the significant hydrocarbon provinces in the world. These evaluations have been accepted by major producing companies, independent operators, banks and other financial institutions, pipeline companies, state and national regulatory bodies, trustees, courts of law, arbitrators, and investors as the basis for reserves disclosures and decisions regarding such things as project financing, unitization, equity redetermination, acquisitions, divestitures, public offerings of equity or debt instruments, development programs, enhanced recovery projects, facilities commitments, negotiated settlements, cooperative agreements, leasing, and bidding.

The engineering and geological work for this Report was carried out by two teams principally based in our Moscow offices. The names and qualifications of those involved is set out at Appendix 6.

Indemnification

The Company agrees that Schlumberger shall have no liability to the Company or to any third party for any ordinary, special, or consequential damages or losses which might arise directly or indirectly by reason of the Company's use of the deliverables or any interpretations, recommendations and reservoir descriptions provided by Contractor hereunder. The Company shall protect, indemnify, hold harmless and defend Schlumberger of and from any loss, cost, damage, or expense, including attorneys' fees, arising from any claim asserted against Schlumberger that is in any way associated with the matters relating to the foregoing.

Independence

Both Schlumberger Logelco Inc., its directors and employees are wholly independent from the Company, its directors and senior management and advisers. Neither Schlumberger Logelco Inc., nor its directors and employees have any interest in the subject assets. Except for the provision of professional services neither Schlumberger nor any of its employees have any shareholding, commercial arrangement or any other interest with the Company or the subject assets and neither the employment to make this study nor the compensation is contingent on our estimates of reserves and future income for the subject assets, nor is our remuneration linked to the Admission or value of the Company.

The Company have informed us that Vladimir A. Koshcheev, a director of the Company, previously held an interest in Pre-Caspian Gas Company the holder of the Karpenskiy License through his ownership of ZAO Vesla. ZAO Vesla was a founding shareholder of Pre-Caspian Gas Company and briefly owned 100% of the Company before selling it to Woodhurst Holdings Ltd., for a nominal sum.

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APPENDIX 1
GLOSSARY OF TERMS

"/day"	per day
"$MCM"	million cubic meters
"bbl"	barrel(s)
"bcf"	billion cubic feet
"bcm"	billion cubic metres
"km^2"	square kilometres
"m^3"	cubic metres
"Mm^3"	thousand cubic metres
"MMscf"	million standard cubic feet
"M", "MM", "B"	thousands, millions, billions (thousand million) respectively
"best Estimate"	the most likely volume of hydrocarbons expected, equivalent to P50
"CAPEX"	capital cost associated with the implementation of a development plan (drilling, facilities etc)
"Carboniferous"	a period (system) named from the widespread occurrence of carbon in the form of coal in these beds. It extends from 345 to 280 Ma and has a duration of 65 Ma
"closure"	structure contours as the vertical distance between the highest part of the fold and the lowest continuous encircling structure contour
"Devonian"	a period named after the county of Devon in south-west England. It extends from 395 to 345 Ma, having a duration of 50 Ma
"dome"	antiform structure wherein layering dips in all directions away from a central point
"GIP"	gas in place
"GWC"	gas-water-contact
"high Estimate"	the volume of hydrocarbons expected at the top end of the predicted range, equivalent to P10
"horizon"	a mappable event on a seismic line or at a given depth in a well, usually identified by a geological boundary
"low Estimate"	the volume of hydrocarbons expected at the low end of the predicted range, equivalent to P90
"massive accumulation", "massive type"	hydrocarbon accumulation in a trap, formed by an uplift of homogeneous or heterogeneous permeable rocks, usually carbonates. Such accumulations are usually bounded by non-permeable rocks at the top of formation, and by water contac at the bottom. Most of the reservoir is filled with water, and oil-water or gas-water contact cross-sects the entire area of the trap, irrespective of the nature and style of bedding.
"Mesozoic"	an era ranging in time from 225 to 65 Ma a duration of 160 Ma
"Monte Carlo"	a methodology for estimating a given quantity based on the statistical distribution of input values on which the quantity depends. Typically, the output quantity is calculated several thousand times (each calculation is called a trial), for each trial using input parameter values extracted randomly according to their statistical distributions. The result is a statistical distribution of output values

“NPV”	Net Present Value and is the total present value of a series of cash flows discounted at a specified rate, to a specified date
“OPEX”	operating cost associated with the day to day running of a development
“PB”	probable reserves
“permeability”	the ability of a rock’s ability to transmit gas or fluids
“Permian”	named at the suggestion of Murchison in 1841 from the province of Perm in Russia: The period of time from 280 Ma to 225 Ma, a duration of 55 Ma
“petroleum province”	a large area where reservoirs show common origins and characteristics
“porosity”	the percentage of pore volume or void space to the total rock volume, a measure of the volume that can contain gas or fluids
“possible”	possible reserves are associated with known accumulations and are based on geologic and/or engineering data that are less complete and less conclusive than the data used in estimates of probable reserves. Possible reserves have a 90% chance of not being met (P90) or only a 10% chance of being present
“probable”	probable reserves are attributed to known accumulations and are based on geologic and/or engineering data similar to those used in estimates of proved reserves; but technical, contractual, or regulatory considerations preclude such volumes from being classified as proved. Probable reserves are more uncertain than proved reserves with a 50% chance of being met (P50)
“prospective resource”	Society of Petroleum Engineers classification of these hydrocarbon quantities which are estimated on a given date to be potentially recoverable from undiscovered accumulations
“proved”	proved reserves are attributed to known reservoirs and are the least uncertain category. Proved reserves have only a 10% chance of not being met (P10)
“PV”	proved reserves
“reef”	a reservoir, usually limestone, deposited in marine conditions
“reserves”	potential volume of hydrocarbon that could be commercially produced from a field
“reservoir”	a porous, fractured or cavitied rock formation with a geological seal forming a trap for producible hydrocarbons
“resources”	those volumes of hydrocarbons either yet to be found (prospective) or if found the development of which depends upon a number of factors being resolved (contingent)
“risked factor”	chance of success
“structure”	the sub surface morphology at a particular horizon
“trap”	a structure in which oil and/or gas may collect
“Triassic”	a geologic period that extends from about 245 to 202 Ma

APPENDIX 2
DEFINITIONS FOR OIL AND GAS RESERVES

Reserves

Reserves are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further subclassified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability.

The intent of SPE and WPC in approving additional classifications beyond proved reserves is to facilitate consistency among professionals using such terms. In presenting these definitions, neither organization is recommending public disclosure of reserves classified as unproved. Public disclosure of the quantities classified as unproved reserves is left to the discretion of the countries or companies involved.

Estimation of reserves is done under conditions of uncertainty. The method of estimation is called deterministic if a single best estimate of reserves is made based on known geological, engineering, and economic data. The method of estimation is called probabilistic when the known geological, engineering, and economic data are used to generate a range of estimates and their associated probabilities. Identifying reserves as proved, probable, and possible has been the most frequent classification method and gives an indication of the probability of recovery. Because of potential differences in uncertainty, caution should be exercised when aggregating reserves of different classifications.

Reserves estimates will generally be revised as additional geologic or engineering data becomes available or as economic conditions change. Reserves do not include quantities of petroleum being held in inventory, and may be reduced for usage or processing losses if required for financial reporting. Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Proved Reserves

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. Proved reserves can be categorized as developed or undeveloped.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimate.

Establishment of current economic conditions should include relevant historical petroleum prices and associated costs and may involve an averaging period that is consistent with the purpose of the reserve estimate, appropriate contract obligations, corporate procedures, and government regulations involved in reporting these reserves.

In general, reserves are considered proved if the commercial producibility of the reservoir is supported by actual production or formation tests. In this context, the term proved refers to the actual quantities of petroleum reserves and not just the productivity of the well or reservoir. In certain cases, proved reserves

may be assigned on the basis of well logs and/or core analysis that indicate the subject reservoir is hydrocarbon bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

The area of the reservoir considered as proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) the undrilled portions of the reservoir that can reasonably be judged as commercially productive on the basis of available geological and engineering data. In the absence of data on fluid contacts, the lowest known occurrence of hydrocarbons controls the proved limit unless otherwise indicated by definitive geological, engineering, or performance data.

Reserves may be classified as proved if facilities to process and transport those reserves to market are operational at the time of the estimate or there is a reasonable expectation that such facilities will be installed. Reserves in undeveloped locations may be classified as proved undeveloped provided (1) the locations are direct offsets to wells that have indicated commercial production in the objective formation, (2) it is reasonably certain such locations are within the known proved productive limits of the objective formation, (3) the locations conform to existing well spacing regulations where applicable, and (4) it is reasonably certain the locations will be developed. Reserves from other locations are categorized as proved undeveloped only where interpretations of geological and engineering data from wells indicate with reasonable certainty that the objective formation is laterally continuous and contains commercially recoverable petroleum at locations beyond direct offsets.

Reserves which are to be produced through the application of established improved recovery methods are included in the proved classification when (1) successful testing by a pilot project or favorable response of an installed program in the same or an analogous reservoir with similar rock and fluid properties provides support for the analysis on which the project was based, and, (2) it is reasonably certain that the project will proceed. Reserves to be recovered by improved recovery methods that have yet to be established through commercially successful applications are included in the proved classification only (1) after a favorable production response from the subject reservoir from either (a) a representative pilot or (b) an installed program where the response provides support for the analysis on which the project is based and (2) it is reasonably certain the project will proceed.

Unproved Reserves

Unproved reserves are based on geologic and/or engineering data similar to that used in estimates of proved reserves; but technical, contractual, economic, or regulatory uncertainties preclude such reserves being classified as proved. Unproved reserves may be further classified as probable reserves and possible reserves.

Unproved reserves may be estimated assuming future economic conditions different from those prevailing at the time of the estimate. The effect of possible future improvements in economic conditions and technological developments can be expressed by allocating appropriate quantities of reserves to the probable and possible classifications.

Probable Reserves. Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

In general, probable reserves may include (1) reserves anticipated to be proved by normal step-out drilling where sub-surface control is inadequate to classify these reserves as proved, (2) reserves in formations that appear to be productive based on well log characteristics but lack core data or definitive tests and which are not analogous to producing or proved reservoirs in the area, (3) incremental reserves attributable to infill drilling that could have been classified as proved if closer statutory spacing had been approved at the time of the estimate, (4) reserves attributable to improved recovery methods that have been established by

repeated commercially successful applications when (a) a project or pilot is planned but not in operation and (b) rock, fluid, and reservoir characteristics appear favorable for commercial application, (5) reserves in an area of the formation that appears to be separated from the proved area by faulting and the geologic interpretation indicates the subject area is structurally higher than the proved area, (6) reserves attributable to a future workover, treatment, re-treatment, change of equipment, or other mechanical procedures, where such procedure has not been proved successful in wells which exhibit similar behavior in analogous reservoirs, and (7) incremental reserves in proved reservoirs where an alternative interpretation of performance or volumetric data indicates more reserves than can be classified as proved.

Possible Reserves. Possible reserves are those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves. In this context, when probabilistic methods are used, there should be at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves.

In general, possible reserves may include (1) reserves which, based on geological interpretations, could possibly exist beyond areas classified as probable, (2) reserves in formations that appear to be petroleum bearing based on log and core analysis but may not be productive at commercial rates, (3) incremental reserves attributed to infill drilling that are subject to technical uncertainty, (4) reserves attributed to improved recovery methods when (a) a project or pilot is planned but not in operation and (b) rock, fluid, and reservoir characteristics are such that a reasonable doubt exists that the project will be commercial, and (5) reserves in an area of the formation that appears to be separated from the proved area by faulting and geological interpretation indicates the subject area is structurally lower than the proved area.

Reserve Status Categories

Reserve status categories define the development and producing status of wells and reservoirs.

Developed. Developed reserves are expected to be recovered from existing wells including reserves behind pipe. Improved recovery reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Developed reserves may be subcategorized as producing or nonproducing.

Producing. Reserves subcategorized as producing are expected to be recovered from completion intervals which are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Nonproducing. Reserves subcategorized as nonproducing include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells which were shut in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future recompletion prior to the start of production.

Undeveloped Reserves. Undeveloped reserves are expected to be recovered (1) from new wells on undrilled acreage, (2) from deepening existing wells to a different reservoir, or (3) where a relatively large expenditure is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

Approved by the Board of Directors, Society of Petroleum Engineers (SPE), Inc., and the Executive Board, World Petroleum Congresses (WPC), March 1997

APPENDIX 3
SUMMARY TABLE OF ASSETS

Asset	Operator	Interest	Status	Licence Expiry Date	Licence Area	Comments
Karpenskiy License	OOO Pre-Caspian Gas Company	100%	Exploration	15 August 2021	4,180km^2	3D seismic underway. Drilling to commence in 2H 2008
Pre-Caspian License	OOO Pre-Caspian Gas Company	100%	Exploration	23 November 2031	1,437km^2	Commencement of exploration in 2H 2007
Vostochny-Makarovskoye License	OOO Gasnefetservice	100%	Development	1 August 2026	18km^2	Gas conditioning unit installation in 2H 2008

APPENDIX 4
SUMMARY OF RESERVES AND RESOURCES BY STATUS

Proved, Probable and Possible Reserves

	NET ATTRIBUTABLE[1]			
Condensate (10^3 bbls)	Proved	Proved & Probable	Proved, Probable & Possible	Operator
Vostochny-Makarovskoye	3,886	18,892	52,283	OOO Gaznefteservice
Total Condensate (10^3 bbls)	3,886	18,892	52,283	
Gas reserves (bcm)				
Vostochny-Makarovskoye (bcm)	2.170	7.204	18.253	OOO Gaznefteservice
Total for Gas (bcm)	2.170	7.204	18.253	

Source: Schlumberger Logelco Inc.

The conversion: 1 bcm = 35.315 bcf
Note: "Operator" is name of the company that operates the asset
"Net" are those attributable to the company
bbls – Barrels
bcm – Billion Cubic Meters
bcf – Billion Cubic Feet

[1] The Company owns 100% of OOO Gaznefeteservice and 100% of the economic value of the license. Thus Gross is equal to Net.

APPENDIX 5
SUMMARY OF RESERVES AND RESOURCES BY STATUS

Prospective Resources

	NET ATTRIBUTABLE UNRISKED PROSPECTIVE RESOURCES[2]				
Condensate (10^3 bbls)	Low Estimate	Best Estimate	High Estimate	Risk Factor	Operator
From prospect to play					
Karpenskiy	18,851	42,394	59,827	0.225	OOO Pre-Caspian Gas Company
Total for Condensate (10^3 bbls)	18,851	42,394	59,827	0.225	OOO Pre-Caspian Gas Company
Gas (bcm)					
From prospect to play					
Karpenskiy	15.325	34.466	48.639	0.225	OOO Pre-Caspian Gas Company
Total for Gas (bcm)	15.325	34.466	48.639	0.225	

Source: Schlumberger Logelco Inc.

The conversion: 1 bcm = 35.315 bcf

Note:
"Risk Factor" for Prospective Resources, means the chance or probability of discovering hydrocarbons in sufficient quantity for them to be tested to the surface. This, then, is the chance or probability of the Prospective Resource maturing into a Contingent Resource
"Operator" is name of the company that operates the asset
"Gross" are 100% of the reserves and/or resources attributable to the licence whilst "Net attributable" are those attributable to the company
bbls – Barrels
bcm – Billion Cubic Meters

[2] The Company owns 100% of OOO Pre-Caspian Gas Company and 100% of the economic value of the license. Thus Gross is equal to Net.

APPENDIX 6
ESTIMATED FUTURE RESERVES AND INCOME

PROVED

GRAND SUMMARY
ALL PROPERTIES
TOTAL PROVED RESERVES

TOTAL PROVED

	PRODUCT PRICES		DISCOUNTED	
Year	Condensate $1bbl	Gas $1MCM	FUTURE NET INCOME $000 000 COMPOUNDED	MONTHLY
2007	44.6	70.8	10%	44.0
2008	44.6	88.5	12%	37.0
2009	44.6	113.0	15%	28.3
2010	44.6	125.0		
2011-2025	44.6	125.0		

		ESTIMATED PRODUCTION			COMPANY NET SALES			AVERAGE PRICES	
Period	Number of wells	Condensate Barrels	Plant Products Barrels	Gas MCM	Condensate Barrels	Plant Products Barrels	Gas MCM	Oil/Cond. $1bbl	Gas $1MCM
2007	2	0	0	0	0	0	0	44.6	71
2008	4	192912	0	93.0	192912	0	93	44.6	88
2009	5	338175	0	200.9	338175	0	201	44.6	113
2010	5	293026	0	215.8	293026	0	216	44.6	125
2011	5	252326	0	215.8	252326	0	216	44.6	125
2012	5	214727	0	215.8	214727	0	216	44.6	125
2013	5	178880	0	215.8	178880	0	216	44.6	125
2014	5	126464	0	196.9	126464	0	197	44.6	125
2015	5	84562	0	157.5	84562	0	158	44.6	125
2016	5	59538	0	130.3	59538	0	130	44.6	125
2017	5	41383	0	107.9	41383	0	108	44.6	125
2018	5	28268	0	87.1	28268	0	87	44.6	125
2019	0	0	0	0	0	0	0	0	0
2020	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0	0
Sub-Total		1810262		1837	1810262		1837		

	COMPANY FUTURE GROSS REVENUE (FGR) - $000 000				
Period	From Oil/Cond	From Plant Products	From Gas	Other	Total
2007	0	0	0	0	0
2008	8.6	0	8.2	0	17
2009	15.1	0	22.7	0	38
2010	13.1	0	27.0	0	40
2011	11.3	0	27.0	0	38
2012	9.6	0	27.0	0	37
2013	8.0	0	27.0	0	35
2014	5.6	0	24.6	0	30
2015	3.8	0	19.7	0	23
2016	2.7	0	16.3	0	19
2017	1.8	0	13.5	0	15
2018	1.3	0	10.9	0	12
2019	0	0	0	0	0
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0
2023	0	0	0	0	0
2024	0	0	0	0	0
2025	0	0	0	0	0
Sub-Total	81	0	224	0	305

Period	DEDUCTION - $000 000				FUTURE NET INCOME BEFORE INCOME TAXES - $000 000			
	Operating Cost	*UNRT, VAT & Property Taxes*	*Development Cost*	*Transportation*	*Total*	*Undiscounted Annual*	*Undiscounted Cumulative*	*Cum Discounted 10%*
2007	1.1	0.5	23.0	0	24.6	-24.6	-24.6	-22.3
2008	1.9	2.8	23.0	0	27.7	-10.9	-35.5	-51.6
2009	2.8	5.3	4.0	0	12.1	25.7	-9.8	-59.0
2010	3.0	11.3	0	0	14.3	25.7	16.0	-48.0
2011	3.0	10.5	0	0	13.6	24.7	40.7	-22.8
2012	3.0	9.8	0	0	12.8	23.7	64.4	13.6
2013	3.0	9.2	0	0	12.2	22.8	87.2	58.3
2014	2.9	7.7	0	0	10.6	19.6	106.8	108.1
2015	2.7	5.8	0	0	8.6	14.9	121.7	159.7
2016	2.6	4.6	0	0	7.2	11.8	133.5	211.2
2017	2.5	3.6	0	0	6.1	9.2	142.7	261.2
2018	2.4	2.8	0	0	5.2	6.9	149.7	308.9
2019	0	0	0	0	0	0	0	0
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
Sub-Total	30.8	74.1	50.0		154.9	149.7		

ESTIMATED FUTURE RESERVES AND INCOME
PROVED AND PROBABLE

GRAND SUMMARY
ALL PROPERTIES
TOTAL PROVED AND PROBABLE

TOTAL PROVED AND PROBABLE

	PRODUCT PRICES		DISCOUNTED	
Year	Condensate $1bbl	Gas $1MCM	FUTURE NET INCOME $000 000 COMPOUNDED	MONTHLY
2007	44.6	70.8	10%	282.9
2008	44.6	88.5	12%	252.3
2009	44.6	113.0	15%	213.9
2010	44.6	125.0		
2011-2025	44.6	125.0		

		ESTIMATED PRODUCTION			COMPANY NET SALES			AVERAGE PRICES	
Period	Number of wells	Condensate Barrels	Plant Products Barrels	Gas MCM	Condensate Barrels	Plant Products Barrels	Gas MCM	Oil/Cond. $1bbl	Gas $1MCM
2007	2	0	0	0	0	0	0	44.6	71
2008	4	919346	0	348.4	919346	0	348	44.6	88
2009	6	1379854	0	580.6	1379854	0	581	44.6	113
2010	6	1439773	0	696.7	1439773	0	697	44.6	125
2011	6	1245434	0	696.7	1245434	0	697	44.6	125
2012	6	1066739	0	696.7	1066739	0	697	44.6	125
2013	6	897619	0	696.7	897619	0	697	44.6	125
2014	6	732004	0	696.7	732004	0	697	44.6	125
2015	6	478367	0	562.2	478367	0	562	44.6	125
2016	6	311970	0	453.8	311970	0	454	44.6	125
2017	6	202645	0	366.5	202645	0	366	44.6	125
2018	6	130983	0	293.2	130983	0	293	44.6	125
2019	0	0	0	0	0	0	0	0	0
2020	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0	0
Sub-Total		8804735		6088	8804735		6088		

	COMPANY FUTURE GROSS REVENUE (FGR) - $000 000				
Period	From Oil/Cond	From Plant Products	From Gas	Other	Total
2007	0	0	0	0	0
2008	41.0	0	30.8	0	72
2009	61.5	0	65.6	0	127
2010	64.2	0	87.1	0	151
2011	55.5	0	87.1	0	143
2012	47.6	0	87.1	0	135
2013	40.0	0	87.1	0	127
2014	32.6	0	87.1	0	120
2015	21.3	0	70.3	0	92
2016	13.9	0	56.7	0	71
2017	9.0	0	45.8	0	55
2018	5.8	0	36.6	0	42
2019	0	0	0	0	0
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0
2023	0	0	0	0	0
2024	0	0	0	0	0
2025	0	0	0	0	0
Sub-Total	393	0	741	0	1134

Period	DEDUCTION - $000 000				FUTURE NET INCOME BEFORE INCOME TAXES - $000 000			
	Operating Cost	*UNRT, VAT & Property Taxes*	*Development Cost*	*Transportation*	*Total*	*Undiscounted Annual*	*Undiscounted Cumulative*	*Cum Discounted 10%*
2007	1.1	0.6	28.0	0	29.7	-29.7	-29.7	-27.0
2008	3.2	12.8	28.0	0	44.0	27.8	-1.8	-28.5
2009	4.7	36.2	8.0	0	48.9	78.3	76.5	29.0
2010	5.6	42.9	0	0	48.5	102.8	179.3	151.4
2011	5.6	39.7	0	0	45.3	97.4	276.7	323.2
2012	5.6	36.7	0	0	42.3	92.4	369.1	531.6
2013	5.6	33.9	0	0	39.5	87.7	456.7	765.9
2014	5.6	31.1	0	0	36.7	83.0	539.8	1017.7
2015	4.9	23.3	0	0	28.2	63.4	603.2	1273.5
2016	4.4	17.5	0	0	21.9	48.8	652.0	1524.9
2017	3.9	13.3	0	0	17.2	37.6	689.6	1766.6
2018	3.6	10.1	0	0	13.7	28.8	718.4	1995.5
2019	0	0	0	0	0	0	0	0
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
Sub-Total	53.5	298.1	64.0		415.6	718.4		

ESTIMATED FUTURE RESERVES AND INCOME
PROVED, PROBABLE AND POSSIBLE

GRAND SUMMARY
ALL PROPERTIES
TOTAL PROVED, PROBABLE AND POSSIBLE

TOTAL PROVED, PROBABLE AND POSSIBLE

	PRODUCT PRICES		*DISCOUNTED*	
Year	*Condensate*	*Gas*	*FUTURE NET INCOME $000 000*	
	$1bbl	*$1MCM*	*COMPOUNDED*	*MONTHLY*
2007	44.6	70.8	10%	767.3
2008	44.6	88.5	12%	682.3
2009	44.6	113.0	15%	577.0
2010	44.6	125.0		
2011-2025	44.6	125.0		

		ESTIMATED PRODUCTION			*COMPANY NET SALES*			*AVERAGE PRICES*	
Period	*Number of wells*	*Condensate Barrels*	*Plant Products Barrels*	*Gas MMCM*	*Condensate Barrels*	*Plant Products Barrels*	*Gas MMCM*	*Oil/Cond. $1bbl*	*Gas $1MCM*
2007	4	0	0	0	0	0	0	44.6	71
2008	7	2411400	0	861	2411400	0	861	44.6	88
2009	9	3324819	0	1285	3324819	0	1285	44.6	113
2010	9	3310202	0	1431	3310202	0	1431	44.6	125
2011	9	2958742	0	1431	2958742	0	1431	44.6	125
2012	9	2633325	0	1431	2633325	0	1431	44.6	125
2013	9	2327412	0	1431	2327412	0	1431	44.6	125
2014	9	2034465	0	1411	2034465	0	1411	44.6	125
2015	9	1747944	0	1395	1747944	0	1395	44.6	125
2016	9	1461313	0	1378	1461313	0	1378	44.6	125
2017	9	1030799	0	1168	1030799	0	1168	44.6	125
2018	9	718606	0	991	718606	0	991	44.6	125
2019	9	470429	0	759	470429	0	759	44.6	125
2020	9	276481	0	532	276481	0	532	44.6	125
2021	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0	0
Sub-Total		24705938		15504	24705938		15504		

	COMPANY FUTURE GROSS REVENUE (FGR) - $000 000				
Period	*From Oil/Cond*	*From Plant Products*	*From Gas*	*Other*	*Total*
2007	0	0	0	0	0
2008	107.5	0	76.2	0	184
2009	148.3	0	145.2	0	293
2010	147.6	0	178.9	0	327
2011	132.0	0	178.9	0	311
2012	117.4	0	178.9	0	296
2013	103.8	0	178.9	0	283
2014	90.7	0	176.4	0	267
2015	78.0	0	174.3	0	252
2016	65.2	0	172.3	0	237
2017	46.0	0	146.1	0	192
2018	32.0	0	123.8	0	156
2019	21.0	0	94.9	0	116
2020	12.3	0	66.5	0	79
2021	0	0	0	0	0
2022	0	0	0	0	0
2023	0	0	0	0	0
2024	0	0	0	0	0
2025	0	0	0	0	0
Sub-Total	1102	0	1891	0	2993

Period	DEDUCTION - $000 000				FUTURE NET INCOME BEFORE INCOME TAXES - $000 000			
	Operating Cost	UNRT, VAT & Property Taxes	Development Cost	Transportation	Total	Undiscounted Annual	Undiscounted Cumulative	Cum Discounted 10%
2007	1.1	0.8	41.0	0	42.9	-42.9	-42.9	-39.0
2008	6.1	43.6	37.0	0	86.7	97.1	54.2	5.7
2009	8.7	85.2	8.0	0	101.9	191.6	245.7	190.4
2010	9.7	93.0	0	0	102.8	223.8	469.5	511.0
2011	9.7	87.3	0	0	97.0	213.8	683.3	935.3
2012	9.7	81.9	0	0	91.7	204.7	888.0	1436.5
2013	9.7	76.9	0	0	86.6	196.0	1084.0	1992.8
2014	9.6	71.5	0	0	81.2	186.0	1270.0	2585.2
2015	9.6	66.3	0	0	75.9	176.4	1446.4	3198.6
2016	9.5	61.2	0	0	70.6	166.8	1613.2	3820.6
2017	8.4	48.5	0	0	56.9	135.1	1748.3	4433.4
2018	7.5	38.6	0	0	46.2	109.7	1858.1	5025.4
2019	6.4	28.3	0	0	34.7	81.2	1939.3	5587.2
2020	5.2	19.0	0	0	24.2	54.5	1993.8	6112.2
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
Sub-Total	111.1	802.1	86.0		999.2	1993.8		

APPENDIX 7
SENSITIVITY ANALYSIS OF ECONOMIC PARAMETERS

Project sensitivity analysis to OPEX

OPEX			
Case	-10%	Base	10%
Net cash flow, $MM	534.4	530.6	526.7
- NPV 10%	284.9	282.9	280.8
- NPV 12%	254.1	252.3	250.5
- NPV 15%	215.4	213.9	212.3
IRR, %	126%	125%	124.7%

Project sensitivity analysis to CAPEX

CAPEX			
Case	-10%	Base	10%
Net cash flow, $MM	536.6	530.6	524.6
- NPV 10%	288.0	282.9	277.8
- NPV 12%	257.3	252.3	247.4
- NPV 15%	218.6	213.9	209.2
IRR, %	139%	125%	114%

Project sensitivity analysis to gas and condensate price

GAS and CONDENSATE PRICE			
Case	-10%	Base	10%
Net cash flow, $MM	456.48	530.6	596.06
- NPV 10%	244.04	282.9	319.74
- NPV 12%	217.53	252.3	285.64
- NPV 15%	184.08	213.9	242.70
IRR, %	112%	125%	139%

Project sensitivity analysis to production profile

PRODUCTION PROFILE			
Case	-10%	Base	10%
Net cash flow, $MM	469.8	530.6	591.4
- NPV 10%	248.6	282.9	317.2
- NPV 12%	221.3	252.3	283.4
- NPV 15%	187.1	213.9	240.7
IRR, %	112%	125%	138%

APPENDIX 8
QUALIFICATIONS OF SCHLUMBERGER LOGELCO PERSONNEL

Schlumberger Logelco Inc. is the contracting entity. Schlumberger Data & Consulting Services (DCS) is a service division of Schlumberger Logelco Inc, which provides data consulting services.

Schlumberger is a global technology services company with corporate offices in New York, Paris and The Hague. Schlumberger has more than 80,000 employees, representing 140 nationalities, working in nearly 100 countries.

Schlumberger Data & Consulting Services (DCS) is the oil and gas industry's largest geoscience and engineering services organization. Schlumberger Data & Consulting Services provides expert interpretation and consulting services from exploration to asset divestiture with the primary objective of helping E&P companies transform data to informed business decisions that maximize asset value.

Most DCS geoscientists and engineers have diverse industry experience, including operating-company backgrounds. As a result, DCS brings together both the technical expertise and practical, hands-on knowledge required to provide the value-added interpretation and consulting services our customers expect.

We hereby certify that the following DCS experts who are hired to work for Schlumberger Logelco Inc. or its subsidiaries were involved in this prospect evaluation project and applied their best knowledge and skills in creating this Report at the request of the Company.

Ekaterina Terleeva, Reservoir Engineer – project manager
Over 5 years experience on versatile-complexity projects in Russia and abroad. SPE member since 2002. Masters degree of Heriot Watt University in Petroleum Engineering and bachelors in Applied mathematics of Tyumen State Oil and Gas University. Majors in Hydraulic Fracturing treatment design: Physics, Modeling and Advanced Simulation; Naturally Fractured Reservoirs: Geologic and engineering analysis; risk-analysis; Applied geostatistical reservoir characterization; Reservoir and Petroleum Engineering. Major projects in Eastern and Western Siberia, Algeria and Volga-Urals basins. Acknowledgement for successful accomplishment of a challenging project in Algeria as a project manager.

Sid Tschirhart, geophysicist
Over 30 years of international projects experience. Member of SPE/AAPG. More than 15 years with Schlumberger. Responsibility for Consulting services geoscience. Extensive experience in prospect generation and evaluation, advisor for geophysical acquisition, processing, modeling and interpretation. Project manager for projects integrating geosciences and engineering to build static models. Principal Geophysicist, Geoscience member of No-Drilling-Surprises (NDS) team identifying and analyzing geomechanical issues which can reduce risks associated with drilling of wells. In the past lead role in seismic interpretation for an exploration play in Gulfo de Paria, Venezuela involving seismic attributes analysis, mapping, prospect generation, and well design. Fractured carbonate study in Western Venezuela, PDVSA integrated project (interpretation and management).

Alexander Blanc, geophysicist
Over 15 years of geophysical experience. High qualifications in seismic interpretation, seismic attribute analysis, geological property modeling, fractured reservoir modeling that Alexander mastered in the position of senior geophysicist through a series of projects in Western Siberia, Timan Pechora, Central America.

Oleg Pinous, Geology Manager

Over 15 years experience. Ph.D., University of New Hampshire (NH, USA), Whittemore School of Business (part-time MBA program), Ohio State University (OH, USA), MS geology, Novosibirsk State University (Novosibirsk, Russia. B.Sc., geology, Novosibirsk State University (Novosibirsk, Russia). Geology domain champion and Geology manager for DCS, Schlumberger. Project management, mentoring and training, modeling and evaluation of silicaclastic and carbonate reservoirs, well log interpretation and correlation, sequence stratigraphy, geological mapping and modeling, volumetric analysis, sedimentology, facies analysis, and risk analysis. Russian North, Western Siberia, Eastern Siberia, Russian and Kazakhstan Caspian shelf and Volga-Urals province and North America. More than 20 publications.

Irina Borisova, geologist
Over 5 years experience in oil and gas projects in Russia and abroad. Member of SPE/AAPG, Masters degree in Petroleum Engineering from Heriot-Watt University, United Kingdom, and Masters in Geological Engineering from Northern Caucasus State Technical University, Russia. Proven high qualifications in challenging projects for Rosneft, Slavneft, Yukos and Gazprom in Russian Western Siberia, Volga-Urals basin and Algeria. Her majors are in Geology, Geomechanics, Production and Completion Engineering, Reservoir Characterization, Static & Dynamic Reservoir Modeling, Field Management Models and Reservoir Simulation.

Alexey Meisner, geologist
Graduate Diploma in Petroleum Geology of Moscow State University, Geological Department in Geology and Geochemistry of Oil and Gas. Part of DCS team since beginning of 2006. Geological modeling. Oil and gas reserves evaluation. Projects in Western Siberia, Volga-Urals basin and Algeria.

APPENDIX 9
WORK UNDERTAKEN BY SCHLUMBERGER LOGELCO INC.

KARPENSKIY LICENSE AREA

1. Geophysics
   Interpretation of reprocessed 2D seismic data.
   - Input loading
   - 2D seismic lines tie-in
   - Stratigraphic tie-in
   - Base reflections correlations
   - Discontinuities tracing
   - Building an isochrones map
   - Velocity model building
   - Depths mapping
2. Geology
   - Building reserves calculation maps
   - Reserves evaluation as per SPE (Society of Petroleum Engineers) standards
3. Field development
   - Analysis of the well test data
   - PVT properties analysis

VOSTOCHNY-MAKAROVSKOYE LICENSE AREA

1. **Petrophysics**
   - Interpretation of available log data and creation of the petrophysical model
2. **Geophysics**
   Detailed interpretation of reprocess 2D seismic data
   - Input loading
   - 2D seismic lines tie-in
   - Stratigraphic tie-in
   - Base reflections correlations
   - Discontinuities tracing
   - Building an isochrones map
   - Velocity model building
   - Depths mapping
3. **Geology**
   - Building reserve calculation maps
   - Reserves evaluation as per SPE standard
4. **Field development**
   - Analysis of the well test data
   - PVT properties analysis
5. Analytical calculations of production forecast parameters
   - Evaluation of gas production by material balance method as per SPE (Society of Petroleum Engineers) standards
6. Production profile economic analysis
7. Project sensitivity analysis

PART VI

REGULATION

Below is a brief description of some key aspects of the current regulatory regime for the natural gas industry.

Overview

The following laws primarily govern the natural gas industry in the Russian Federation:

- the Constitution of the Russian Federation, adopted by plebiscite on 12 December 1993;
- Parts One and Two of the Civil Code of the Russian Federation, No. 51-FZ dated 30 November 1994 and No. 14-FZ dated 26 January 1996, respectively, (the "Civil Code"), as amended;
- Federal Law No. 2395-1 "On Subsoil," dated 21 February 1992, as amended;
- Federal Law No. 147-FZ "On the Natural Monopolies," dated 17 August 1995, as amended;
- Federal Law No. 69-FZ "On Gas Supply in the Russian Federation," dated 31 March 1999, as amended (the "Gas Supply Law");
- Federal Law No. 187-FZ "On the Continental Shelf of the Russian Federation," dated 30 November 1995, as amended;
- Federal Law No. 225-FZ "On Production Sharing Agreements," dated 30 December 1995; and
- Federal Law No. 117-FZ "On Export of Gas," dated 18 July 2006 (the "Gas Export Law").

The Gas Supply Law grants the Russian federal, legislative and executive authorities jurisdiction over natural gas supplies, including, *inter alia*:

- the development and implementation of a governmental policy on natural gas supply including legislative acts;
- the development and implementation of federal programmes for the use of natural gas as a fuel and energy source and for gasification;
- the regulation of use of strategic natural gas reserves;
- supervision and control over industrial and environmental safety of sites and facilities within the natural gas supply system; and
- standardisation and certification in the gas supply industry.

Pursuant to the Gas Supply Law, the government:

- sets projected natural gas production and sales balances in Russia;
- approves rules for natural gas deliveries, use and supply; the federal natural gas supply programme; safety rules for trunk pipelines, natural gas distribution networks and other gas system units; procedures for giving independent producers access to natural gas transportation and distribution networks; procedures for using natural gas as fuel; and a list of end-customers whose natural gas deliveries may not be suspended or terminated; and
- establishes the principles for determining natural gas prices and transportation tariffs for gas transportation and distribution networks, and for reimbursing gas distributors for losses incurred in connection with subsidised gas deliveries to individual customers.

Other federal executive bodies with regulatory authority in the gas industry include, in particular:

- the Ministry of Energy and Industry of the Russian Federation, that, *inter alia*, determines governmental policy and drafts legal acts regulating the energy sector;
- the Federal Energy Agency ("Federal Energy Agency"), an agency subordinate to the Ministry of Energy and Industry of the Russian Federation that regulates the management of state property and the provision by the state of services in the production and use of energy resources, prepares proposals for the development of state investment projects in the energy sector and for use of the oil and gas pipeline systems (according to Government Regulation No. 197 dated 8 April 2004 Matters Pertaining to the Federal Energy Agency), and undertakes measures for the preparation and implementation of government policy on production sharing agreements;

- the FST, an entity subordinate to the government, that establishes, among other things, regulated natural gas prices and gas and oil transportation tariffs;
- the Ministry of Natural Resources, that, *inter alia*, regulates the procedures used in accounting for natural resources on the state balances, transferring licences, classifying reserves, monitoring geological research and permitting the use of historical data owned by the state;
- the Federal Agency for Subsoil Use, an agency subordinate to the Ministry of Natural Resources, that, *inter alia*, organises the conduct of state geological studies, issues and terminates exploration and production subsoil licences and supervises the holders compliance with the terms of such licences and re-registered licences, and organises geological exploration of the subsoil by the state, maintains the federal and territorial funds of geological data on the subsoil, organises the conduct of tenders and auctions for the right to use subsoil, and maintains the state cadastre of deposits;
- the Federal Service for Environmental, Technological and Nuclear Surveillance, an entity subordinate to the government, that, *inter alia*, issues industrial safety certificates;
- the Federal Service for Surveillance in the Sphere of Environmental Use, an entity subordinate to the Ministry of Natural Resources, that, *inter alia*, monitors environmental protection and the rational use and protection of the subsoil; and
- the FAS, an entity subordinate to the government, that, *inter alia*, oversees compliance with the laws on competition on the commodity and financial markets and those concerning natural monopolies.

The structure of the federal executive bodies is established by the President of the Russian Federation and is subject to frequent change.

Regional authorities have limited jurisdiction in the area of gas industry regulation.

Production

In order to produce natural gas, a company must obtain a number of licences and permits including, in particular, a subsoil licence, a mining allotment, land use permits, operating licences and a favourable environmental assessment.

Subsoil Licences

Pursuant to the Subsoil Law, the subsoil is considered the property of the state and can be used only upon grant of a subsoil licence. Natural resources extracted from the subsoil become the property of the subsoil user upon extraction. Subsoil licences are generally awarded through auctions or tenders. The most important criterion for awarding a subsoil licence at auction is the total amount the bidder is prepared to pay for the right to use the subsoil. Criteria taken into account when awarding a subsoil licence at a tender are usually the technical and scientific level of the geological exploration programme, the subsoil utilisation level, the completeness of the extraction of subsoil deposits, the level of investment in the socio-economic development of the territory, as well as environmental and national security considerations. Since 2003, subsoil licences have been granted through auctions only and no tenders have been conducted. In certain limited instances, a subsoil licence may be issued without a tender or an auction, such as, upon discovery of a deposit pursuant to a licence for exploration, execution of a production sharing agreement, certain corporate reorganisations, the transfer of a subsoil licence to a subsidiary of a licence holder or the acquisition of a licence in the course of a bankruptcy proceeding against the licence holder. Licences can also be transferred to other parties in the manner and on the terms provided for by the Subsoil Law.

Until recently, most subsoil licences, including licences for geological research, exploration and production of natural gas, were issued jointly by the Ministry of Natural Resources and the relevant authority of the regional government in which the field was located. Currently, such licences are issued solely by the Federal Agency for Subsoil Use.

A subsoil licence grants the licence holder an exclusive right to use a particular subsoil plot and on the terms and conditions specified in the licence (e.g. purpose of the subsoil use, borders of the land plot granted for subsoil use, deadlines, such as the start and end of the production, production volume, payments for subsoil use, etc.) and may be specified in more detail in a licence agreement entered into by a competent state authority and the licence holder.

There are several types of subsoil licences granted in relation to geological research and exploration and production of natural resources, including: (i) a licence for the geological exploration and appraisal of a subsoil plot that may be issued for up to five years; (ii) a licence for the production of natural resources that may be issued for the expected operational life of the field as determined by a feasibility study; or (iii) a combined exploration and production licence allowing for geological exploration and appraisal and subsequent production of natural resources.

Amendments introduced into the Subsoil Law in 2000 and 2004 provide that upon the expiration of a licence, it is subject to renewal and extension for the economic life of the relevant field (pursuant to Article 10 of the Subsoil Law) at the initiative of the licence holder provided that the licence holder did not violate the terms of its licence and provided that it is necessary to finalise exploration, appraisal, production or remediation activities.

The Subsoil Law does not include detailed regulations on the procedure for extending a subsoil licence. As a matter of practice, licence holders often reach agreement with the authorities on such extension. Upon expiration of a licence, a licence holder must, at its own expense, recultivate the land and return it to a condition adequate for future use.

Generally, a subsoil licence cannot be held by more than one legal entity. Licences granted in accordance with the Subsoil Law cannot be sold or transferred to another entity, except in limited circumstances, such as a corporate merger, a transfer to a spin-off company or a subsidiary in which the licence holder owns not less than 50 per cent. of the charter capital, and in certain other cases. No restrictions are currently imposed by the Subsoil Law on a change of control over a licence holder.

The licence, the licence agreement and/or other documents enclosed with the licence impose certain obligations on the licence holder to conduct an agreed scope of exploration work, reach agreed levels of production, provide employment, develop local infrastructure, pay local and federal taxes and meet certain environmental requirements, as well as other obligations that may be agreed between the licence issuer and the licence holder.

The right to use the subsoil licence can be suspended or terminated in a number of cases and, in particular, if:

- the licence is found to have been re-registered in the name of another entity in violation of the re-registration provisions of the Subsoil Law;
- a termination condition in the licence agreement has been triggered;
- there is a direct threat to the life and health of people working or living in the area affected by the subsoil use;
- the licence holder has breached the material terms of the licence;
- the licence holder systematically violates the stipulated subsoil use procedures;
- there is an emergency situation (disaster, military action, etc);
- the licence holder's production does not reach the volumes required by the terms of the licence;
- the licence holder has been liquidated;
- the licence holder requests suspension or termination; or
- the licence holder has failed to file reports in accordance with the subsoil laws.

Mining Allotment

Pursuant to the Subsoil Law, the subsoil area is provided to a subsoil user as a "mining allotment", i.e. a geometric block of subsoil. Preliminary mining allotment boundaries are determined at the time the licence is issued. Exact mining allotment boundaries are established upon preparation of a development plan and its approval by state mining supervision authorities and an environmental examination committee and are certified in a mining allotment act issued to the licence holder. Currently, the Federal Service for Environmental, Technological and Nuclear Surveillance has authority to approve development plans.

Rights to the Land

Pursuant to the Subsoil Law, subsoil licences are issued subject to the land resources management authorities' preliminary consent to the allotment of a land plot covering the surface of the licence area.

The boundaries of the land plot are determined upon approval of a development plan based upon an agreement between the owner of the land plot and the subsoil user.

A subsoil user is provided rights to the land pursuant to the land legislation of the Russian Federation and a subsoil user can either purchase or lease the land plot covering its mining allotment.

Under the Gas Supply Law, land plots necessary for the construction, exploitation and maintenance of gas supply systems are provided to the owners of such facilities in accordance with the land registration of the Russian Federation on a permanent or temporary basis. Land plots necessary for the construction of technological objects for the extraction and storage of gas and gas pipelines are transferred to the owner on a permanent basis. Such land plots are re-categorised as industrial and transportation land plots. Land plots necessary for carrying out construction and maintenance work on gas supply systems are transferred to the owner of such systems on a temporary basis. After the relevant works are completed, the owner of the gas supply system must transfer the land plot back to its owner as well as compensate the latter's losses.

Operational Licences

The production, storage, transportation, processing and sale of gas are subject to licensing requirements. Most operational licences are issued by the Federal Service for Environmental, Technological and Nuclear Surveillance. The requirement for licensing and operation of oil and gas extracting facilities was abolished in July 2005, and currently no operational licence is required for this type of activity. However, certain types of activity that are inherent to the production, storage, transportation, processing and sale of gas remain subject to licensing requirements. These types of activity may include, *inter alia*, the operation of fire-hazardous facilities and assembly and maintenance of fire-prevention devices. Such licences are issued for a minimum term of five years. In addition to other documents, to receive the licence, the applicant must provide evidence that it meets the operational licence requirements, which include, *inter alia*, availability of qualified personnel and equipment required for operations, as well as adequate environmental, health and safety measures. In addition, all equipment used at the oil and gas extracting facilities must be certified by the Federal Service for Environmental, Technological and Nuclear Surveillance for such use.

Environmental Permits

Russian environmental legislation establishes a pay-to-pollute regime administered by the Federal Service for Environmental, Technological and Nuclear Surveillance, which issues pollution discharge permits. Separate fees are assessed for pollution under the maximum permitted discharge limits and for pollution in excess of such limits. There are additional fines for certain other violations of environmental regulations. The environmental protection legislation contains an obligation to make compensatory payments into the federal and/or local budgets for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by violations of environmental laws and regulations, the prosecutor's office or other authorised governmental bodies may bring suit. Private parties also have a right to file an action where harm was caused to their property and well-being as a resolute of such violations of environmental laws and regulations. Courts may impose clean-up obligations in lieu of, or in addition to, imposing fines.

Construction projects, including oil and gas production projects, require both an environmental impact assessment by an independent environmental expert and a prior favourable environmental opinion issued by competent public authorities. The purpose of such evaluation is to verify that the project ensures protection of the environmental, a rational use and restoration of natural resources as well as an assessment of short-term and long-term environmental, economic and demographic impact of the subsoil use. The documents developed in the course of the environmental impact assessment are presented to the state body responsible for the issuance of environmental opinions.

Subsoil licences are granted on the condition that the licence holder undertakes to comply with Russian environmental standards and norms (air, water and soil pollution limits, waste management requirements, animal protection, human health, etc.). Prior to the issuance of a subsoil licence, the Federal Agency for Subsoil Use agrees the environmental requirements with the Federal Service for Environmental, Technological and Nuclear Surveillance. Once a subsoil licence is issued, the licence holder's compliance with licensing requirements is supervised by the Federal Agency for Subsoil Use, while general state ecological supervision is conducted by the Federal Service for Environmental, Technological and Nuclear Surveillance.

Processing

Gas can be processed either by the producer at its own processing facilities or by third parties upon an agreement with the producer. Gas processing requires a licence issued by the Federal Service for Environmental, Technological and Nuclear Surveillance.

Sale and Transportation

Gas

Pursuant to the Gas Supply Law, gas suppliers and their agents may not unreasonably refuse to enter into gas supply agreements with end-customers provided that such gas suppliers have gas available and there are ways to transport that gas to the end customer. If these criteria are met but a gas supplier refuses to enter into a gas supply contract, a purchaser is entitled to initiate an action against the gas supplier before a competent court in order to force the gas supplier to enter into such a contract. Priority to enter into gas supply agreements is given to off-takers who purchase natural gas for government needs, utilities, and off-takers wishing to extend their existing gas supply agreements. The state regulates the price of gas sold by Gazprom, owners of regional gas distribution networks and their affiliates. The tariff charged to independent gas producers to transport their gas through the UGSS and through the regional gas supply system remains subject to state regulation. Although the Mezhregiongaz electronic trading platform has begun to provide a mechanism for effecting wholesale gas sales at market prices for delivery through the UGSS, this trading platform is still in its infancy and its commercial future remains to be seen.

In accordance with the Rules of Gas Supply in the Russian Federation, approved by government Resolution No. 162, dated 5 February 1998, in order to enter into a gas supply agreement, a purchaser must send an application to a supplier. Upon receipt of the application, the supplier makes an offer to the purchaser, which, as a general rule, the purchaser can consider within 30 days. A gas supply agreement must comply with the requirements of paragraph 3 of Chapter 30 of the Civil Code of the Russian Federation. If, without the prior consent of the supplier, a customer takes more gas from the system than the agreement allows, the prices and transportation tariffs are multiplied by a ratio of 1.1 to 1.5 (depending on the season) for the additional gas. This factor does not apply to communal and individual consumers.

Access to the UGSS and Regional Gas Supply Systems

In accordance with the Law On Natural Monopolies of the Russian Federation and government Resolution No. 858, dated 14 July 1997, Gazprom, as the owner of the UGSS, is obligated to provide independent gas producers access to its natural gas transportation system in Russia subject to the availability of capacity on the UGSS, the compliance of the gas being transported with established quality and technical parameters, and the availability of connecting pipelines between UGSS and suppliers and of branch pipelines to consumers. The Decree of the President of the Russian Federation "On Transformation of the State Gas Concern Gazprom into the Russian Joint Stock Company Gazprom" No. 1333, dated 5 November 1992, as amended, makes Gazprom responsible for providing transportation access to gas producers in proportion to the volume of gas produced by them on the territory of Russia subject to the observance of a conformed price regulation mechanism.

Article 26 of Gas Supply Law prohibits owners of gas supply systems, such as, among others, Gazprom, to obstruct independent organisations' access to the gas market.

Similar access rights to regional gas supply systems are established pursuant to the resolution of the government No. 1370, dated 24 November 1998. According to this resolution, any legal entity on the territory of the Russian Federation has the right to access the regional gas supply systems to facilitate delivery.

Export Rights

The export of gas produced from any hydrocarbon field and transported in the gaseous or liquefied state is regulated by the Gas Export Law. The law does not apply, however, to exports of gas produced in accordance with production sharing agreement made prior to the enactment date of the Gas Export Law on 31 July 2006. Under the Gas Export Law, exclusive right for gas exports is granted to the owner of UGSS and its 100 per cent. subsidiaries.

Prices and Tariffs

Natural gas prices and transportation tariffs in Russia are regulated pursuant to the Law on Natural Monopolies of the Russian Federation and the Gas Supply Law, as well as pursuant to a number of

government resolutions. Government Resolution No. 1021 "On State Regulation of Gas Prices and Tariffs for Gas Transportation on the Territory of the Russian Federation," dated 29 December 2000, as amended, sets forth the main provisions for regulating the wholesale price of natural gas and transportation tariffs. Wholesale price regulation applies to gas produced by Gazprom and its affiliates, and to gas produced by owners of regional gas distribution networks and their affiliates and certain privatised entities, but does not apply to gas produced by entities not affiliated with these entities.

The wholesale price of natural gas produced by independent gas suppliers is not regulated. However, certain consumers, such as residential consumers, are entitled to fixed retail gas prices.

If a consumer fails to pay in a timely manner for gas, a supplier has the right to limit or suspend natural gas deliveries to the consumer in accordance with procedures established by the government. The government also establishes a list of end-customers whose natural gas deliveries may not be suspended or terminated, such as military units, penitentiaries and fire fighting units.

FST regulates the price of gas sold by Gazprom and the tariff charged to independent gas producers to transport their gas through the UGSS. The principles of pricing are, among others, the recovery of economically reasonable expenses by suppliers and transportation companies, maintenance of reasonable operating margins, and satisfaction of demand for gas.

In the FST Order, the FST established tariffs for transporting gas produced by independent producers to end-customers through the UGSS.

Tariff rates for the use of UGSS are determined based on the gas entry zone and gas exit zone, in accordance with schedules to the FST Order. Should such schedules not contain the exact tariff rates for use to and from specific entry and exit zones, the FST Order establishes an average unit rate for use of the trunk pipelines and its further distribution to consumers located: (i) within the Russian Federation (according to Schedule 5 to the Order), (ii) outside the Russian Federation, but within the member states party to the Agreement on Customs Union, Moscow, 20 January 1995, which, at the date of this document are Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan (the "Customs Union") (RUR24.29 per 1,000cm per 100km, excluding VAT), and (iii) outside the Russian Federation and outside the member states of the Customs Union (RUR26.68 per 1,000cm per 100km, excluding VAT).

The FST Order also sets out tariff rates for work done in connection with gas transmission (transmission rates) during its transportation by Gazprom's trunk pipelines, differentiated by the type of end users:

(i) located within the Russian Federation or within the member states of the Customs Union is RUR6.07 per 1,000cm per 100km (VAT exclusive);

(ii) located outside the Russian Federation and outside the member states of the Customs Union is RUR6.67 per 1,000cm per 100km (VAT exclusive).

Taxation

Russian tax law and procedures are not well developed, and local tax inspectors have considerable autonomy and often interpret tax rules inconsistently. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax and financial authorities may be subject to more rapid and unpredictable change than in jurisdictions with more developed capital markets.

The Russian tax system includes federal (established by the federal authorities and applied to all entities doing business in Russia), regional (established by the Russian Tax Code and regional authorities and applied to entities registered or doing business in a particular region) and local (established by the Russian Tax Code and local authorities and applied to entities registered or doing business in particular municipalities) taxes.

The comments below are of a general nature based on the various Russian laws described above as of the date of this document, which are subject to change, possibly with retroactive effect. However, in accordance with the Russian Tax Code legislative acts on taxes and fees which in any way worsen the situation of a taxpayer shall not be retroactive. The comments consist of brief descriptions of the major federal, regional and local taxes and some obligatory payments, which formally are not treated as taxes, applicable to the Company's Russian subsidiaries.

Profits Tax

Provisions in the Profit Tax chapter of the Russian Tax Code became effective 1 January 2002 and replaced the provisions of the Profits Tax Law existing since the early 1990s. There is a single profit tax

system, but payments are split between federal and regional budgets. The statutory profit tax rate is 24 per cent. From 1 January 2005 the tax payment is split 6.5 per cent. payable to the federal budget and 17.5 per cent. payable to the regional budget. The Profits Tax chapter of the Russian Tax Code provides for the following important elements of the profit tax regime:

- There is no concept of consolidated taxes for different legal entities within one group and accordingly each legal entity is required to compute and pay its profits tax to the respective authorities;
- Taxable profit calculation is based on the accrual method;
- Generally, expenses including exploration costs and unsuccessful development costs are deductible for tax purposes if they are "economically justified and properly documented"; however, certain business expenses are subject to specific limitations and other specific guidelines which need to be observed;
- Fixed assets are grouped into ten depreciation groups depending on the assets useful life and can be depreciated over 1 to more than 30 years. Fixed assets with an allowed useful life of up to 20 years can be depreciated on a straight-line or a non-linear (double declining balance method) using the statutory life of the assets. If a taxpayer chooses the double declining balance method the amount of depreciation in the early years may be significantly increased. With respect to the fixed assets with a useful life over 20 years, only the straight-line method is allowed. According the Federal Law No. 58-FZ on the introduction of amendments to the Part Two of the Russian Tax Code of 6 June 2005, starting from 1 January 2006 the taxpayer is allowed to deduct capital expenditures in an amount of up to 10 per cent. of the historical value of the respective fixed assets/costs of additional construction, modernisation, additional equipment, technical re-equipment or the partial liquidation of assets in the relevant reporting period.
- Loss carry-forward, which allows taxpayers to offset tax losses against profits in future tax periods, is available over the next ten years . For the period up to 1 January 2006, the amount of such carry-forwards should not have exceeded 30 per cent. of the tax base in any reporting or tax period. According to the Federal Law No. 58-FZ on the introduction of amendments to the Part Two of the Russian Tax Code of 6 June 2005, the above limitation on the amount of loss carry-forward is extended to 50 per cent. effective 1 January 2006 and, subsequently, this threshold is abolished effective 1 January 2007.
- Russian tax legislation establishes a set of special rules ("thin capitalisation rules") aimed at preventing abusive use of inter-company loan financing structures and, essentially, deduction of excessive amounts of interest expenses. Until 1 January 2006, these rules applied only to loans issued to a Russian company by a foreign shareholder owning directly or indirectly more than 20 per cent. of the share capital of the Russian company. Thin capitalisation rules that came into effect on 1 January 2006 extend the rules' application to loans issued to a Russian company by another Russian company that is affiliated with the foreign shareholder as well as to loans secured by such foreign shareholder or its affiliated Russian company. It is not yet clear how these new rules will be applied in practice by the Russian tax authorities.

Thin capitalisation rules apply if the debt exceeds the net assets (i.e. the equity) of the Russian borrower by more than three times (debt/equity ratio).

The difference between the actual interest charged and the maximum allowable interest is not deductible for profits tax purposes and is considered to be a dividend for taxation purposes and is taxed under the rules of dividend taxation.

The Profits Tax chapter of the Russian Tax Code permits the regional legislative bodies to decrease the rate of profit tax payable to the regional budget from the current rate of 17.5 per cent. down to 13.5 per cent. for certain categories of taxpayers, and, thereby, the overall profit tax rate from 24 per cent. down to 20 per cent.

Taxation of Dividends

Dividends paid by a Russian legal entity to a non-resident shareholder will be subject to Russian withholding tax, which will be withheld by the Russian legal entity acting as a tax agent. The applicable tax rate on dividends will depend on whether the dividend recipient (i.e. non-resident shareholder) is a legal entity or an individual. Dividends paid to a non-resident shareholder that is a legal entity generally

will be subject to Russian withholding tax at a rate of 15 per cent. Dividends paid to non-resident shareholders who are individuals will be subject to Russian withholding tax at a rate of 30 per cent.

Dividends paid by the Russian subsidiaries of the Company to their Cyprus-incorporated shareholder are subject to withholding taxation at source in accordance with the Russian tax legislation and provisions of the Agreement dated 5 December 1998 between the Government of the Republic of Cyprus and the Government of the Russian Federation for the avoidance of double taxation with respect to taxes on income and on capital. In accordance with this Agreement withholding tax rate on dividends distributed by the Russian subsidiaries of the Company could be reduced from 15 per cent. to 5 per cent. See "— Withholding Income Tax" and "— Tax Treaty Procedures" below.

Withholding Income Tax

The Russian Tax Code provides that income earned by foreign companies from sources in Russia, which are not related to business activities performed in Russia through a permanent establishment are subject to withholding tax. Tax should be withheld and paid to the budget by the tax agent simultaneously with the income payable to a foreign company and further remitted to the budget.

Withholding tax on dividends may be reduced under the terms of a double tax treaty between the Russian Federation and the country of residence of the non-resident holder of the Shares. For example, the Convention between the Government of the Russian Federation and the Government of the United Kingdom and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains, or the UK -Russia Tax Treaty, provides for a 10 per cent. withholding rate on dividends paid to UK holders who are beneficial owners of the dividends and are subject to taxation with respect to these dividends in the United Kingdom.

Unless otherwise provided in the applicable double tax treaty, the following tax rates are applicable:

- 10 per cent. on freight income;
- 15 per cent. on dividends income. The current treaty between Russia and Cyprus provides that the withholding tax rate is reduced to 5 per cent. if the direct investments by the Cyprus company in the Russian company exceeds the equivalent of US$100,000, otherwise the rate of withholding tax is reduced to 10 per cent.
- 20 per cent. on all other kinds of income (including interest income and royalty received from Russian companies). There is no withholding tax on interest or royalties paid from a Russian company to a Cyprus company according to the current treaty between Russia and Cyprus.

Income received by a foreign company from the disposal of shares of a Russian company whose immovable property makes up less than 50 per cent. of its assets is not subject to withholding tax.

Income received by a foreign company from the disposal of shares of a Russian company whose immovable property makes up more than 50 per cent. of its assets is subject to withholding tax at the rate of 20 per cent. However, a foreign company may choose to deduct the costs related to the acquisition of those shares and in this case profits received from this shares disposal will be subject to 24 per cent. withholding tax. The current double tax treaty between Russia and Cyprus provides that such income is not subject to Russian withholding tax.

According to the Russian Tax Code, to apply the reduced rates or other favourable provisions of the respective double tax treaty (e.g. Cyprus) the foreign company should provide its tax residency certificate. Accordingly, if the foreign company is not treated as a tax resident in the country of incorporation it cannot benefit from the respective double tax treaty provisions.

Tax Treaty Procedures

The Profits Tax Chapter of the Russian Tax Code, which became effective on 1 January 2002, eliminates the requirement that a non-resident holder that is a legal entity must obtain tax treaty clearance from Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty.

A non-resident legal entity seeking to obtain relief from Russian withholding tax under a tax treaty must provide a company paying dividends with confirmation of its tax residence that complies with the applicable double tax treaty in advance of receiving income.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from

the end of the tax period in which the tax was withheld, if the recipient is a legal entity, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require (i) a confirmation of the residence of the non-resident at the time the income was paid, (ii) an application for refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the appropriate Russian authorities (Form 1012DT for dividends and interest and 1011DT for other income is designed to combine (i) and (ii) for foreign legal entities). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month of the filing of the application for the refund and the relevant documents have been filed with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

Permanent Establishment ("PE") of a Foreign Company

According to Russian tax legislation, a foreign company creates a PE in Russia if it carries out business activities through a branch, a representative office or any other permanent place of business on a regular basis. Management, as an essential function of any business, is viewed as business activities for the purposes of PE recognition. Although a definition of a "regular basis" is not provided in the Russian Tax Code, the tax authorities' approach is that if a foreign company conducts business activity in the territory of Russia for a period exceeding 30 days in a calendar year, such activity shall be considered "regular." This 30 days periods is also used as a threshold for tax registration requirements.

Starting from the moment of creation of a PE, a foreign company is subject to taxation with respect to its income attributable to its PE in Russia. If a foreign company creates a PE as a result of its management all income of the foreign company (including dividends and interest) may be attributable to this PE and subject to Russian taxation.

Value Added Tax and Import Customs Duties

Value-added tax ("VAT") of 18 per cent. (10 per cent. in the case of certain foods, children's goods, medicines, books and printed periodicals) is imposed on domestic sales of goods, types of work and services and on import of goods into Russia. Import VAT is assessed on the customs value of imported goods inclusive of customs duties. Exports of goods including exports of natural gas and gas condensate are subject to zero per cent. VAT (which effectively means a VAT exemption for the exporter with entitlement to claim input VAT for recovery under applicable conditions and procedures). However, zero per cent. VAT on exports may be enjoyed in practice only if export sales are supported with a set of documents collected by an exporter as required by Russian tax legislation.

A number of goods, types of work, and services are exempt from VAT. An exemption from VAT applies to certain goods imported into Russia, e.g. technological equipment, its components and spare parts contributed to the charter capital of Russian companies.

Import customs duties are generally imposed at rates ranging from 5 per cent. to 25 per cent. on a wide range of imported goods. If certain conditions established by Russian legislation are met, there may be a reduction of customs duty rates or exemption from customs duties, e.g. imported goods which qualify as fixed assets used for production activities contributed by foreign investors to the charter capital of Russian companies are exempt from import customs duties.

Mineral Resources Extraction Tax

Federal Law No. 126-FZ of 8 August 2001, which became effective on 1 January 2002, amended the previously existing regime of mineral resource restoration payments, royalties and excise tax on the production of oil, gas and gas condensate and replaced all such taxes with a mineral resources extraction tax.

Effective 1 January 2006 natural resources production tax for natural gas is charged at a fixed rate of RUR147 per 1,000cm, associated gas is taxed at a rate of zero per cent., the tax rate for gas condensate is 17.5 per cent. of the value of produced gas condensate.

Export Duties on Natural Gas

According to the Government Resolution No. 507 of 19 August 2003, the effective rate of export customs duty for conventional natural gas exported from Russia to a territory outside of the members of the Customs Union is equal to 30 per cent. of its customs value.

According to the Government Resolution No. 855 of 30 December 2005, the effective rate of export customs duty for liquefied natural gas exported from Russian to a territory outside of the members of the Customs Union is equal to zero.

The Russian government has issued the Resolution "On order of the customs value estimation for the goods moved across the border of the Russian Federation" dated 13 August 2006. These new rules allow for the following expenses to be excluded from the value of exported goods on the condition that these expenses have been singled out from the price actually paid or payable, have been stated by the exporter and confirmed with the proper documentation:

- the expenses on the carriage (transportation) of goods for their export from the customs territory of the Russian Federation and the expenses on their subsequent carriage (transportation);
- the duties, taxes and fees collected in the Russian Federation in connection with the export of goods;
- the duties, taxes and fees collected with respect to goods in the country to which such goods are exported.

According to the amendments introduced on 20 October 2006 by Government Resolution No. 616 these new rules are not applicable for transportation through pipelines and electricity grids.

Export duties on gas condensate

Currently export duties for gas condensate are based on crude oil export duties rates.

In early 1999, the government re-introduced export customs duties rates for crude oil. Following increases in world oil prices, export customs duties have steadily increased. In September 2001 and in May 2004, the Law on Customs Tariffs was amended to establish procedures for calculating the maximum rates of export customs duties for crude oil based on the average world price of Urals Blend for the two preceding months.

The rates of customs duties established by the Russian government in accordance with the framework set out in the amended Law on Customs Tariffs are as follows:

*Average World Price for Urals Crude Oil Blend**	*Maximum export customs duties*
Up to US$109.5 per tonne	0 per cent.
US$109.5 to US$146 per tonne	35% of the difference between the average world price per tonne and US$109.5
US$146 to US$182.5 per tonne	US$12.78 per tonne plus 45 per cent. of the difference between the average world price per tonne and US$146
Above US$182.5 per tonne	US$29.2 per tonne plus 65 per cent. of the difference between the average world price per tonne and US$182.5

* The Urals crude oil blend is calculated as the price for Urals Blend on world markets (Mediterranean and Rotterdam) for the two months immediately preceding the current two-month period.

For the two month period from 1 April to 1 June 2007, the actual rate of export duty for crude oil and gas condensate is established at US$156.4 per tonne. After that period the rate will be revised in accordance with the Law on Customs Tariff.

Payments for the Use of Subsoil

A holder of a subsoil licence must make payments for subsoil use stipulated by the Subsoil Law. The payments depend on the size of the licence area provided to the exclusive subsoil user. The current payments for holders of subsoil licences for hydrocarbons are set as follows:

(i) one-time payments in cases specified in the licence: the minimum amount should not be less than 10 per cent. of mineral resources extraction tax for annual average estimated capacity;

(ii) regular payments for subsoil use, including the following:

- payment for the right to prospect and evaluate hydrocarbon fields (the rate ranges from RUR120/km^2 (RUR50/km^2 for offshore areas) to RUR360/km^2 (RUR150/km^2 for offshore areas)),

- payment for the right to explore hydrocarbon fields (the rate ranges from RUR5,000/km^2 (RUR4,000/km^2 for offshore areas) to RUR20,000/km^2 (RUR16,000/km^2 for offshore areas)),
- payment for the use of subsoil assets in the process of construction and operation of underground structures intended for storage of mineral resources (the rate ranges from RUR0.2/mcm to RUR0.25/mcm for natural gas, and from RUR3.5/tonne to RUR5/tonne for crude oil and gas condensate);

(iii) payments for geological subsoil information (minimum amount of RUR10,000);

(iv) fees for the right to participate in auctions/tenders; and

(v) fees for the issuance of licences.

The rate at which rentals are to be levied may be established by the federal agency for management of the state subsoil fund, or by its regional subdivisions, separately, for each licensed subsoil plot within ranges provided for by the Subsoil Law.

State Pension Fund Contributions

State Pension Fund contributions are payable by employers at a regressive rate schedule from 14 per cent. to the fixed amount of RUR56,800, depending on the level of the employee's annual wages.

Unified Social Tax

Currently, a unified social tax is assessed on gross payroll according to a regressive rate schedule ranging from 26 per cent. to 2 per cent., depending on the level of the employee's annual wages. The State Pension Fund contributions are credited against unified social tax liability.

Accident Insurance Contributions

Employers are liable for obligatory contributions to the Social Security Fund for insurance for work-related injuries and diseases at rates ranging from 0.2 per cent. to 8.5 per cent., depending on the type of activity carried out by the employer. These contributions are assessed on gross payroll.

Local and Regional Taxes

In addition to the federal taxes described above each Russian region and locality imposes, respectively, certain regional and local taxes within the limits provided by the Russian Tax Code. Thus, the responsibilities of the regional (local) authorities are limited to establishing the tax rates, exemptions and reporting procedures.

Property Tax — regional tax

Property tax is currently levied at a rate of up to 2.2 per cent. of the average annual statutory book value of fixed assets (except for land) per annum.

Land Tax — local tax

The provisions of the tax chapter "Land tax" of the Russian Tax Code became effective on 1 January 2005 and replaced Federal Law No. 1738-1 "On land payments," dated 11 October 1991 and regulate the land tax.

According to Chapter 31 of the Russian Tax Code, land tax is levied at a rate of up to 1.5 per cent. on the cadastre value of a land plot (a reduced rate of up to 0.3 per cent. applies to agricultural land or land plots under residential housing). Land tax is payable by owners of land plots.

Legal Trends that Impact the Russian Gas Industry

The primary recent legal trend that impacts the energy industry in Russia is restriction of the powers of regional authorities, both in general, through changes to constitutional legislation, and in connection with subsoil use, through changes to subsoil legislation.

Changes in Constitutional Legislation

Pursuant to Federal Law of 11 December 2004 No. 159-FZ the leaders of each subject of the Russian Federation, instead of being elected, are now appointed by its legislative body upon proposal by the President of the Russian Federation.

Changes in Subsoil Legislation

The changes to legislation restricting the powers of regional authorities in connection with subsoil use were introduced by Federal Law of 22 August 2004 No. 122-FZ, which amended, in particular, the Subsoil Law. These amendments became fully effective as of 1 January 2005 and are aimed at limitation of corruption related to the issuance of subsoil licences and at the simplification of the subsoil licensing procedures.

Background. The Constitution of the Russian Federation provides that subsoil resources are the joint jurisdiction of the Russian Federation and the regions. The so-called "two-key principle" for subsoil management, based on which subsoil licences were issued jointly by the federal and regional authorities, was effectively abolished by the Subsoil Law amendments in 2004.

Licensing. Whereas under the old law, subsoil licences required the approval of both the Ministry of Natural Resources and the executive body of the applicable region, under the amended law (the "Amended Law"), regional government approval is no longer required (except in the limited circumstances described below) and subsoil use rights are granted based on resolutions of the federal government, the Ministry of Natural Resources or its regional body, and tender/auction commissions. The regions' role in the constitutionally declared joint jurisdiction has been limited to merely being represented in tender/auction commissions. However, regional governments retain the right to issue licences to common resources fields or fields of local importance, primarily sand and gravel fields.

Whereas under the old law, federal and regional authorities shared in the decision whether to hold a tender or auction, under the Amended Law, only the federal government (in the case of offshore resources) and the Ministry of Natural Resources (in the case of onshore resources) have such authority. The amendments also provide that information on tenders and auctions must be published in a nation-wide media publication as well as a regional media publication selected by the Ministry of Natural Resources or its regional body at least 45 days prior to the auction or 90 days prior to the tender. This changes the old law, which required notification as much as three to six months in advance and allowed notification requirements to be satisfied through the use of obscure or limited-circulation publications selected by the local government.

Extension of Subsoil Use Right. Whereas pursuant to the old law the right to use the subsoil could be extended upon the licence holder's request if it was necessary to finalise exploration, appraisal, production or remediation activities provided that the licence holder did not violate the terms of the licence, the Amended Law provides that the term of subsoil use will be extended in such circumstances. This new provision gives a subsoil user better guarantees of extension of the subsoil use term.

Obtaining Subsoil Use Right in the Event of Discovery of a Deposit. The Amended Law and the subsequent regulations adopted in 2005 assures the right of the holder of a geological exploration licence in the event of discovery of a deposit, as a result of the conduct of exploration by the licence holder at its own expense or with the use of loaned funds, to apply to the Federal Agency for Subsoil Use for a production licence to develop the discovered deposit. The decision on granting the licence shall be taken in a relatively straightforward procedure.

Fees and Payments. From 1 January 2006, fees for issuing licences and for participation in tenders and auctions will constitute solely federal revenue (except with respect to common resources and fields of local importance, which will constitute regional revenue). In addition, the Ministry of Natural Resources will now be solely responsible for setting the rate of regular payments for exploration, evaluation and geological surveys within the ranges set in the law, whereas prior to the amendments, regional government set such rates after recommendations by the regional body of the Ministry, although within the same ranges.

Netback Parity

On 30 November 2006, the Russian government's cabinet approved the joint proposal of the Ministry of Energy and Industry, the Ministry of Economic Development, the Ministry of Finance, the FAS and the FST, concerning the supply of gas and electricity to the national economy. This proposal provides, *inter alia*, for a transition to five-year gas supply arrangements with electric power producers, the pricing structure of which will be designed to achieve, by 2011, Netback Parity for gas sales to industrial consumers.

Deregulation of Natural Gas Prices

On 2 September 2006 Resolution No. 534 was passed by the Russian government which provides for experimental sales of gas at non-regulated prices during 2006-2007. Such sales are held on an electronic

trading platform nominated by the Ministry of Energy and Industry. On 22 November 2006 Mezhregiongaz, a Gazprom subsidiary, held its first gas trading session using an electronic trading platform. Sessions are held once every ten days in the form of a continuous double bid-matching auction. Participants submit their bids containing the price and amount of gas and other material conditions to the organiser of the trading session on an anonymous basis. Once a matching pair of bids for the sale/purchase of gas is identified by the trading system, it is marked and the relevant bidders are informed. The price of gas is determined as the sum of the price of the gas at the balance point, the transportation price from the balance point to the gas-distributing station (in the case of the purchaser) or from the point of entry into the Gazprom gas supply system to the balance point (in the case of the seller) and the remuneration of the organiser of the trading session (RUR3000 per month plus 1 per cent. of the gas price at the balance point).

Proposed Changes in Legislation

The draft law "On Subsoil" has been prepared by the Ministry of Natural Resources and has been submitted to the State Duma for adoption. The draft contains a number of provisions that may result in significant changes in current regulatory regime for the natural gas industry, including, among other things, the following:

- subsoil use rights will be granted only through contracts and not through licences, however, licences that have already been issued will continue to be valid and will not have to be replaced by contracts;
- subsoil use rights will be granted only through auctions to avoid corruption potentially associated with tenders; if the auction does not take place due to availability of only one participant, the contract can be entered into with such participant;
- Russian legal entities directly or indirectly controlled by, controlling, or under common control with, foreign citizens and/or entities may not be admitted to participate in auctions for subsoil use rights and may be subjected to other limitations or prohibitions. See "Part IV — Risk Factors — Proposed changes in the Subsoil Law could adversely affect the Company's ability to participate in certain future auctions for exploration and production licences and could subject the Company to a statutory requirement to sell its natural gas to the Russian government."

PART VII

ACCOUNTANTS' REPORT ON FINANCIAL INFORMATION ON THE GROUP

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20 April 2007

Dear Sirs

VOLGA GAS PLC

We report on the financial information set out in Part VII of the AIM admission document dated 20 April 2007 ("the Admission Document") issued by Volga Gas plc ("the Company"). This financial information has been prepared for inclusion in the Admission Document. This report is required by Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that schedule and for no other purpose.

Basis of preparation

The financial information set out below is based on the audited consolidated financial statements of the Company and its subsidiaries ("the Group") for the period ended 31 December 2006 ("the Financial Statements"). The Financial Statements have been independently audited by us and we have issued an unqualified audit report in accordance with the UK Companies Act 1985 (as amended).

The Financial Statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU. The financial information in this report does not constitute statutory accounts within the meaning of Section 240 of the UK Companies Act 1985 (as amended).

No financial statements for the Group have been prepared or presented to the members of the Company, or any of its subsidiaries, for any period since 31 December 2006.

Responsibilities

The directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Admission Document, and to report our opinion to you.

Basis of Opinion

We conducted our work in accordance with the Statements for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at 31 December 2006 and of its profits, cash flows, recognised gains and losses and changes in equity for the period then ended.

In accordance with the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the EU, as described in note 2 to the financial information, the financial information has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest audited accounts.

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules for Companies, we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully,

Moore Stephens LLP
Chartered Accountants

Consolidated Income Statement
For the period from 26 October 2005 to 31 December 2006
(presented in US$ 000)

	Notes	
Revenue:		
Operating expenses		
Administrative expenses	6,7	(979)
Operating loss		(979)
Other gains & losses	23	5
Finance costs	14	(414)
Loss for the period before tax		(1,388)
Tax	16	117
Loss for the period		(1,271)
Loss per ordinary share		$
— Basic and diluted	8	(4.72)

Consolidated Balance Sheet as at 31 December 2006
(presented in US$ 000)

	Notes	
Non-current assets		
Goodwill	21	105
Deferred tax	16	117
Intangible assets	12	25,190
Other non-current assets	13	332
Property, plant & equipment	11	38
		25,782
Current assets		
Other receivables	9	1,070
Cash and cash equivalents	18	3,328
		4,398
Total assets		30,180
Equity		
Share capital	15	579
Share premium	15	15,251
Other reserves	22	1,048
Accumulated deficit		(1,271)
Total equity		15,607
Non-current liabilities		
Long term loans	14	13,012
Current liabilities		
Trade and other payables	10	1,147
Current portion of long term debt	14	414
		1,561
Total liabilities and shareholders' equity		30,180

Consolidated Cash Flow Statement
For the period from 26 October 2005 to 31 December 2006
(presented in US$ 000)

	Notes	
Net cash from operating activities	19	(458)
Investing activities		
Purchase of intangible assets	12	(4,309)
Purchase of property, plant & equipment	11	(38)
Net cash used in investing activities		(4,347)
Acquisitions		
Purchase of subsidiary undertakings	21	(21,297)
Financing activities		
Proceeds from issue of share capital and share premium	15	15,830
Proceeds from long term borrowing	14	13,600
Net cash from financing activities		29,430
Net increase in cash and cash equivalents		3,328
Cash and cash equivalents at beginning of the period		—
Cash and cash equivalents at end of the period		3,328

Consolidated statement of changes in equity
For the period from 26 October 2005 to 31 December 2006
(presented in US$ 000)

	Notes	*Share Capital*	*Share Premium*	*Other Reserves*	*Currency Translation Reserve*	*Accumulated Deficit*	*Total*
Opening equity as at 26 October 2006		—	—	—	—	—	—
Loss for the period		—	—	—	—	(1,271)	(1,271)
Share capital issued	15	579	15,251	—	—	—	15,830
Discount on long term debt	14	—	—	588	—	—	588
Adjustments on translation of non-Dollar subsidiaries	22	—	—	—	460	—	460
Closing equity attributable to the company's equity holders		579	15,251	588	460	(1,271)	15,607

Notes to the Financial Information

1. Organisation and Principal Activities

Volga Gas plc (the "Company") is a public limited company registered in England and Wales. The principal activities and objectives of the Company and its subsidiaries (the "Group") are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Volga Region of the Russian Federation. Its registered office is at 27/28 Eastcastle Street, London, W1W 8DH.

2. Basis of Preparation of the Financial Statements and Significant Accounting Policies

Basis of Preparation

This consolidated financial information has been prepared in accordance with, and complies with, International Financial Reporting Standards ("IFRS") as adopted by the EU. The Company maintains its financial statements in accordance with IFRS in US dollars, which is the functional currency of the Company and its subsidiary, Woodhurst Holdings Ltd ("Woodhurst"). The presentational currency for the consolidated financial information is US dollars. The functional currency of the of the Group's Russian subsidaries is Russian Roubles ("RUR"). The Group's Russian operating subsidiaries maintain their accounting records in RUR and prepare their statutory financial statements in accordance with the Federal Law on Accounting. The financial information is based on statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The acquisition of Woodhurst has been treated as a reverse acquisition as the directors consider that Woodhurst has the power to govern the financial and operating policies of Volga Gas plc so as to obtain benefits from its activities. Therefore, the cost of the reverse acquisition has been determined by the fair value of the shares in Volga Gas after the transfer of shares in Woodhurst to Volga Gas. It is estimated by reference to the fair value of the net assets of Woodhurst and its subsidiaries at the acquisition date.

Consequently, the consolidated financial information has been prepared for the Group for the period beginning 26 October 2005 (the date on which Woodhurst was acquired by the Group's principal shareholder in preparation for the Volga Gas project) to 31 December 2006. As permitted under IAS 1 this accounting period exceeds one year as it is the Group's first accounting period. The financial information includes Woodhurst for the full period, OOO Pre-Caspian Gas Company ("PGK") from 15 May 2006 (date of acquisition) to 31 December 2006, OOO Gaznefeteservice ("GNS") from 9 September 2006 (date of acquisition) to 31 December 2006 and Volga Gas plc from 25 July 2006 (date of incorporation) to 31 December 2006. Woodhurst was incorporated on 25 February 2005 but its activities from incorporation to 26 October 2005 were insignificant. PGK was incorporated in October 2005 and was effectively dormant until shortly before its acquisition by Woodhurst (see Note 4). GNS was incorporated in April 2006.

The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period.

The Company is dependent upon the financial support of its investors until revenues from primary business activities are sufficient to satisfy its obligations and fully-finance its exploration and development program. The Company believes that the capital resources available at the balance sheet date are sufficient for the Company to continue as a going concern for the foreseeable future but only when taking in to account the receipt of the proceeds arising from the proposed admission to AIM and placing of shares. Accordingly, the financial information has been prepared on the assumption that the Company will continue as a going concern.

Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries), as set out below, made up to 31 December 2006. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its economic activities. This note should be read in conjunction with the explanation of the treatment of the acquisition set out above.

Subsidiary	*Nature of Operations*	*Percentage of Total Share Capital at 31 December 2006*
Woodhurst Holdings Ltd.	Intermediate Holding Company	100%
OOO Pre-Caspian Gas Company ("PGK")	Oil & gas exploration	100%
OOO Gaznefteservice ("GNS")	Oil & gas exploration and development	100%

The assets, liabilities, and contingent liabilities of a subsidiary are measured at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. The interest of minority shareholders is stated at the minority's proportion of the fair values and assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring them into line with those accounting policies used by other members of the Group.

All significant inter-company transactions and balances between Group entities are eliminated on consolidation. This includes inter-company balances, security holdings, sales and purchases, interest, dividends, etc. As consolidated statements are based on the assumption that they represent the financial position and operating results of a single business enterprise, such statements should not include gain or loss on transactions among the companies in the group. Accordingly, any inter-company profit or loss (excluding foreign exchange gain or loss on quasi-equity inter-company loans) on assets remaining within the group should be eliminated; the concept usually applied for this purpose is gross profit or loss.

Oil and Gas Assets

The Company applies the Successful Efforts method of accounting for Exploration and Evaluation ("E&E") costs, having regard to the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources."

Pre-Exploration/Licence Expenditure

Costs incurred in appraisal or prior to the acquisition of a licence are expensed except where the costs are directly related to the successful acquisition of a licence at auction where those costs are a direct part of the auction bidding procedure.

Exploration and Evaluation Assets ("E&E")

Under the Successful Efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised in well-specific exploration or more commonly licence area cost centres, as appropriate, pending determination. Expenditure incurred during the exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process is not complete.

Exploration and Evaluation Costs

Costs of E&E are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, processing and interpretation, and exploratory and appraisal drilling are capitalised as intangible E&E assets.

Tangible assets used in E&E activities (such as the Company's vehicles, drilling rigs, seismic equipment and other plant and property and equipment used by the Company's exploration function) are classified as property, plant and equipment. However, to the extent that a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilised in E&E activities, together with materials consumed during the E&E phases.

Directly attributable overheads include only those overheads directly and specifically attributable to a specific E&E activity. General administration costs will be expensed directly and will not be proportionately attributed to E&E activities.

E&E costs are not amortised until commencement of production.

Treatment of E&E Assets at the Commencement of Production

Intangible E&E assets related to each cost centre are carried forward until the existence, or otherwise, of commercial reserves has been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value, after any impairment loss, of the relevant E&E assets is transferred to tangible fixed assets. If however, commercial reserves have not been discovered, the capitalised costs are charged to expenses after the conclusion of appraisal activities.

Development and Production Assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them to production together with E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in the accounting policy above.

The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised and the cost of recognising provisions for future restoration and decommissioning.

Depletion of Producing Assets

The net book values of producing assets will be depleted generally on a field-by-field basis using the unit-of-production method by reference to the ratio of production in the period and the related commercial reserves of the field, taking in to account future development expenditures necessary to bring those reserves to production.

Producing assets will be generally grouped with other assets that are dedicated to serving the same reserves for depletion purposes, but will be depleted separately from producing assets that serve other reserves.

Pipelines will be depreciated on a unit of throughput basis.

Impairment of Development and Production Assets

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its carrying recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to future value of the future net cash flows expected to be derived from production of commercial reserves. The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped together where the cash flows of each field are interdependent.

Decommissioning

Provision for decommissioning will be recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision will be also recognised as part of the cost of the related property, plant and equipment. The amount recognised will be the estimated cost of decommissioning, discounted to its net present value, and reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates will be dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision will be included as a finance cost.

Property, Plant and Equipment

Property, plant and equipment are carried at the historical cost of acquisition or construction after deduction of accumulated depreciation, depletion, and impairment.

Other property, plant and equipment not associated with exploration and production activities are carried at cost less accumulated depreciation. These assets are also evaluated for impairment. Depreciation of these assets is calculated on a straight line basis as follows:

Machinery and equipment	6 – 10 years
Office equipment in excess of $5,000	3 – 4 years
Vehicles and other	2 – 7 years

Acquisitions, Asset Purchases and Disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the business meets the definition of a business combination.

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 and no deferred tax gross up arises, and the consideration is allocated to the assets and liabilities purchased on an appropriate basis.

Proceeds on 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 income statement.

Taxation

Income tax represents the sum of tax currently payable and deferred tax. The tax payable is based on taxable profit during the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable or accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and in interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off corporation tax assets against corporation tax liabilities and when they relate to income taxes levies by the same tax authority and the Group intends to settle its current tax liabilities on a net basis.

Translation of Foreign Currencies

Transactions denominated in foreign currencies, being currencies other than US$, are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the exchange rate prevailing at the period end. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the prevailing at the date when the fair value was determined. Non-monetary

assets held at historic cost are translated at the date of purchase and are not retranslated. Currency translation adjustments arising on the restatement of opening net assets of foreign subsidiaries, together with differences between the subsidiaries' results translated at average rates versus closing rates, are taken directly to reserves. All resulting exchange differences are classified as equity until disposal of the subsidiary. On disposal the cumulative amounts of the exchange differences are recognised as income or expenditure.

Financial Instruments

Financial instruments are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade Receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated unrecoverable amounts.

Borrowings

All borrowings are initially recorded at fair value. Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Where borrowings are made at rates of interest below the normal commercial rate, borrowings are discounted to fair value based on market rates of interest for similar arrangements. Differences arising on discounting are recorded as separate component of equity.

Trade Payables

Trade payables are stated at their nominal value.

Cash and Cash Equivalents

Cash comprises cash-in-hand and deposits repayable on demand, less overdrafts repayable on demand. Cash equivalents comprise funds held in term deposit accounts with a maturity not exceeding three months.

Pensions

Contributions to employee personal pension schemes are charged to operating profit on an accrual basis. For those employees in Russia there are mandatory company contributions to the state pension scheme, which are also charged to operating profit on an accrual basis.

New Accounting Developments

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and need not be early adopted:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29'
- IFRIC 8, 'Scope of IFRS 2'
- IFRIC 9, 'Reassessment of Embedded Derivatives'
- IFRIC 10, 'Interim Financial Reporting and Impairment'
- IFRIC 11, 'IFRS 2 — Group and Treasury Share Transactions'
- IFRIC 12, 'Service Concession Arrangements'
- IFRS 8, 'Operating Segments'

The following new standards and amendments to standards have been issued but are not effective for 2006 and need not be early adopted:

1. IAS 1: Additional disclosure requirements in connection with the Group's objectives, policies and processes for managing capital and data about what the group regards as capital.

2. IFRS 7: Additional disclosure requirements to enable users of the financial statements to evaluate the significance of financial instruments and their impact on the group's financial position and performance.

IFRS 7 requires more disclosures in relation to all risks arising from financial instruments, including credit risk and liquidity risk. The standard also requires a sensitivity analysis of market risks and how changes for each type of market risk would have impacted profit or loss in the period.

3. Critical Accounting Judgements, and Key Sources of Uncertainty

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgments that have the most significant effect on the amounts recognised in the financial information.

Fair Value of E&E Assets Acquired

The acquisition method requires assets and liabilities acquired, including E&E assets, to be included at their fair value. The actual value that will be realised, if any, from an E&E asset is inherently uncertain and reflects a wide range of factors (including but not limited to: geographical and geophysical factors, future costs and commodity prices, the duration of the licence and its terms and the availability of the financial and other resources needed to progress exploration and development activities).

Recoverability of Exploration and Evaluation Costs

E&E assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgment as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to the asset in question, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Note 12 discloses the carrying amounts of the Group's E&E assets.

4. Acquisitions

a. OOO Pre-Caspian Gas

In May 2006, Woodhurst Holdings Ltd., ("Woodhurst") acquired a 100 per cent. interest in OOO Pre-Caspian Gas Company ("PGK") from ZAO Vesla ("Vesla") for US$5,000. The shareholders of Vesla owned an aggregate 26 per cent. stake in Woodhurst Holdings at the time of acquisition. Immediately prior to the acquisition Vesla acquired the 51 per cent. of PGK which it did not already own from LUKoil-Nizhnevolzhskneft.

b. OOO Gaznefteservice

In September 2006, Woodhurst acquired a 100 per cent. interest in OOO Gaznefteservice ("GNS") from ZAO Trans Nafta ("Trans Nafta") for RUR10,000. At signing, Woodhurst loaned GNS RUR569 million, which was used to repay various loans to Trans Nafta and Ms Elena Kondratchuk. GNS also entered in to an offtake agreement with Trans Nafta by which Trans Nafta agreed to sell all the gas produced from the Vostochny Makarovskoye licence area at a price not less than RUR1,600 per thousand cubic metres ("mcm").

c. Volga Gas plc

On 29 September 2006 the Group acquired 100 per cent. of the issued share capital of Volga Gas plc via a reverse takeover. Volga Gas is registered in the United Kingdom and is the parent company of Woodhurst Holdings Ltd. This transaction was accounted for by the purchase method of accounting.

There was no goodwill arising on the acquisition of Volga Gas plc. It was formed and acquired purely to act as a group holding company for Woodhurst Holdings Ltd., and indirectly PGK and GNS.

Volga Gas plc contributed $40,000 to the Group's net loss for the period between the date of acquisition and the balance sheet date.

5. Business and Geographical Segment Reporting

In the opinion of the Directors, the operations of the Company comprise one class of business, being oil and gas exploration, development and production and in only one geographic area; the Russian Federation.

6. Operating Loss

Operating loss is stated after charging:

	31 December 2006 US$ 000
Salaries	388
Communications	8
Rent	32
Legal fees	106
Audit fees	45
Travel and transport	45
Other	355
Total Administration Costs	979

In addition to the above, fees charged by the Group's auditors in respect of corporate finance services, in respect of the Admission to AIM, of US$130,464 in the period have been carried forward and included in prepayments in Note 9.

7. Staff Costs

The average monthly number of employees (including Executive Directors) employed by the Group was:

	31 December 2006
Executive Directors	2
Exploration and Production	5
Administration and Support	5
	12

Their aggregate remuneration comprised:	*31 December 2006 US$ 000*
Wages and salaries	345
Payroll taxes & social contribution	43
	388

No remuneration was paid to directors during the period and no directors belong to pension schemes. Fees paid to a related party during the period in respect of services provided by two directors amounted to US$163,973 (see Note 17).

8. Loss per ordinary share

Losses per share have been calculated as follows:

	US$
Net loss ($000)	(1,271)
Issued shares (000s)	269,085
Loss per share	4.72

9. Other Receivables

	31 December 2006 US$ 000
Prepayments relating to proposed AIM listing	769
Other accounts receivable	6
Prepayments to suppliers and contractors	295
	1,070

10. Trade and Other Payables

	31 December 2006 US$ 000
Trade and other payables	1,147
	1,147

11. Property, Plant and Equipment

Property, plant and equipment comprises motor vehicles carried at cost. No depreciation was charged in the period as the amount was insignificant.

12. Intangible assets

	31 December 2006 US$ 000
Karpensky license and evaluation & exploration*	2,264
Vostchny Makarovskoye licence and evaluation & exploration	21,215
Pre Caspian license and evaluation & exploration	1,489
Other license related payments	222
Total Intangible Assets	25,190

* Includes US$1,600,000 paid by PGK to Lukoil-Nizhnevolzhsk to acquire seismic data, well logs and associated reports in respect of the Karpenskiy licence area. Management has valued this information and the licence at cost due to the significant uncertainty associated with any other method of valuing this asset.

13. Other non-current assets

	31 December 2006 US$ 000
VAT recoverable	332
	332

Management believes that it will not recover VAT specific to licence and evaluation & exploration contractors' payments until these licences are revenue producing. Therefore this VAT is classified as a non current asset.

14. Loans

All loans outstanding at 31 December 2006 were denominated in US dollars.

Current

The current portion of long term debt was as follows at 31 December 2006.

	31 December 2006 US$ 000
Current portion of long-term debt	414

US$414,000 represents the short-term portion of long term loans received from Cavendish Nominees Ltd as at 31 December 2006.

Non-Current

Long-term debt was as follows at 31 December 2006.

Cavendish Nominees Ltd. At 31 December 2006, loans from Cavendish Nominees Ltd, the Group majority shareholder, as nominee for the Baring Vostok Private Equity Fund III (defined in note 17), consisted of US dollar denominated loans totalling US$13,600,000 which mature between May and September 2009. Of this amount, US$2,600,000 was provided in accordance with a shareholder's agreement and financing schedule with interest rates of 1 per cent. Because the above portion of non-current debt carries less than a market interest rate this portion is carried at fair value in the amount of US$2,012,000 which was determined by discounting expected cash flows at a 10 per cent. interest rate, and the fair value discount of $588,000 was credited to shareholders' equity as part of other reserves. The

other loan of US$11,000,000 bore market interest rates of 10 per cent. Total fair value of long term debt at 31 December 2006 is US$13,012,000. Long term arrangements with Cavendish Nominees Ltd, provide early settlement options without penalties.

	31 December 2006 US$ 000
US$ denominated long-term loans from related parties	13,600
Less: Fair value discount	(588)
Total Long-Term debt	13,012

The Group's loans have the following expiry dates:

US$ 000	*Expiry date*
500	15 May 2009
500	16 June 2009
1,600	30 June 2009
9,000	19 August 2009
2,000	15 September 2009

Interest on these loans accrued on a monthly basis and is included in the profit or loss for the period.

	31 December 2006 US$ 000
Interest accrued on loans from Cavendish Nominees Ltd	414
Total interest expense	414

15. Shareholders' Equity

Increases in ordinary share capital. On 13 February 2006 Vlarenhill Ltd ("Vlarenhill"), acquired 100,000 shares of Woodhurst from Cavendish Nominees Ltd which represented 100 per cent. of Woodhurst's authorised and issued share capital (see also Note 17).

On 20 February 2006, Vlarenhill transferred 8,670 Woodhurst shares to Mr V. Lepilin (see Note 17).

On 6 March 2006, Cavendish Nominees Ltd acquired 74,000 Woodhurst shares from Vlarenhill (Note 17).

On 8 March 2006, Woodhurst issued an additional 1 share to Vlarenhill at US$ 1 nominal and a premium of US$1,599,999 (Note 17).

On 11 August 2006, Woodhurst issued an additional 162,800 shares to Cavendish Nominees Ltd at US$1 nominal and a premium of US$66.57 per share for a total cash consideration of US$ 11,000,000 (Note 17).

On 29 September 2006, the shareholders of Woodhurst entered into a share exchange agreement with the Company, whereby the Company acquired 100 per cent. of the share capital of Woodhurst in exchange for 262,801 shares of the Company. Of these, 236,800 shares of the Company were issued to Cavendish Nominees Ltd, 17,331 shares of the Company were issued to Vlarenhill and 8,670 shares of the Company were issued to Mr V. Lepilin (Note 17).

On 30 October 2006, Volga Gas issued an additional 44,400 shares at GBP 1 nominal and a premium of GBP 35.12 to Cavendish Nominees Ltd (Note 17).

There have been no distributions to shareholders.

The following table summarises the movement in the share capital and share premium of Volga Gas plc during the period:

	Number of shares	*Share capital US$ 000*	*Share premium US$ 000*
– on 29 September 2006*	262,801	495	12,205
– on 30 October 2006	44,400	84	3,046
At 31 December 2006	307,201	579	15,251

* As explained in Note 4, The Company entered into a share exchange agreement with Woodhurst.

Authorised and issued share capital of Volga Gas plc comprises 307,201 ordinary shares of GBP 1 each.

16. Taxes

Deferred income tax. Differences between IFRS and Russian statutory tax regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting and for income tax purposes. Deferred tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which unused tax losses could be utilised. Under current regulations set by the Russian Tax Code in 2006 legal entities may carry forward tax losses for ten years subject to maximum utilisation of 50 per cent. of the total amount of future taxable profit each year.

The movement in deferred tax assets and liabilities to the period ended 31 December 2006 was as follows:

	31 December 2006 US$ 000
Tax losses of Russian legal entities carried forward	117
	117

17. Related Party Transactions

In 2006, the Group had significant activities with companies related to its shareholders in connection with purchases and sales of equity securities. Related parties enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group had transactions with the following related parties during the period:

Related Party	*Nature of Relationship*	*Nature of Business*	*Transaction Date*	*Transaction*	*Transaction Value*
Cavendish Nominees	Controlling Shareholder	Holding Company	13-Feb-2006	Transfer of shares	to US$1 Vlarenhill
Vlarenhill	Shareholder	Holding Company	20-Feb-2006	Transfer of shares	to US$ 1 Lepilin V.M.
Cavendish Nominees	Controlling Shareholder	Holding Company	06-Mar-2006	Purchase of shares	US$2,400,000 from Vlarenhill
Vlarenhill Ltd	Shareholder	Holding Company	08-Mar-2006	Subscription for shares	US$1,600,000
Cavendish Nominees	Controlling Shareholder	Holding Company	11-Aug-2006	Subscription for shares	US$11,000,000
PGK	Affiliated Company	Oil and gas exploration company	16-Feb-2006	Loan to PGK (1%)	US$1,600,000*
Cavendish Nominees	Controlling Shareholder	Holding Company	20-Apr-2006	Loan to Woodhurst (1%) (Note 14)	US$500,000
PGK	Affiliated Company	Oil and gas exploration company	21-Apr-2006	Loan to PGK (1%)	US$450,000*
Vesla	Affiliated Company	Holding Company	19-May-2006	Acquisition of PGK from Vesla which has common shareholders with Woodhurst.	US$5,000**
Cavendish Nominees	Controlling Shareholder	Holding Company	15-June-2006	Loan to Woodhurst (1%) (Note 14)	US$500,000
Cavendish Nominees	Controlling Shareholder	Holding Company	26-June-2006	Loan to Woodhurst (1%) (Note 14)	US$1,600,000
Vlarenhill	Shareholder	Holding Company	07-July-2006	E & E Services	US$200,000
Cavendish Nominees	Controlling Shareholder	Holding Company	11-Aug-2006	Loan to Woodhurst (10%) (Note 14)	US$11,000,000
Cavendish Nominees	Controlling Shareholder	Holding Company	30-Sep-2006	Subscription for shares	US$1,589,280
Granite Consulting	Affiliated with Controlling Shareholder	Services Company	31-Dec-2006	Salaries, rent, services	US$206,000**

Cavendish Nominees is a nominee holding company which holds investments for, inter alia, three limited partnerships, Baring Vostok Private Equity Fund III L.P.1, Baring Vostok Private Equity Fund III L.P.2 and Baring Vostok Fund III Co-Investment L.P. (together, referred to as "Baring Vostok Private Equity Fund III").

Vlarenhill Ltd., is a shareholder of the Company and is beneficially owned by Messrs Koshcheev and Zadov. ZAO Vesla is a Russian company which is owned by Messrs. Koshcheev, Zadov and Lepilin. All three are beneficial shareholders of the Company

* These loans were provided before Woodhurst acquired PGK and whilst it was 49 per cent.-owned by Messrs. Koshcheev, Zadov and Lepilin who were also shareholders of Woodhurst.

** These amounts were unpaid at 31 December 2006 and included in trade and other payables.

Granite Consulting Ltd., is a Cyprus company which performs certain administrative functions for Baring Vostok Capital Partners. Messrs Ivanov and Stobie received remuneration totalling US$163,973 from Granite Consulting.

The directors regard Baring Vostok Private Equity Fund III as being the ultimate controlling shareholder. The general partner in and investment adviser to Baring Vostok Private Equity Fund III is Baring Vostok Capital Partners ("BVCP"), and accordingly BVCP exercises effective control of the Company.

18. Cash and Cash Equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank.

19. Cash flows used in operating activities

	26 October 2005 to 31 December 2006 US$ 000
Loss for the period before tax	(1,388)
Adjustments for:	
Interest accrued	414
Foreign exchange differences	456
Operating cash prior to working capital	(518)
Increase in trade and other receivables	(1,070)
Increase in non-current VAT debtor	(17)
Increase in payables	1,147
Net cash outflow from operating activities	(458)

20. Contingencies and Commitments and Operating Risks

Operating environment

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Capital commitments.

PGK. PGK has agreed a work programme with the Saratov branch of the Agency for Subsoil Use ("Rosnedra"), whereby it is required to acquire 100km^2 of seismic data in 2006, 160km^2 in 2007, 140km^2 in 2008 and drill 10,000m of appraisal wells and 6,000m of supra-salt structural wells. Management currently estimate such expenditure to be approximately US$44,000,000. In accordance with the licence agreement for the Pre-Caspian license area, PGK is required to acquire 400km of 2D seismic in 2007/2008 and 600km in 2008/2009. The cost of seismic acquisition between 2007 and 2009 is expected to be US$3,700,000.

At the balance sheet, date PGK had capital expenditure contracts with Schlumberger Logelco Inc., for US$731,600 (including Russian value added tax) for the interpretation and processing of 3D seismic data from the Karpenskiy license area of which US$173,000 is shown as a prepayment. No further amounts are due under this contract until 100km^2 of 3D seismic data is delivered to Schlumberger. Additionally, PGK has a capital expenditure contract with Saratovneftegeofizika for RUR40,000,000 (approximately US$1,287,440 at closing exchange rate) of which RUR15,000,000 (approximately US$558,834 at applicable exchange rate) for the acquisition of 100km^2 of 3D seismic was included as an intangible asset on the balance sheet but the full amount was not provided for in the financial statements. No further amounts are due under this contract until 100km^2 of 3D seismic data has been acquired and accepted.

GNS. In accordance with the Vostochny Makarovskoye licence agreement, GNS must drill at least one well by July 2008. Management currently estimates such expenditure to be US$4,000,000.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review, but under certain circumstances, reviews may cover longer periods.

As at 31 December 2006, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Restoration, rehabilitation, and environmental costs

The Group operates in the upstream oil 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 posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligation 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 which are already accrued and which would have a material adverse effect on the financial position of the Group.

Oilfield licences

The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its oilfield licences. Management of the Group correspond with governmental authorities to agree on remedial actions, if necessary, to resolve any findings resulting from these reviews. Failure to comply with the terms of a licence could result in fines, penalties, licence limitation, suspension or revocation. The Group's management believes any issues of non-compliance will be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group.

The Group is in breach of various obligations under its Karpenskiy licence, principally in relation to the relevant exploration schedule and certain related works. As a result of these breaches there is a risk that the relevant authorities may suspend, restrict or terminate the respective licences. However, many of these breaches are historical and inherited from the previous licence holders and the Group is in the process of attempting to mitigate some of these breaches by amending its licence agreement.

Management believes that in practice the relevant authorities rarely suspend or restrict the licences, especially at the exploration stage, and tend to terminate licences only in the event of continuous non-compliance and the failure of the licence holder to remedy breaches. The Group is attempting to comply with its licence requirements and has not received any official warnings or notifications about continuous non-compliance or any risk of suspension, restriction or termination.

Foreign exchange risk

The Group primarily operates within Russia and the combination of RUR denominated costs and sales and US dollar denominated debt gives rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate foreign exchange risks.

The following table shows the currency structure of assets and liabilities at 31 December 2006.

	Rubles US$ 000	*US Dollars US$ 000*	*Sterling US$ 000*	*Total US$ 000*
Assets				
Cash	243	54	3,031	3,328
Prepayments	185	517	368	1,070
Intangible assets	25,190			25,190
Other assets	592			592
Total assets	26,210	571	3,399	30,180
Liabilities				
Current Liabilities	112	1,077	372	1,561
Long Term Liabilities		13,012		13,012
Total liabilities	112	14,089	372	14,573

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The primary sources of the Group's funds are low interest loans received from its principal shareholder. The Group obtains funds from, and deposits cash surpluses with, banks at current market interest rates, and does not utilise hedging instruments to manage exposure to interest rate volatility. The details of interest rates associated with the Group's borrowings are discussed in Note 14. The carrying value of receivables, payables and borrowings approximate their into fair values.

21. Acquisition of OOO "Gaznefteservice"

In September 2006 the Group acquired 100% of the issued share capital of OOO "Gaznefteservice" for total cash of RUR569,697,817 (approximately US$21,297 million at applicable exchange rate). The fair value of identified assets and liabilities at the time of acquisition, which were equivalent to their book values, and the resulting difference has been determined as follows:

	31 December 2006 US$ 000
Intangible assets	20,881
Trade and other receivables	312
Total assets	21,193
Trade payables	1
Total liabilities	1
Net assets required	21,192
Satisfied by cash payment	(21,297)
Goodwill	105

22 Other Reserves — Group

	31 December 2006 US$ 000
Discount on long term loan from related party	588
Adjustments on translation of non-Dollar subsidiaries	460
	1,048

The difference between the nominal and fair value of long term debt received from a related party has been credited to other reserves.

23. Other Gains and Losses — Group and Company

	31 December 2006 US$ 000
Foreign exchange gain	5
Total other gains and losses	5

Foreign exchange gain represents net effect from translation of Volga Gas plc assets and liabilities denominated in British Pounds.

24. Subsequent Events

On January 15 2007, Woodhurst issued an additional 1 share to Volga Gas plc at US$1 nominal and a premium of US$749,999 which was paid in cash.

On March 5 2007, Woodhurst issued an additional 1 share to Volga Gas plc at US$1 nominal and a premium of US$749,999 which was paid in cash.

On 21 March 2007, Woodhurst Holdings Limited entered into a loan agreement to lend RUR13,000,000 to OOO Prikaspiiskaya Gazovaya Kompaniya at an interest rate of 1.0 per cent. per annum. After 3 August 2007 Woodhurst may give 5 days notice and increase the interest rate to 17 per cent. per annum. Overdue amounts will accrue interest at a further 2 per cent. per annum. The loan is repayable on 21 March 2010, but after 3 April 2007 may be repayable in whole or in part with 10 days notice.

On 29 March 2007, Woodhurst Holdings Limited entered into a loan agreement to lend RUR7,500,000 to OOO Gasnefteservice at an interest rate of 1.0 per cent. per annum. After 12 August 2007 Woodhurst may give 5 days notice and increase the interest rate to 17 per cent. per annum. Overdue amounts will accrue interest at a further 2 per cent. per annum. The loan is repayable on 29 March 2010, but after 12 August 2007 may be repayable in whole or in part with 10 days notice.

On 19 April 2007, Volga Gas plc issued 87,516 1p shares to Mikhail Ivanov at nominal value.

On 19 April 2007, Volga Gas plc issued 43,766 1p shares to Alistair Stobie at nominal value.

On 19 April 2007, Volga Gas plc issued 5,000 1p shares to Stephen Ogden at nominal value.

On 19 April 2007, Volga Gas plc issued 5,000 1p shares to Ronald Freeman at nominal value.

PART VIII

TERMS OF THE LICENCES

1. Karpenskiy Licence

PGK holds a combined subsoil licence No. SRT 13522 NR for the exploration and production of gas, oil and condensate at the Karpenskiy field in the Saratov region, within the boundaries specified in the licence agreement. The subsoil licence was registered with the Federal Agency on Subsoil Use (Saratov Region Department) on 16 March 2006. The licence expires on 15 August 2021. The main terms of the licence are contained in a licence agreement for the use of subsoil resources, which, amongst other documents, forms part of the licence. The licence agreement includes, *inter alia*, the following obligations of the licensee for the period starting from 1996, when the original Karpenskiy Licence was issued:

- 1996 — spot seismic sounding of 80 physical spots and reinterpretation of existing seismic data;
- 1996 to 2001 — exploration drilling to a total depth of 43,200 metres;
- 1996 to 1997 — 572km of 2-D seismic and 400km^2 3-D seismic;
- 1997 — 150km of electromagnetic survey;
- 1997 to 2005 — RUR385,000 million of environmental expenditures;
- 1998 — structural drilling to a depth of 6,000 metres;

Other obligations under the licence agreement include registration of exploration works with the relevant authorities, accounting for discovered reserves and resources and recultivation of land plots used in the exploration and production.

As of the date of this document, PGK is required to comply with the following historical obligations: 3-D seismic acquisition — 378km^2, exploration drilling — 28,500 metres and structural drilling — 6,000 metres.

The Company is currently seeking to amend the licence agreement to accommodate the ongoing seismic work on the field by providing for the following work schedule:

- 2006 to 2007 — 260km^2 of 3-D seismic (note 3-D);
- 2007 to 2008 — 10,000 metres of exploration drilling;
- 2007 to 2010 — 6,000 metres of structural drilling;
- 2008 to 2009 — 140km^2 of 3-D seismic (note 3-D);
- 2009 to 2014 — 21,900 metres of exploration and production drilling.

The proposed amendment would also exclude the provision relating to the bonus payment in the amount of RUR1931.61 million and certain other obligations currently provided for by the licence agreement.

The main terms of the licence include the drilling of wells, detailed seismic works, protection of the environment and mandatory payments.

2. Vostochny-Makarovskoye Licence

GNS holds a combined subsoil licence No. VLG 01323 NE for the production of hydrocarbons at the Vostochny-Makarovskoye field in the Volgograd region, within the boundaries specified in the licence agreement. The subsoil licence was registered with the Federal Agency on Subsoil Use (Volgograd Region Department) on 12 July 2006. The licence expires on 1 July 2026. The main terms of the licence are contained in a licence agreement for the use of subsoil resources, which, amongst other documents, forms part of the licence. The main terms of the licence include the drilling of wells, detailed seismic works, protection of the environment, reporting and mandatory payments. The minimum work programme set forth in article 4 of the licence agreement provides, *inter alia*, for the following:

- by 13 July 2008, complete at least one exploration well;
- by 13 July 2011, complete appraisal of the field, and submit a report detailing the results of the appraisal to the State Commission for Mineral Resources; and
- within one year from of the appraisal of the reserves and resources by the State Commission for Mineral Resources, to prepare and submit a development plan for the field.

The licence agreement provides for an escalating scale of periodic payments for research and exploration activities conducted during the term of the licence, and states that the licencee must pay all relevant taxes and land use fees imposed under applicable laws.

All of the described terms of the licence agreement are stipulated to be material, and accordingly their violation may lead to termination, suspension or limitation of the licencee's subsoil rights.

3. Pre-Caspian Licence

PGK holds a combined subsoil licence No. SRT 01112 NR for the exploration and production of hydrocarbons in the Pre-Caspian field in the Saratov region, within the boundaries specified in the licence agreement. The subsoil licence was registered with the Federal Agency on Subsoil Use (Saratov Region Department) on 24 November 2006. The licence expires on 23 November 2031. The main terms of the licence are contained in a licence agreement for the use of subsoil resources, which, amongst other documents, forms part of the licence. The main terms of the licence include the drilling of wells, detailed seismic works, protection of the environment, reporting and mandatory payments. The minimum work programme set forth in article 4 of the licence agreement provides, *inter alia*, for the following:

- prepare and approve field research by 24 November 2007;
- complete acquisition of 1,500km 2-D seismic according to the following schedule:
  - — by 24 November 2008, 400km;
  - — by 24 November 2009, 600km;
  - — by 24 November 2010, 500km.
- by 24 November 2009, commence drilling exploration wells, to be completed:
  - — by 24 November 2010, two exploration wells;
  - — by 24 November 2011, one exploration well.

Within five years of the date of registration of the Pre-Caspian Licence, PGK must complete the research programme outlined above and submit to the Federal Agency on Subsoil Use (Saratov Region Department) a report of the work completed.

The agreement provides that, by 24 November 2011, all subsoil rights under the licence will terminate, with the exception of discovered deposits which the licencee intends to explore and produce, or deposits with respect to which the licencee has submitted timely notice of intention to continue exploration works.

In the event of discovery of hydrocarbons in the licence area, the licencee will have to comply with established drilling, planning and reporting obligations.

The licence agreement provides for a growing scale of periodic payments for research and exploration activities conducted during the term of the licence, and states that the licencee must pay all relevant taxes and land use fees.

All of the described terms of the licence agreement are stipulated to be material, and accordingly their violation may lead to termination, suspension or limitation of the licencee's subsoil rights.

The licence agreement provides for a one-off payment in the amount RUR39.2 million payable within 30 days from the issuance of the licence. The entire RUR39.2 million has been paid.

PART IX

ADDITIONAL INFORMATION

1. Incorporation and principal activities

1.1 The Company was incorporated as a public company with limited liability in England and Wales on 25 July 2006 under the Companies Act 1985 (as amended) (the "Companies Act 1985"), with registered number 5886534 and with the name Volga Gas plc.

1.2 The address of the registered office of the Company is c/o Capita Company Secretarial Services, 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE, United Kingdom and its telephone number is +44 (0)20 7800 4909. The principal legislation under which the Company operates is the Companies Act 1985 and the Companies Act 2006 (as amended) (the "Companies Act 2006" and together with the Companies Act 1985, the "Companies Act") and the regulations made thereunder.

1.3 The liability of the Company is limited.

1.4 The Company owns and conducts business through the following three companies, all of which are wholly owned subsidiaries:

1.4.1 Woodhurst Holdings Limited (intermediate holding company)

Full name	Woodhurst Holdings Limited
Date of acquisition by the Company	29 September 2006
Country of Registration	Cyprus
Date of registration	25 February 2005
Registration Number	HE 157979
Foreign Entity Code (KIO)	21956
Registered address	2-4 Archbishop Makarios Avenue III, Capital Center, 9th Floor, PC 1065, Nicosia, Cyprus
Mailing address	2-4 Archbishop Makarios Avenue III, Capital Center, 9th Floor, P.C. 1065, Nicosia, Cyprus
Charter capital	262,803 shares of US$1.00
Ownership by the Company	100 per cent.
Board of Directors	Arta Antoniou, Spyroulla Papaeracleous
President	Arta Antoniou

1.4.2 Pre-Caspian Gas Company

Full name	Limited Liability Company Pre-Caspian Gas Company
Date of acquisition by the Company	19 May 2006
Country of registration	Russia
Date of registration	15 November 2005
Main State Registration Number (OGRN)	1056415018934
Taxpayer's Identification Number (INN)	6452914635

Registered address	129 Kraynyaya Street, Saratov, Saratov region, 410010, Russian Federation
Mailing address	129 Kraynyaya Street, Saratov, Saratov region, 410010, Russian Federation
Charter capital	RUR100,000
Ownership by the Company	100 per cent.
General Director	Vyacheslav Lepilin

1.4.3 Gaznefteservice

Full name	Limited Liability Company Gaznefteservice
Date of acquisition by the Company	8 September 2006
Country of Registration	Russia
Date of registration	12 April 2006
Main State Registration Number (OGRN)	1063453030288
Taxpayer's Identification Number (INN)	3407009122
Registered address	24 Pushkina Street, Zhirnovsk, Zhirnovsky district, Volgograd region, 403791, Russian Federation
Mailing address	24 Pushkina Street, Zhirnovsk, Zhirnovsky district, Volgograd region, 403791, Russian Federation
Charter capital	RUR10,000
Ownership by the Company	100 per cent.
General Director	Vyacheslav Lepilin

2. Share Capital of the Company

2.1 General

On incorporation, the authorised share capital of the Company was £50,000 comprising 50,000 shares of £1 each. The issued share capital was £2 comprising 2 shares of £1 each. Those 2 shares were issued and credited as fully paid to the subscribers to the Memorandum of Association, Lea Yeat Limited and Cargil Management Services Limited, who transferred the shares to Cavendish Nominees and Baring Vostok Nominees Limited on the day of incorporation. On 29 September 2006 the Company increased its share capital to £262,801 comprising 262,801 shares of £1 each, and entered into a share exchange agreement with the shareholders of Woodhurst, whereby the Company agreed to allot the remaining unissued share capital of the Company, comprising 262,799 shares, to the shareholders of Woodhurst, in exchange for the transfer of the entire issued share capital of Woodhurst, being 262,801 shares. As part of this transfer, Vlarenhill Limited ("Vlarenhill") transferred 74,000 shares in Woodhurst to the Company. On the same date, Baring Vostok Nominees Limited transferred its one share in the Company to Cavendish Nominees. On 29 October 2006 the Company resolved to increase its share capital by £44,400 by the creation of 44,400 shares of £1 each, without pre-emption right, but ranking *pari passu* in all other respects with the existing Shares of the Company, to a total authorised share capital of £307,201, and on 29 October 2006 allotted 44,400 shares to Cavendish Nominees at a premium of £34.12 per share. At a meeting of the shareholders of the Company on 22 March 2007, the authorised share capital of the Company was increased to £3,307,201 by the creation of 3,000,000 shares of £1 each. At the

same meeting each share of £1 was sub-divided into 100 shares of 1p each. On 19 April 2007 the shareholders of the Company resolved to grant the Directors authority to allot shares up to an aggregate value of £520,000, of which £385,000 could be issued non-preemptively, in accordance with sections 80(1) and 89 of the Companies Act 1985. Further, on 19 April 2007 the Company allotted 87,516 Shares to Mikhail Ivanov, 43,766 Shares to Alistair Stobie, 5,000 Shares to Ronald Freeman and 5,000 Shares to Stephen Ogden.

As at the date of this document and as at the date of Admission, the authorised and Issued Share Capital of the Company is and will be as follows:

	Authorised Share Capital		*Issued (fully paid) Share Capital*	
	£	*No*	*£*	*No*
As at 31 December 2006	307,201	307,201	307,201	307,201
As at the date of this document	3,307,201	330,720,100	308,614	30,861,382
As at the date of Admission	3,307,201	330,720,100	516,947	51,694,715

2.2 Shares

The Placing Shares have been issued and allotted in registered form, conditional upon Admission, pursuant to a resolution of the Board dated 19 April 2007. Save as disclosed in this document, no Share or loan capital of the Group is currently proposed to be issued or is under option or is agreed, conditionally or unconditionally, to be put under option. On Admission, the Placing Shares will rank *pari passu* in all respects with the existing Shares including the right to receive all dividends and other distributions declared, made or paid after Admission. The Optional Shares, if any, issued pursuant to the exercise of the over-allotment option granted to KBC Peel Hunt on behalf of the Joint Lead Managers will rank pari passu in all respects with the existing Shares (including, for these purposes, the Placing Shares) including the right to receive all dividends and other distributions declared, paid or made after the closing date for the issue of such Shares.

The holders of Shares are entitled to one vote for each Share held of record on all matters submitted to a vote of the shareholders. Holders of Shares are entitled to receive rateably only those dividends as may be declared by the Board out of funds legally available, as well as any distributions to the shareholders. Details of the Company's dividend policy are set out in "Part II — The Company — Dividend Policy."

In the event of the Company's liquidation, dissolution or winding up, holders of Shares are entitled to Share pro rata in all of the Company's assets remaining after the Company pays its liabilities.

The rights attaching to the Shares provided for in the Company's Memorandum of Association and Articles of Association are set out in paragraph 3 of this "Part IX — Additional Information — Memorandum and Articles of Association." The rights attaching to the Shares are also subject in all respects to applicable UK law.

The Company does not have and has no present plan to authorise or issue preferred Shares, any other class of equity securities or securities convertible into or exchangeable for any class of its equity securities.

3. Memorandum and Articles of Association

3.1 Memorandum of Association

The following is a brief summary of certain material provisions of the Company's memorandum of association (the "Memorandum of Association") as will be in effect immediately prior to the Placing:

3.1.1 The Company is to be a public limited company.

3.1.2 The purpose of the Company is to carry on the business of exploring and searching for, prospecting, examining and developing in any and all ways natural gas, condensate and oil. The objects of the Company are set out in full in clause 4 of its Memorandum of Association.

3.1.3 The Company has an authorised share capital of £3,307,201 at the date of this document.

3.2 Articles of Association

The current articles of association (the "Articles of Association") of the Company were adopted by the Company on 22 March 2007. The regulations contained in Table A in the Schedule to the Companies (Tables A to F) Regulations 1985, as amended ("Table A") shall not apply to the Company.

The following is a brief summary of certain material provisions of the Articles of Association as will be in effect immediately prior to the Placing:

The Articles of Association include, *inter alia*, provisions to the following effect:

3.2.1 Directors

3.2.1.1 The management of business and the conduct of the affairs of the Company are vested in the Directors. There shall be a minimum of two Directors and there shall be no maximum number of Directors. The Board may delegate any of its powers to committees consisting of one or more Directors. The Board may also delegate to any Director holding any executive office such of its powers as it considers desirable.

3.2.1.2 A Director may enter into a contract with the Company, provided he has disclosed to the Board the nature and extent of any material interest, and may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested. A Director may give a general notice that he is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement and such notice will be deemed to be a disclosure of that interest.

3.2.1.3 A Director may be or become an officer of, or otherwise interested in, a body corporate promoted by the Company or in which the Company is otherwise interested.

3.2.1.4 No Director who discloses his interest to the Board shall by reason of his office be accountable to the Company for any benefit which he derives from such office, transaction or interest in any such body corporate, and no transaction shall be liable to be avoided on the grounds of any such interest or benefit.

3.2.1.5 A Director shall be entitled to vote and count in the quorum at a meeting of the Board on any resolution concerning a matter in which he has an interest. A meeting of the Board may be held by telephone.

Pursuant to the Articles of Association, at each annual general meeting of the Company's members after the date of this admission document, one-third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to, but greater than, one-third shall retire from office. In general, the directors to retire by rotation shall be those who have been longest in office since their last appointment or re-appointment, but as between persons who became or were last re-appointed directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

3.2.2 Borrowing Powers

The Board may exercise all the powers of the Company to borrow money and to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets and uncalled capital and to issue debentures, and other securities whether out right or as security for any debt, liability or obligation of the Company or of any third-party.

3.2.3 Capitalisation of Profits

The Board may, with the authorisation of the Company, by ordinary resolution in a general meeting, resolve to capitalise any undistributed profits of the Company not required for paying any preferential dividend, or any sum, being the whole or part of the amount for the

time being standing to the credit of any reserve or other fund; and that the sum be applied for the benefit of shareholders in full satisfaction of their interest in the capitalised sum, in the proportions to which those shareholders would have been entitled in a distribution of the sum by way of dividend, either by paying up any amounts unpaid on any Shares held by them or in paying up in full unissued shares, debentures or other obligations of the Company.

3.2.4 Meetings

All general meetings other than the annual general meeting shall be called extraordinary general meetings. The Board may call extraordinary general meetings whenever it thinks fit and, in accordance with the Companies Act, shall proceed to convene an extraordinary general meeting for a date not later than eight weeks after receipt of requisitions of its members. Any annual general meeting and any extraordinary general meeting called for the purpose of passing of a special resolution or a resolution appointing a person as a director shall be called by at least 21 days' notice in writing. All other extraordinary general meetings shall be called by at least 14 days' notice in writing. The notice shall be given to all members entitled to attend and vote at the meeting, to each of the Directors and to the auditors, for the time being, of the Company. The notice shall specify the day, time and place of the meeting and, in the case of special business, the general nature of such business. No business shall be transacted at any general meeting unless a quorum is present. Two persons present in person or by proxy or by a representative and entitled to vote upon the business to be transacted shall be a quorum.

3.2.5 Transfer of Shares

Subject to the Companies Act, all transfers of Shares may be effected by a transfer in writing in the usual form or in such other form as the Directors may approve, and shall be signed by or on behalf of the transferor and, unless the Share is fully paid, by or on behalf of the transferee. The Board may also refuse to register the transfer of a Share unless the instrument of transfer (a) is lodged, duly stamped if so required by any statute for the time being in force concerning companies and affecting the Company at the registered office of the Company or at such other place as the Board may appoint, together with the relevant Share certificate and such other evidence the Board may reasonably require; (b) is in respect of any one class of Shares; and (c) is in favour of not more than four transferees.

3.2.6 Voting Rights (Shares)

3.2.6.1 Except as otherwise provided herein and subject to any special terms as to voting on which any Share may be issued, each shareholder is entitled to attend and vote (in person or by proxy and, where the shareholder is a corporation, by a duly authorised representative) at a meeting of shareholders or classes thereof.

3.2.6.2 A shareholder in respect of whom an order has been made by any court or official having jurisdiction in matters concerning their mental health may vote only by his receiver, curator bonis or other officially authorised person.

3.2.6.3 Unless the Board determines otherwise, no shareholder is entitled to vote at any general meeting in respect of any Share held by him unless all calls and other amounts payable by him in respect of that Share have been fully paid.

3.2.6.4 If at any time the Board is satisfied that any shareholder or other person appearing to be interested in Shares held by such shareholder has been duly served with a notice under section 793 of the Companies Act 2006 and is in default for the prescribed period then it may in its absolute discretion by notice to such shareholder direct that the shareholder shall not be entitled to vote at a general meeting and refuse to make a distribution in respect of the Shares held by them (except in the case of liquidation) and refuse to register a transfer of such Shares, until the Board is satisfied such shareholder is no longer in default.

3.2.7 Dividends

The Company, by ordinary resolution in a general meeting, may declare that dividends are to be paid out of profits available for distribution to the holders of Shares but no dividend will

exceed the amount recommended by the Board. The Board may declare interim dividends as appear to the Board to be justified by the profits of the Company available for distribution. Any dividends declared and paid on Shares by the Company shall be apportioned and paid proportionately to the extent such Shares are paid or credited as paid for during any portion(s) of a period in which the dividend is paid. The record date for any dividend, distribution, allotment or issue is fixed by the Company or the Board and may be on or at any time within six months before and after any date on which the dividend, distribution, allotment or issue is declared, paid or made.

3.2.8 Variation of Class Rights

If at any time the share capital is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issues of Shares of that class) may not be varied, whether or not the Company is being wound up, without either (i) the consent in writing of the holders of three quarters of nominal value of the issued Shares of the affected class, or (ii) the sanction of an extraordinary resolution passed at a separate general meeting of the holders of two-thirds of the Shares of the affected class.

3.2.9 Indemnity of Directors

Every Director, officer, auditor or secretary for the time being of the Company will be indemnified by the Company out of the Company's assets against any liabilities incurred by that person in executing his or her duties.

3.2.10 Mandatory Offers

From the effective date of Admission, when:

3.2.10.1 any person acquires an interest in Shares which (taken together with Shares in which persons acting in concert with such person are interested) represent 30 per cent. or more of the voting rights of the Company; or

3.2.10.2 any person who, together with persons acting in concert with such person, holds not less than 30 per cent. of the voting rights of the Company and such person, or any person acting in concert with such person, acquires additional Shares which increases the percentage of Shares carrying voting rights in which he or they are interested,

then such person and, if applicable, each person acting in concert with such person (collectively the "Takeover Offeror") shall extend an offer to takeover the Company to the holders of all issued Shares in the Company (a "Takeover Offer").

In respect of any Takeover Offer made:

3.2.10.3 such Takeover Offer must be conditional only upon the Takeover Offeror having received acceptances in respect of Shares which, together with Shares acquired or agreed to be acquired before or during the Takeover Offer, will result in the Takeover Offeror holding Shares representing more than 50 per cent. of the voting rights of the Company; and

3.2.10.4 no acquisition of an interest in Shares which would give rise to the obligation to make a Takeover Offer may be made if the making or implementation of such Takeover Offer would or might be dependent on the passing of a resolution at any meeting of shareholders of the Takeover Offeror or upon any other condition, consent or arrangement.

3.2.11 A Takeover Offer must, in respect of each class of Shares, be in cash (or be accompanied by a cash alternative) at not less than the highest price paid by the Takeover Offeror for Shares of that class during the Offer Period and within twelve months prior to its commencement. "Offer Period" means the period from the time when an announcement is made or proposed of a proposed or possible Takeover Offer until the first closing date, or, if later, the date when the Takeover Offer becomes or is declared unconditional as to acceptances or lapses.

3.2.12 If an interest in Shares in the Company has been acquired in exchange for securities which are listed or traded on a public securities exchange, the price paid for such interest will be established by reference to the middle market price of such listed securities on the applicable market on the date of such acquisition.

3.2.13 If Shares in the Company are admitted to trading on AIM and have been acquired by the conversion or exercise (as applicable) of convertible securities, warrants, options or other subscription rights, the price paid for such Shares will normally be established by reference to the middle market price of such Shares on AIM at the close of business on the day on which the relevant exercise or conversion notice was submitted. If, however, the convertible securities, warrants, options or subscription rights were acquired during the Offer Period or within twelve months prior to its commencement, they will be treated as if they were purchases of the underlying Shares at a price equal to the sum of the purchase price of such convertible securities, warrants, options or other subscription rights plus the relevant conversion or exercise price paid (or if such convertible securities, warrants, options or other subscription rights have not yet been converted or exercised, the maximum conversion or exercise price payable under the relevant conversion or exercise terms).

3.2.14 Winding-up

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Insolvency Act 1986, divide among the shareholders in specie the Company's assets and may value any assets and determine how the division shall be carried out as between the shareholders or different classes of Shares. The liquidator may also vest the whole or any part of the assets in appropriate trusts for the benefit of the shareholders as he determines appropriate, but no shareholder shall be compelled to accept any assets upon which there is a liability.

3.2.15 Qualifying Directors

3.2.15.1 For the period ending on the earlier of (i) the earliest date on which the Controlling Shareholders shall have ceased to (and none of their associates shall) hold, alone or together with its associates, any legal or beneficial interest directly or indirectly in 30% or more of the issued shares (excluding treasury shares) of the Company from time to time, or 30% or more of the voting rights (whether attaching to shares or otherwise) of the Company from time to time or is able, alone or together with its associates, to control the appointment of directors who are able to exercise a majority of votes at board meetings from time to time, and (ii) the date falling 3 years from the date of adoption of the Articles of Association, only qualifying directors (being an executive or non-executive director who is free from any business or transaction, agreement, arrangement, relationship or other dealings, which could interfere with the exercise of his independent judgement on matters concerning any member of the Baring Vostok Group and who is independent (within the meaning of A.3.1 of the Combined Code) of the Baring Vostok Group and including, in any event, each of the persons who is an executive director on the date of adoption of the Articles of Association ("Qualifying Directors")), shall be entitled to vote on any resolution of the board or any committee of the board in relation to:

(a) any transaction, agreement, arrangement, relationship or other dealings, whether contractual or otherwise, between the Baring Vostok Group or any associate of the Baring Vostok Group and the Company or any subsidiary undertaking of the Company for the time being (including the variation or termination of any of the foregoing) or any other proposal whatsoever in relation to which the Baring Vostok Group or any associate thereof has any material interest (other than solely by virtue of the interest of the Controlling Shareholders in the shares of the Company); or

(b) any determination whether the terms of any agreement between the Company and the Baring Vostok Group has been complied with in all respects,

and for these purposes:

(a) the Qualifying Directors shall be deemed to act as a committee of the board, provided that the powers of the board under article 24.1 of the Articles of Association shall not apply to such committee;

(b) except as provided in (a) above, the proceedings of the Qualifying Directors acting pursuant to the provisions described here shall be governed by the Articles of Association regulating the proceedings of directors so far as they are capable of applying;

(c) a resolution duly adopted by the Qualifying Directors acting pursuant to these provisions shall be effective only if approved by a majority of all the Qualifying Directors (a "QD Resolution") and such a resolution shall be binding on the board in accordance with its terms; and

(d) the Qualifying Directors may exercise the powers of the Company to the extent necessary or desirable to carry out the intent of any QD Resolution or otherwise give effect to this article, at all times in the best interests of the Company.

3.2.15.2 Notwithstanding any article to the contrary, a Qualifying Director may, and the secretary at the request of a Qualifying Director shall, call a meeting of the Qualifying Directors or propose any resolution in relation to the matters referred to in paragraphs (i) and (ii) of article 33.2.

3.2.15.3 The quorum for the transaction of the business of the Qualifying Directors shall be a majority of the Qualifying Directors.

4. Directors' and other interests

4.1 The interests of the Directors (all of which are beneficial unless otherwise stated) and (so far as is known to the Directors or could with reasonable diligence be ascertained by them) persons connected with the Directors within the meaning of section 346 of the Companies Act 1985 (a "connected person") in the Issued Share Capital of the Company as at the date of this document, and on Admission, and which would have been required to be notified to the Company pursuant to sections 324 and 328 of the Companies Act 1985 were those sections still in force, are or will be as follows:

	As at the date of this document		*On Admission*	
	Number of Shares	*Percentage of Issued Share Capital*	*Number of Shares*	*Percentage of Enlarged Issued Share Capital*
Directors				
Alexey Kalinin	0[1]	0%	0[1]	0%
Mikhail Ivanov	87,516[2]	0.28%	87,516[2]	0.17%
Alistair Stobie	43,766[2]	0.14%	43,766[2]	0.08%
Ronald Freeman	5,000[3]	0.02%	5,000[3]	0.01%
Stephen Ogden	5,000[3]	0.02%	5,000[3]	0.01%
Vladimir Koshcheev	0[4]	0%	0[4]	0%
Michael Calvey	0[1]	0%	0[1]	0%

[1] Mr Calvey and Mr Kalinin are Co-Managing Partners of Baring Vostok, an entity related to Baring Vostok Private Equity Fund III (see paragraph 4.3 of this "Part IX – Additional Information – Directors' and other interests" below). As such Mr Calvey and Mr Kalinin have an indirect beneficial interest in the Company.

[2] Mr Ivanov and Mr Stobie will be issued with a further 437,584 Shares and 218,834 Shares respectively over an extended period following Admission. See paragraph 7.17.1 of "Part IX – Additional Information – Restricted Share Agreements."

[3] In addition, Mr Freeman and Mr Ogden will each be issued with Shares worth US$15,000 (at the relevant previous 4 weeks' average trading price) on each of 14 September 2007 and 14 March 2008. See paragraph 7.17.2 of "Part IX – Additional Information – Restricted Share Agreements."

[4] Vlarenhill, a holding company 50 per cent. owned by Mr Koshcheev, holds 1,733,100 Shares.

Other than as set out above, the Company is not aware of any persons who, directly or indirectly, immediately prior to the Placing, hold three per cent. or more of the Company's Share capital.

4.2 On completion of the Placing, it is expected that the issued share capital of the Company shall be increased by 67.5 per cent. resulting in an immediate dilution to the existing shareholders of 40.3 per cent. (with the exception of Cavendish Nominees, who will be diluted by 37.1 per cent. as a result of their subscription for 1,500,000 Shares in the Placing).

4.3 The direct or indirect interests (within the meaning of Chapter 5 of the Disclosure Rules and Transparency Rules published by the FSA) in three per cent. or more of the total voting rights in the Company as at 19 April 2007 (being the latest practicable date prior to the publication of this document) and as at Admission of which the Company is aware were as set out below:

	As at 19 April 2007		*On Admission*	
	Number of Shares	*Percentage of Issued Share Capital*	*Number of Shares*	*Percentage of Enlarged Issued Share Capital*
Cavendish Nominees, as nominee for Baring Vostok Private Equity Fund III	28,120,000	91.1%	29,620,000[1]	57.3%
Vlarenhill	1,733,100	5.6%	1,733,100	3.4%

[1] Cavendish Nominees are subscribing for 1,500,000 Shares in the Placing.

4.4 Except as disclosed in this document, as at the date of this document no options or restricted stock have been granted to Directors (or their connected persons). See paragraph 7.17 of this "Part IX — Additional Information — Material Contracts — Restricted Share Agreements."

4.5 Save as disclosed in this document and so far as the Company is aware, no person, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

4.6 Save as disclosed in this document there are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors or their connected persons.

4.7 Save as disclosed in this document, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company since its incorporation on 25 July 2006.

4.8 The Company's shareholders listed in paragraph 4.1 above do not have voting rights preferential to other future holders of Shares.

5. Additional Information on the Directors

5.1 Details of the directorships held by each of the Directors and partnerships (other than partnerships where the interest of the Director concerned has been as a limited partner in one or more publicly traded limited partnerships) in which they have been a partner at any time during the five years preceding the date of this document (excluding the Company and its subsidiaries) are as follows:

Director's Name	*Current directorships/partnerships*	*Previous directorships/ partnerships*
Alexey Kalinin	Baring Vostok Capital Partners Limited	OAO Volgotanker
	Spasskcement	Dalrybprom
	OAO Samaraenergo	Neft Povolzhya
	Tops BI	ruNetHoldings
	AirInSpace	Caspian Gas Corporation
	ZAO SakhInterlesprom	
	Lymex Holding	
	Astrakhan Oil Company	
	Macferson Limited	
	OAO Saratovstroysteklo	
	Westolia Limited	
	ST for Eastern Timber	

Director's Name	*Current directorships/partnerships*	*Previous directorships/ partnerships*
Alistair Stobie	ZAO Corvette Telecom NEXT	Mint Capital Acol Technologies S.A. Chiron Capital
Ronald Freeman	Troika Dialog Brookfield Imagine Group Holdings Limited Unicredit Bank OAO Severstal	European Bank for Reconstruction and Development Pliva
Stephen Ogden	First Montenegro Stone Property Fund	Heineken Russia Lenta Cash & Carry Metropolis Media United Confectionaries
Vladimir Koshcheev	CJSC AKSM Vesla LLC Spinaker LLC Pervaya Investizionno-Stroitelnaya Kompaniya	OOO Pre-Volga Petroleum Company
Michael Calvey	Baring Vostok Capital Partners Limited Baring Private Equity International Burren Energy plc ZAO Europlan Leasing ruNetHoldings Gallery — Outdoor Advertising ST Far Eastern Timber Sector Investment Holding Company Ltd Baring Vostok Fund Managers Baring Vostok Fund III Baring Vostok Cyprus Limited Vostok Capital Partners Limited Baring Vostok Holdings	Golden Telecom, Inc. StoryFirst Communications United Confectioneries SyktyvkarForestry Riverside International RRL Restaurants CTC Media Inc.

5.2 Save as disclosed in this document, none of the Directors has:

(a) any unspent convictions in relation to indictable offences;

(b) at any time been adjudged bankrupt or sequestrated in the United Kingdom or elsewhere;

(c) at any time been a party to a deed of arrangement or any form of voluntary arrangement (as defined in Part VII of the Insolvency Act 1986);

(d) been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body);

(e) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;

(f) been a director of a company which, whilst he was a director or within 12 months after he ceased to be a director, has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors;

(g) been a partner in a partnership which, whilst he was a partner or within 12 months after he ceased to be a partner, has been placed in compulsory liquidation or administration or entered into any partnership voluntary arrangement; or

(h) any asset which has been placed in receivership or been a partner of any partnership whose assets, whilst he was a partner or within 12 months after he ceased to be a partner, have been placed in receivership.

5.3 From December 2003 to December 2006 Alistair Stobie was a director and Chairman of Acol Technologies S.A. to which a liquidator was appointed on 20 December 2006.

5.4 Since 2003 to the date of this document Vladimir Koshcheev has been the Chief Executive Officer of Vesla, which is undergoing voluntary liquidation.

5.5 For further details on Directors, see ''Part II — The Company — Corporate Governance.''

6. Directors' contracts, employment agreements and emoluments

6.1 Michael Ivanov, the Chief Executive Officer and Alistair Stobie, the Chief Financial Officer, are parties to written agreements with the Company, which were signed and entered into on 14 March 2007, and thereafter will remain effective until terminated by either party. Termination will be effected by either party giving six months' written notice to the other within the first two years of employment, and thereafter either party giving three months' written notice. The Company may pay the executives in lieu of notice if it terminates his employment lawfully, and such payment is to be in full and final settlement of all and any claims. The service agreements require that the executives spend substantially all of their time on the business of the Company and obligate such persons to maintain confidentiality regarding the Company's business and limit their right to have business dealings with customers or solicit employees for a period of six months after the termination of their service with the Company. The executive officers will also be eligible to participate in restricted share arrangements such as described in paragraph 7.17 below, and any available bonus or incentive arrangement schemes to be implemented by the Board. The Chief Executive Officer will receive a remuneration of US$250,000 per annum, and the Chief Financial Officer will receive a remuneration of US$200,000 per annum and a one-off bonus of US$50,000, to be reviewed by the Board annually in November, with the first review being November 2007.

6.2 The aggregate remuneration payable and benefits in kind granted to the Directors by all members of the Group was US$163,973 since incorporation and is estimated to be approximately US$628,997 (excluding any discretionary bonus which may become payable) for the current financial year ending 31 December 2007 under the arrangements in force at the date of this document. The individual annual remuneration paid to the Company's Directors and senior managers is as follows: Mr Kalinin, US$0; Mr Ivanov, US$250,000; Mr Stobie, US$200,000; Mr Freeman, US$80,000; Mr Ogden, US$80,000; Mr Koshcheev, US$0; Mr Calvey, US$0; and Mr Lepilin, US$39,500.

6.3 Mr Kalinin signed a formal letter of appointment dated 14 March 2007. The letter confirmed his appointment as a Non-Executive Director of the Company. The initial term of the appointment was for two years commencing on 1 October 2006, unless terminated by either party giving to the other one month's prior written notice. The normal time commitment to the Company should not exceed ten days per annum and if additional time is required by the Company, his remuneration for service as a Non-Executive Director and member of the Remuneration Committee would be increased proportionately. Mr Kalinin will not receive remuneration for these services but will receive reimbursement of all travel and other reasonable expenses properly incurred in connection with his duties as a Non-Executive Director and as a member of the Remuneration Committee. The letter of appointment contains usual terms on confidentiality and conflicts of interest, and makes provision for Mr Kalinin to take independent professional advice at the Company's expense where necessary in the furtherance of his duties.

6.4 Mr Freeman signed a formal letter of appointment dated 14 March 2007. The letter confirmed his appointment as a Non-Executive Director of the Company. The initial term of the appointment was for two years commencing on 14 March 2007, unless terminated by either party giving to the other one month's prior written notice. The normal time commitment to the Company should not exceed ten days per annum and if additional time is required by the Company, his remuneration for service as a Non-Executive Director, Chairman of the Nomination and Remuneration Committees and member of the Audit Committee would be increased proportionately. Pursuant to his letter of appointment, Mr Freeman was issued 5,000 Shares worth US$30,000 at the Placing Price on 19 April 2007. Mr Freeman is entitled to receive Directors' fees remuneration at the annual rate of US$35,000 paid monthly in arrears. In addition, as Chairman of the Nomination and Remuneration Committees and a member of the Audit Committee, he will be entitled to receive additional annual remuneration of US$15,000, also paid monthly in arrears. Mr Freeman will receive reimbursement of all travel and other reasonable expenses properly incurred in connection with his duties as a

Non-Executive Director, Chairman of the Remuneration and Nomination Committees and member of the Audit Committee. The letter of appointment contains usual terms on confidentiality and conflicts of interest, and makes provision for Mr Freeman to take independent professional advice at the Company's expense where necessary in the furtherance of his duties.

6.5 Mr Ogden signed a formal letter of appointment dated 14 March 2007. The letter confirmed his appointment as a Non-Executive Director of the Company. The initial term of the appointment was for two years commencing on 14 March 2007, unless terminated by either party giving to the other one month's prior written notice. The normal time commitment to the Company should not exceed ten days per annum and if additional time is required by the Company, his remuneration for service as a Non-Executive Director, Chairman of the Audit Committee and member of the Nomination and Remuneration Committees would be increased proportionately. Pursuant to his letter of appointment, Mr Ogden was issued 5,000 Shares worth US$30,000 at the Placing Price on 19 April 2007. Mr Ogden is entitled to receive Directors' fees remuneration at the annual rate of US$35,000 paid monthly in arrears. In addition, as Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees, he will be entitled to receive additional annual remuneration of US$15,000, also paid monthly in arrears. Mr Ogden will receive reimbursement of all travel and other reasonable expenses properly incurred in connection with his duties as a Non-Executive Director. The letter of appointment contains usual terms on confidentiality and conflicts of interest, and makes provision for Mr Ogden to take independent professional advice at the Company's expense where necessary in the furtherance of his duties.

6.6 Mr Koshcheev signed a formal letter of appointment dated 14 March 2007. The letter confirmed his appointment as a Non-Executive Director of the Company. The initial term of the appointment was for two years commencing on 1 October 2006, unless terminated by either party giving to the other one month's prior written notice. The normal time commitment to the Company should not exceed ten days per annum and if additional time is required by the Company, he may receive remuneration for service as a Non-Executive Director. Mr Koshcheev will not otherwise receive remuneration for these services but will receive reimbursement of all travel and other reasonable expenses properly incurred in connection with his duties as a Non-Executive Director. The letter of appointment contains usual terms on confidentiality and conflicts of interest, and makes provision for Mr Koshcheev to take independent professional advice at the Company's expense where necessary in the furtherance of his duties.

6.7 Mr Calvey signed a formal letter of appointment dated 14 March 2007. The letter confirmed his appointment as a Non-Executive Director of the Company. The initial term of the appointment was for two years commencing on 1 October 2006, unless terminated by either party giving to the other one month's prior written notice. The normal time commitment to the Company should not exceed ten days per annum and if additional time is required by the Company, he may receive remuneration for service as a Non-Executive Director and member of the Audit and Nomination Committees. Mr Calvey will not otherwise receive remuneration for these services but will receive reimbursement of all travel and other reasonable expenses properly incurred in connection with his duties as a Non-Executive Director and member of the Audit and Nomination Committees. The letter of appointment contains usual terms on confidentiality and conflicts of interest, and makes provision for Mr Calvey to take independent professional advice at the Company's expense where necessary in the furtherance of his duties.

6.8 Other than the service contracts set out above, the Company has not entered into any employee service agreements which provide for any contractual benefits on termination of employment.

7. Material Contracts

Save as set out in this document, the following are the only contracts (being contracts otherwise than in the ordinary course of business) which have been entered into by members of the Group within the two years immediately preceding the date of this document and are or may be material to the Group or have been entered into by any member of the Group at any time and contain any provision under which the Group has any obligation or entitlement which is material to the Group at the date of this document.

7.1 Sale and Purchase Agreement for PGK

On 19 May 2006 Vesla and Woodhurst entered into an interest sale and purchase agreement whereby Vesla transferred 100 per cent. interest in PGK to Woodhurst for the sales price of US$5,000. Completion of this transfer of interest occurred 22 May 2006. The full payment of US$5,000 was made by Woodhurst on 7 February 2007.

7.2 Sale and Purchase Agreement for GNS

On 7 September 2006 Trans Nafta and Woodhurst entered into an interest sale and purchase agreement whereby Trans Nafta transferred 100 per cent. interest in GNS to Woodhurst for the sales price of RUR10,000. Woodhurst paid the entire RUR10,000 for the interest on 8 September 2006.

7.3 SNG Yuzhny-Ershovskoye Agreement

On 26 July 2006 PGK entered into Contract No. 189 for the performance of 100km^2 of CDP method 3-D seismic operations within the Yuzhny-Ershovskoye structure in the Karpenskiy Licence Area by SNG. The total amount to be paid by PGK under this agreement equals RUR40,000,000, including Russian value added tax. PGK made an advance payment in the amount of RUR15,000,000 within ten days after execution of the agreement. Payments for performed seismic operations are to be made on a monthly basis. The performance of seismic operations was to be completed within four months of the advance payment. On 1 December 2006 PGK and SNG entered into Additional Agreement No.1 to Contract No. 189 dated 26 July 2006, extending the period for carrying out seismic operations until 1 April 2007. This amendment does not affect SNG's liability for delay in performing the seismic operations under the original agreement, which provides for a penalty of 0.1 per cent. of the price of the relevant seismic operations for each day of delay. In addition, PGK is obliged to compensate SNG for any additional costs that may exceed the agreed expenditure amount.

7.4 SNG Yuzhny-Mokrousovskoye Agreement

On 12 March 2007 PGK entered into Contract No. 97 for the performance of 160km^2 of 3-D seismic operations within the Yuzhny-Mokrousovskoye structure in the Karpenskiy Licence Area by SNG. The total amount to be paid by PGK under this agreement equals RUR64,000,000, including Russian value added tax. This amount includes compensation payments to land-owners for any damage caused to crops. However, if the actual amount of such compensation payments exceeds the expected amount by 25 per cent. or more, PGK shall be liable to compensate the additional expenses incurred by SNG in connection therewith. Payments for performed seismic operations are to be made on a monthly basis. Design works are to be completed within 20 days after the receipt of an advance payment of RUR15,000,000. Field operations shall commence 30 days after the receipt of the advance payment. Such operations shall be completed within 4 months. SNG will commence its operations following the completion of its operations on Yuzhny-Ershovskoye.

7.5 Aksonoil Drilling Plan Agreement

On 26 March 2007 GNS entered into a contract of work and labour for the carrying out of design works with ZAO Aksonoil ("Aksonoil"). Pursuant to this agreement, Aksonoil undertook to prepare a deep well drilling group plan for the Vostochny-Makarovskoye Licence Area, in accordance with information provided by GNS. Design works are to be completed within 45 calendar days after the making of an advance payment and the issuance of a design assignment by GNS. The cost of design works under the contract comprises RUR1,000,000, including Russian value added tax in the amount of RUR152,542.4. Payments are to be made in two tranches. No payments have yet been made.

7.6 Aksonoil Geological Plan Agreement

On 27 March 2007 GNS entered into a contract of work and labour for the carrying out of design works with Aksonoil. Pursuant to this agreement, Aksonoil undertook to prepare a geological plan for prospecting operations in the Vostochny-Makarovskoye Licence Area, in accordance with information provided by GNS. Design works are to be completed within 30 calendar days after the making of an advance payment and the issuance of a design assignment by GNS. The cost of design works under the contract is RUR800,000, including Russian value added tax in the amount of RUR122,033.9. Payments are to be made in two tranches. No payments have yet been made.

7.7 LUKoil-NVN Agreement

On 18 December 2005 PGK entered into agreement No. 05V2002 with LUKoil-NVN for the transfer of geological and exploration information. Under this agreement LUKoil-NVN undertook to transfer to PGK geological and exploration data assembled during exploration of the Karpenskiy Licence Area. The total amount to be paid by PGK under this agreement was RUR45,307,280, including Russian value added tax. The full payment of RUR45,307,280 was made by PGK and all the required information was transferred.

7.8 Schlumberger Logelco Agreement

On 6 September 2006 PGK entered into an agreement with Schlumberger Logelco (the "Schlumberger Logelco Agreement") for the provision of services by Schlumberger Logelco. Under the agreement Schlumberger Logelco undertakes to supervise the performance of field work by PGK at the Yuzhny-Ershovskoye and Yuzhny-Mokrousovskoye structures and to process and interpret data so acquired as well as to perform supervisory operations. The total amount to be paid by PGK under this agreement equals US$620,000 excluding Russian value added tax and the agreement terminates on 21 September 2007. Payments under this agreement are to be made in Russian roubles, at the exchange rate set by the Bank of Russia, in six performance payments to be made after completion of designated performance, as specified in the agreement. The parties agree to indemnify and hold the other harmless against all claims for property damage or loss and/or personal injury, illness or death, by themselves or third parties. This agreement is governed by English law.

7.9 Trans Nafta Karpenskiy Off-take Agreement

On 1 March 2007 PGK entered into Gas Supply Agreement No. TN-19/2007 with Trans Nafta. Under this agreement, Trans Nafta is obligated to take a certain amount of gas from the Karpenskiy Licence Area annually, starting in 2009 in accordance with the following schedule:

2009	1bcm
2010	2bcm
2011	7.5bcm
2012 – 2022	10bcm

The gas price under the agreement may not be less than RUR2,100/mcm (approximately US$80/mcm), including VAT. Actual prices, as well as schedules of quarterly and monthly gas deliveries, are to be agreed separately.

Title to the gas passes to Trans Nafta at the exit point of the gas processing facilities to be located on the Karpenskiy Licence Area. Trans Nafta shall then engage gas transportation providers to further implement the agreement.

The agreement is subject to amendment or termination upon mutual agreement of the parties. Acts of Gazprom or of its affiliates may constitute force majeure circumstances, occurrence of which will excuse non-performance by the parties of their respective obligations.

7.10 Trans Nafta Vostochny-Makarovskoye Off-take Agreement

On 7 September 2006 GNS entered into Gas Off-take Agreement No. TH35-2006 with Trans Nafta. Under this framework agreement, GNS is obliged to deliver to Trans Nafta all gas produced by it from the Vostochny-Makarovskoye field. The time and schedule of gas delivery are to be further negotiated by the parties. Neither party may terminate the agreement within three years from the date of the first gas delivery. After the expiration of the initial three-year period, either party may unilaterally terminate the agreement, subject to one year's prior written notice. The price for gas under the agreement may not be less than RUR1,600/mcm (approximately US$60/mcm), including VAT and shall be adjusted each year. If the parties fail to agree on a new gas price, GNS shall have the right to enter into a gas supply contract with a third-party for the following six months. Prior to entering into such contract, GNS is obliged to offer the same terms to Trans Nafta. Trans Nafta also reserves the right to act as a commission agent for GNS in any third-party gas supply contract for a commission of not more than 5 per cent. of the sale price.

7.11 Geoproekt Drilling Agreements

PGK has entered into three contracts with OOO NSK Geoproekt ("Geoproekt") for the purpose of preparing technical and other documents for drilling operations on the Uzensky field in the Karpenskiy Licence Area.

7.11.1 On 20 February 2007 PGK entered into contract No. 2-PU/07 with Geoproekt. Pursuant to the contract, Geoproekt agreed to prepare documents necessary to arrange for the drilling for oil. PGK agreed to pay RUR300,000 in return for Geoproekt's services.

7.11.2 On 22 February 2007 PGK entered into contract No. 3-GP/07 with Geoproekt. Pursuant to the contract Geoproekt agreed to develop a project for the drilling of supra-salt wells in the Karpenskiy Licence Area. PGK agreed to pay RUR900,000 in return for Geoproekt's services. Work to be conducted pursuant to this contract is to be completed in six stages.

7.11.3 On 22 February 2007 PGK entered into contract No. 4-P/07 with Geoproekt. Pursuant to the contract Geoproekt agreed to develop a geological project for prospecting work in the Karpenskiy Licence Area. PGK agreed to pay RUR600,000 in return for Geoproekt's services. Work to be conducted pursuant to this contract is to be completed in two stages.

7.12 Ryder Scott Engagement Letter

On 9 June 2006 Woodhurst entered into a contract with Ryder Scott in relation to the preparation of a report to assess the Company's gas resources. Ryder Scott was contracted to perform an independent evaluation of the oil and gas reserves on certain oil and gas fields operated by the Group. The evaluation of the reserve estimates was to be completed on 4 August 2006. Woodhurst paid Ryder Scott an amount of US$36,450 as advance payment for the services. Total costs of the evaluation was estimated at US$140,000. The results of the evaluation have been submitted to the Company in the form of the final report attached hereto as Appendix C.

7.13 Schlumberger Logelco Engagement Letter

On 20 November 2006 the Company entered into a contract with Schlumberger Logelco in relation to the preparation of the Petroleum Consultant's Report for the purposes of Admission. Schlumberger Logelco was contracted to perform an independent evaluation of the oil and gas reserves on oil and gas fields operated by the Group. The evaluation of the reserve estimates was completed after an advance payment of US$110,000 from the Company. Total costs of the evaluation were estimated at US$265,000, including the advance payment, plus tax and expenses. The results of the evaluation have been submitted to the Company in the form of the final Petroleum Consultant's Report attached hereto as Part V.

7.14 Underwriting Agreement

The Company, the Directors, KBC Peel Hunt and Renaissance have entered into certain arrangements in connection with the Placing, including an underwriting agreement (the "Underwriting Agreement") dated 20 April 2007.

Pursuant to the Underwriting Agreement, the Company has agreed to issue and deliver to subscribers procured by the Joint Lead Managers or, failing which, to the Joint Lead Managers, acting severally, an aggregate of 20,833,333 Placing Shares (representing 40.3 per cent. of the total issued share capital of the Company following the Placing, assuming the over-allotment option referred to below is not exercised), at the Placing Price less the commission and expenses described below.

The Company has also granted to KBC Peel Hunt on behalf of the Joint Lead Managers an option to subscribe for up to an additional 1,666,667 Optional Shares to cover over-allotments and/or short positions relating to stabilisation activities. The over-allotment option is exercisable in whole or in part at any time and from time to time for 30 days following the date of Admission. See "Part II — The Company — Stabilisation and Over-allotment Arrangements" for more detail.

In consideration of the agreement by the Joint Lead Managers to act as agents of the Company, the Joint Lead Managers are entitled to a management and underwriting commission equal to 5 per cent. of the aggregate gross proceeds of the Placing (including pursuant to the over-allotment option, if and to the extent exercised).

The Company has also agreed to pay the Joint Lead Managers' reasonable out of pocket expenses, stamp duty and stamp duty reserve tax expenses (and any related penalties or

interest), fees payable to the London Stock Exchange or any other stock exchange or regulatory body and certain other expenses.

Under the Underwriting Agreement, the obligations of the Joint Lead Managers to procure subscribers for, or failing which to subcribe and pay for, any of the Placing Shares on the closing date for the Placing are subject to certain conditions precedent which are typical for an agreement of this nature. These conditions include, amongst others, Admission, the delivery of certain documents, including but not limited to corporate resolutions, reporting accountant comfort letters and legal opinions, the continued accuracy of representations and warranties, the absence of any material adverse change and the performance by the Company of its pre-Admission obligations. The Joint Lead Managers' obligation to procure subscribers for or, failing which, to subscribe for, Optional Shares pursuant to the exercise (if any) of the over-allotment option are subject to similar conditions precedent.

The Joint Lead Managers have the right to terminate the Underwriting Agreement in certain specified circumstances. These circumstances include, amongst others, a failure to satisfy the conditions precedent described above, an occurrence of certain events which are likely to prejudice the success of the Placing, developments involving a prospective change in national or international monetary, fiscal, political or economic conditions and certain other circumstances.

Pursuant to the Underwriting Agreement, the Company and the Directors give certain representations, warranties and undertakings, and the Company provides certain indemnities, to the Joint Lead Managers, their associates and the directors, officers, employees and agents of any of them that are customary for an agreement of this nature. The liabilities of the Company are not limited as to amount, however those of the Directors are limited as to amount. The indemnity extends to all claims which may be instituted, made, threatened or alleged against or otherwise involve the indemnified party and to all losses suffered or incurred by the indemnified party in connection with the Placing. The Company shall pay to KBC Peel Hunt a corporate finance fee of £100,000.

7.15 Nomad and Broker Agreement

The Company, KBC Peel Hunt and Renaissance Capital Limited ("Renaissance Capital") an associate of Renaissance, have entered into a nominated adviser and broker agreement (the "Nomad and Broker Agreement"), dated 20 April 2007, in connection with the Placing.

Pursuant to the Nomad and Broker Agreement, the Company has appointed KBC Peel Hunt as the Company's nominated adviser pursuant to the AIM Rules for Companies with effect from Admission, for the purpose of, *inter alia*, assisting the Company and the Directors in matters related to Admission, and compliance with the AIM Rules for Companies. The Company also appointed each of KBC Peel Hunt and Renaissance Capital (the "Brokers") as joint broker to the Company in accordance with the AIM Rules for Companies, with effect from Admission for the purpose of, *inter alia*, writing and publishing research on the Company, advising the Company on investor relations and market conditions generally and, with respect to KBC Peel Hunt, making a market in the Shares.

The Company shall pay to KBC Peel Hunt an annual retainer fee of £50,000, plus VAT, for its services. The Company also undertook under the Nomad and Broker Agreement to reimburse each of the Brokers for all reasonable fees, costs, charges, commissions and expenses, plus VAT if applicable, properly incurred by such Broker in connection with its appointment as nominated adviser and/or joint broker, as the case may be, under the Nomad and Broker Agreement, including all stamp duty and stamp duty reserve tax and any related fines, costs, penalties or interest and all fees and expenses payable to the London Stock Exchange, the FSA or any other exchange or regulatory body.

Pursuant to the Nomad and Broker Agreement, the Company provides certain undertakings to KBC Peel Hunt, in its capacity as nominated adviser, which are usual for an agreement of this nature. Amongst other things, the Company undertakes to comply in all respects with all applicable laws and regulations, to comply in all material respects with all statements of intent (or to notify KBC Peel Hunt promptly of any change in any such intent) and undertakings contained in this document, and to consult with KBC Peel Hunt before knowingly doing or permitting to be done any act or matter which constitutes a material new matter affecting the assessment of the Shares or that is significant to the business of the Group.

Amongst other things, the Company undertakes to use its reasonable endeavours to procure that the Directors will comply with the Combined Code as if it applied to the Company and all undertakings and statements of intent made by the Company in this document.

The Company agrees to indemnify the Brokers against claims and losses arising in connection with, *inter alia*, Admission, failure to comply with the AIM Rules for Companies, the Companies Act and certain other rules and requirements.

The Company undertakes to use its reasonable endeavours to procure that the Directors conduct all dealings in the Company's securities by them and by their connected persons through the Brokers, in their capacity as joint brokers.

In the event that a conflict arises between the duties of the nominated adviser or a joint broker to the Company or the Directors, on the one hand, and its duties to the London Stock Exchange, on the other hand, it will be entitled to act or refrain from acting under the agreement so as to fulfil its obligations to the London Stock Exchange, without incurring any liability to the Company or the Directors.

7.16 Relationship Agreement

The Company has entered into a relationship agreement dated 20 April 2007 with Baring Vostok Private Equity Fund III and Cavendish Nominees (the "Controlling Shareholders").

Pursuant to the Relationship Agreement, the Controlling Shareholders have provided certain covenants to the Company, the effect of which is to ensure that the Controlling Shareholders do not preclude the independent conduct of, or otherwise exercise undue influence over, the affairs of the Company. For example, only Directors that are independent from the Controlling Shareholders, Baring Vostok, certain funds connected to them and certain other persons related to or representing the foregoing (jointly, the "Baring Vostok Group") ("Qualifying Directors") can vote on Board resolutions in relation to transactions between a Group company and a member of the Baring Vostok Group, or on other proposals in which any member of the Baring Vostok Group has a material interest, or which otherwise present a conflict of interest between any member of the Baring Vostok Group and a Group company. Messrs Stobie and Ivanov are deemed to be Qualifying Directors for such purposes.

In addition, the Controlling Shareholders covenant to procure disclosure to the Company of certain investment opportunities that could be relevant to the Company and become known to the Company's non-Qualifying Directors.

The Relationship Agreement will continue in full force and effect as long as any member of the Baring Vostok Group holds, alone or together with the other members of the Baring Vostok Group, not less than 30 per cent. of the voting rights with respect to securities of the Company, or as long as such member is able, alone or together with the other members of such group, to control the appointment of the Company's directors who are able to exercise a majority of votes at meetings of the Board.

7.17 Restricted Share Agreements

7.17.1 The Company entered into restricted share agreements on 19 April 2007, effective 15 May 2006, with Mikhail Ivanov, acting as Chief Executive Officer for the Company and Alistair Stobie, acting as Chief Financial Officer for the Company. In total, 525,100 Shares are to be issued to the Chief Executive Officer, and 262,600 Shares to the Chief Financial Officer. The Shares will be issued semi-annually over a three year period, with 16.66 per cent. of the Shares to be issued after six months from 15 May 2006 (in the event, these Shares were issued on 19 April 2007), a further 16.66 per cent. of the Shares to be issued after 12 months from 15 May 2006, and further payments of 16.67 per cent. of the Shares to be issued in four further instalments occurring after each of 18 months, 24 months, 30 months and 36 months from 15 May 2006.

7.17.2 The Company entered into restricted share agreements on 19 April 2007 with Stephen Ogden and Ronald Freeman, effective 14 March 2007. The Company will issue to each of them such number of Shares as would equal US$15,000, based on the average price over the 4 weeks prior, on each of 14 September 2007 and 14 March 2008.

7.17.3 If any of the Chief Executive Officer or the Chief Financial Officer, Stephen Ogden or Ronald Freeman ceases to be an employee of the Company for any reason other than his death or injury, ill health or disability, the Board may decide in its own discretion whether or not to transfer any un-issued Shares such director may otherwise be entitled to receive under the terms of the relevant restricted share agreement. Prior to their issuance, the Shares or any rights in respect of them cannot be transferred, assigned, charged or otherwise disposed of by the subscriber to any person.

7.18 Lock-in Arrangements

7.18.1 Under the Lock-Up Deeds furnished to the Joint Lead Managers on 20 April 2007, the Directors and the Company's other related parties and applicable employees (as those terms are defined in the AIM Rules for Companies), other than Cavendish Nominees and Baring Vostok Private Equity Fund III, have covenanted that they will not issue, offer, contract to sell, pledge, charge, grant options over or otherwise dispose of any Shares or other securities of the Company, or certain other forms of interest in such Shares and other securities, or make or cause to be made, or take or cause to be taken any substantial step toward, an application for admission to listing or to trading on a regulated market (within the meaning of FSMA) of (or publicly announce any such application or step toward any such application in respect of) such Shares or other securities of the Company, and will procure that certain of their associates and persons acting on their behalf refrain from doing so, during the Hard Lock-In Period (except in connection with the Placing as contemplated in the Underwriting Agreement). Sales of locked-in Shares or other securities of the Company during the Hard Lock-In Period may only be made in accordance with available exceptions from Rule 7 of the AIM Rules for Companies (which permits disposals during the lock-in period in the event of: an intervening court order, an acceptance of a take-over offer for the AIM company which is open to all shareholders, and certain other cases), and even then only with the prior written consent of the Joint Lead Managers. In addition, the Directors and the Company's other related parties and applicable employees have also agreed not to dispose of any interests they have in Shares or other securities of the Company for a further period of 180 days following the expiry of the Hard Lock-In Period without the prior written consent of the Joint Lead Managers. During the Hard Lock-in Period and such further period of 180 days thereafter, the Joint Lead Managers shall have the exclusive right to effect any such disposals on their behalf. Thereafter, and for so long as a Joint Lead Manager (or its associate) continues to be a broker to the Company, in order to preserve an orderly market in the Shares or other securities of the Company, the Directors and the Company's other related parties or applicable employees will, in connection with any contemplated disposal of Shares or other securities of the Company, give such Joint Lead Managers the exclusive right for 20 trading days to effect such disposal.

7.18.2 Under a certain Lock-Up Deed furnished to the Joint Lead Managers on 20 April, 2007, each of the funds constituting Baring Vostok Private Equity Fund III and Cavendish Nominees has covenanted that it will not issue, offer, contract to sell, pledge, charge, grant options over or otherwise dispose of any Shares or other securities of the Company, securities convertible into or exchangeable into Shares or other securities of the Company, or certain other forms of interest in such Shares or other securities of the Company, or make or cause to be made, or take or cause to be taken any substantial step toward, an application for admission to listing or to trading on a regulated market (within the meaning of FSMA) of (or publicly announce any such application or step toward any such application in respect of) such Shares, securities or other form of interest, and will procure that certain of its associates and persons acting on its behalf refrain from doing so, during the Hard Lock-In Period. Sales of locked-in shares during the Hard Lock-In Period may only be made in accordance with available exceptions from Rule 7 of the AIM Rules for Companies (which permits disposals during the lock-in period in the event of: an intervening court order, an acceptance of a take-over offer for the AIM company which is open to all shareholders, and in certain other cases), and even then only with

the prior written consent of the Joint Lead Managers. Thereafter, for a period of one year after the expiry of the Hard Lock-In Period, in order to preserve an orderly market in the Shares, Baring Vostok Private Equity Fund III will, in connection with any contemplated disposal of an interest in Shares or other securities of the Company, give the Joint Lead Managers the exclusive right for 20 trading days to effect such disposal.

7.19 Deed of Undertakings

Under a Deed of Undertakings furnished to the Joint Lead Managers on 20 April 2007, Baring Vostok Private Equity Fund III warranted to the Joint Lead Managers that all written statements made and information provided in writing by the Baring Vostok Private Equity Fund III to the Joint Lead Managers in connection with the Placing are accurate and not misleading in any material respect. The Baring Vostok Private Equity Fund III also warranted to the Joint Lead Managers that, amongst other things, neither the Baring Vostok Private Equity Fund III nor any of certain of its affiliates will offer, sell, solicit offers to buy, or otherwise dispose or negotiate any security of the Company under circumstances that would require registration of any security of the Company under the Securities Act; and neither the Baring Vostok Private Equity Fund III nor any of its affiliates will take actions that could cause safe harbours under the Securities Act to cease to be available with respect to the offer and sale of the Placing Shares. The aggregate liability of the Baring Vostok Private Equity Fund III in respect of the Deed of Undertakings is limited to £1,000,000.

7.20 Executive Service Agreements

Mikhail Ivanov, acting as Chief Executive Officer for the Company, and Alistair Stobie, acting as Chief Financial Officer for the Company, are parties to written service agreements with the Company to act as executive directors. Mikhail Ivanov will receive a remuneration of US$250,000 per annum and Alistair Stobie will receive a remuneration of US$200,000 per annum and a one-off bonus of US$50,000. See paragraph 6.1 of "Part IX — Additional Information — Directors' contracts, employment agreements and emoluments."

7.21 Details of the licences and licensing agreements, as set out in "Part VIII — Terms of the Licences."

8. Related Party Transactions

The Company has agreements with certain entities or persons that are considered to be related parties to the Company. All of these related party transactions are on terms that the Company believes are competitive and arms-length. Except where otherwise indicated, the full principal amount of each loan described below is outstanding on the date hereof. Specifically:

8.1 On 13 February 2006 Vlarenhill acquired 100,000 shares in Woodhurst, being 100 per cent. of the then issued share capital, from Cavendish Nominees for the amount of US$1.

8.2 On 16 February 2006 Woodhurst as lender entered into a loan agreement with PGK as borrower for an amount of US$1,600,000, for the purpose of repayment by PGK of its indebtedness to LUKoil-NVN, repayable on 29 May 2009.

8.3 On 20 February 2006 Vyacheslav Lepilin acquired 8,670 shares in Woodhurst from Vlarenhill for the amount of US$1.

8.4 On 6 March 2006, pursuant to a shareholders agreement between Woodhurst, Cavendish Nominees, Vlarenhill and Vyacheslav Lepilin, Cavendish Nominees acquired 74,000 shares in Woodhurst from Vlarenhill for the amount of US$2,400,000.

8.5 On 20 April 2006 Cavendish Nominees as lender entered into a loan agreement with Woodhurst as borrower for the amount of US$500,000, repayable on 19 April 2009.

8.6 On 21 April 2006 Woodhurst entered into an agreement with PGK whereby Woodhurst lent US$450,000 to PGK at an interest rate of 1 per cent.

8.7 On 19 May 2006 Vesla entered into an agreement to transfer their interest in PGK to Woodhurst for the sales price of US$5,000 pursuant to an interest sale and purchase agreement between Vesla and Woodhurst and was shareholder of Woodhurst at the time of the transaction. Vladimir Koshcheev was at the time and is currently a shareholder of Vesla and was an indirect shareholder of Woodhurst at the time of the transaction.

8.8 On 15 June 2006 Cavendish Nominees as lender entered into a loan agreement with Woodhurst as borrower for the amount of US$500,000, repayable on 14 June 2009.

8.9 On 16 June 2006 the Company as lender entered into an agreement with PGK as borrower for the amount of US$450,000 repayable on 17 June 2009. The full amount was repaid early by PGK.

8.10 On 26 June 2006 Cavendish Nominees as lender entered into a loan agreement with Woodhurst as borrower for the amount of US$1,600,000, repayable on 27 June 2009.

8.11 On 7 July 2006 Woodhurst entered into an agreement with Vlarenhill for certain consultancy services for the amount of US$200,000.

8.12 On 28 July 2006 Woodhurst as lender entered into a loan agreement with PGK as borrower for the amount of RUR20,000,000, repayable on 28 July 2009.

8.13 On 11 August 2006 Cavendish Nominees as lender entered into a loan agreement with Woodhurst as borrower for the amount of US$11,000,000, repayable on 11 August 2009.

8.14 On 24 August 2006 Woodhurst as lender entered into a loan agreement with PGK as borrower for the amount of RUR13,000,000, repayable on 25 August 2009.

8.15 On 28 August 2006 Woodhurst as lender entered into a loan agreement with PGK as borrower for the amount of RUR12,000,000, repayable on 29 August 2009.

8.16 On 7 September 2006 Woodhurst as lender entered into a loan agreement with GNS as borrower for the amount of RUR569,697,817.26.

8.17 On 29 September 2006 Woodhurst as lender entered into a loan agreement with PGK as borrower for the amount of RUR20,000,000, repayable on 30 September 2009.

8.18 On 29 September 2006 the Company issued 262,799 shares to the shareholders of Woodhurst, in exchange for the transfer to the Company of the entire issued share capital of Woodhurst and further to a share exchange agreement between the Company, Cavendish Nominees, Vlarenhill Limited and Vyacheslav Lepilin. For further details see paragraph 2.1 of "Part IX — Additional Information — Share Capital of the Company."

8.19 On 29 October 2006, the Company issued 44,400 shares to Cavendish Nominees at a subscription price of £35.12 per share. For further details see paragraph 2.1 of "Part IX — Additional Information — Share Capital of the Company."

8.20 On 7 November 2006 Woodhurst as lender entered into a loan agreement with PGK as borrower for the amount of RUR7,500,000, repayable on 7 November 2009.

8.21 On 20 November 2006 Woodhurst as lender entered into a loan agreement with PGK as borrower for the amount of RUR3,000,000, repayable on 20 November 2009.

8.22 On 14 March 2007 the Company entered into service agreements with Mikhail Ivanov as Chief Executive Officer and Alistair Stobie as Chief Financial Officer. For further details see paragraph 6.1 of "Part IX — Additional Information — Directors' contracts, employment agreements and emoluments."

8.23 On 15 January 2007 Woodhurst increased its authorised share capital to 262,802 shares, and resolved to allot one share to the Company for US$750,000 (US$1 per share with a premium of US$749,999 per share).

8.24 On 5 March 2007 Woodhurst increased its authorised share capital to 262,803 shares and resolved to allot one share to the Company for US$750,000 (US$1 per share with a premium of US$749,999 per share).

8.25 On 19 April 2007 the Company entered into restricted share agreements, effective 15 May 2006, with Mikhail Ivanov as Chief Executive Officer, Alistair Stobie, as Chief Financial Officer, agreeing to issue the Chief Executive Officer 525,100 Shares, and the Chief Financial Officer 262,600 Shares vesting semi-annually over three years. On 19 April 2007 the Company also entered into restricted share agreements, effective 14 March 2007, with Stephen Ogden and Ronald Freeman, agreeing to issue to each of them shares worth US$15,000 on each of 14 September 2007 and 14 March 2008. For further details see paragraph 7.17 of this "Part X — Additional Information — Restricted Share Agreements."

9. Branan Report

Branan Environment conducted an environmental audit of PGK on behalf of Baring Vostok in the Saratov region of Russia on 6 and 7 February 2006 (the "Branan Report"). The Branan Report states that due to its location, exploration and drilling for oil and gas in a portion of the Karpenskiy Licence Area may be limited. The Karpenskiy Licence Area borders a protected nature area and the natural habitat of the Otis tarda, a rare and endangered bird species protected by Russian environmental law. In order to avoid any risk of violation of Russian environmental law, the Branan Report recommends that the Company (i) request confirmation from the Department of Natural Resources of Saratov Oblast and Rosprirodnadzor's Saratov Oblast department regarding the boundaries of any nearby protected nature areas and limitations on works that may be carried out in the Karpenskiy Licence Area, (ii) request confirmation from the Federal Service for Environmental, Technological and Nuclear Surveillance regarding the level of environmental review (regional or federal) required for the project and (iii) obtain all required approvals and permits from supervising authorities prior to the commencement of works in the Karpenskiy Licence Area. These recommendations relate to legislative requirements whereby an official response will be a defence for the Company from related liabilities in case of potential claims.

10. Litigation

No member of the Group is, nor, has been, involved in any governmental, legal or arbitration proceedings during the last 12 months which may have, or has had in the recent past, a significant effect on the Company's or the Group's financial position or profitability and, so far as the Company is aware, there are no such proceedings pending or threatened against any member of the Group.

11. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

12. Taxation

The following paragraphs are not intended to be, nor should they be considered to be, legal or tax advice to any particular holder of Shares. The following paragraphs are intended as a general limited guide only for shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes, holding Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and published Her Majesty's Revenue & Customs ("HM Revenue & Customs") practice both of which are subject to change, possibly with retroactive effect. Accordingly, potential investors should satisfy themselves as to the overall tax consequences of acquisition, ownership and disposition of Shares in their own particular circumstances, by consulting their own professional advisers.

12.1 Dividends and Other Distributions

12.1.1 Under current United Kingdom taxation legislation, no withholding tax will be deducted from dividends paid by the Company.

12.1.2 Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash paid. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the ordinary rate (10 per cent.) or the upper rate (32.5 per cent.). The effect will be that taxpayers who are otherwise liable to pay tax at only the starting rate or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate taxpayers will have tax liabilities at 25 per cent. of the cash dividend income. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

12.1.3 A UK resident corporate shareholder which is not a dealer in securities should not be liable to corporation tax or income tax in respect of dividends received from the Company, but cannot claim payment of the tax credit from HM Revenue & Customs.

Trustees of discretionary trusts are liable to account for income tax at the rate applicable to trusts on the trust's income and are required to account for tax at a special rate, currently 32.5 per cent. To the extent that the tax credit exceeds the trustees' liability to account for income tax, the trustees will have no right to claim repayment of the tax credit.

12.1.4 United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive but they are not entitled to claim repayment of the tax credit.

12.1.5 Individual shareholders who are resident for tax purposes in countries other than the UK but who are Commonwealth citizens, nationals of states which are part of the European Economic Area, residents of the Isle of Man or the Channel Islands, or certain other persons are entitled to a tax credit as if they were resident for tax purposes in the UK which they may set off against their total UK income tax liability. Such shareholders will generally not be able to claim payment of the tax credit from HM Revenue & Customs.

12.1.6 Other shareholders who are not resident in the UK for tax purposes will not generally be entitled to claim payment of any tax credit from HM Revenue & Customs under any double taxation treaty or otherwise, or if they are entitled, any such payment is likely to be negligible. Such shareholders should consult their own tax advisers on what relief or credit may be claimed for any UK tax credit in the jurisdiction in which they are resident.

12.2 Chargeable Gains

12.2.1 For the purposes of UK tax on chargeable gains, the issue of Shares pursuant to the Offer will be regarded as an acquisition of a new holding in the share capital of the Company. To the extent that a shareholder acquires Shares allotted to him, the Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Shares will constitute the base cost of a shareholder's holding.

12.2.2 Shareholders who are resident or ordinarily resident in the UK for tax purposes and who dispose of their Shares at a gain will ordinarily be liable to UK taxation on chargeable gains, subject to any available exemptions or reliefs. The gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Shares. If a shareholder disposes of all or some of his Shares, a liability to tax on chargeable gains may, depending on his circumstances, arise.

12.2.3 A shareholder who is not resident in the UK for tax purposes but who carries on a trade, profession or vocation in the UK through a branch or agency (in the case of an individual shareholder) or through a permanent establishment (in the case of a shareholder within the charge to UK corporation tax), to which his Shares are attributable may be subject to UK taxation of chargeable gains on the disposal of the Shares.

12.2.4 If an individual shareholder ceases to be resident or ordinarily resident in the UK and subsequently disposes of Shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that shareholder becoming once again resident or ordinarily resident in the UK.

12.2.5 For individuals and certain trustees the Shares acquired may, depending on the number of years for which they have held their Shares, be entitled to reduce their capital gains tax liability through the operation of taper relief. Corporate shareholders should qualify for the indexation allowance.

12.3 Inheritance Tax

12.3.1 The Shares in the Company are assets situated in the UK for the purposes of UK inheritance tax. A gift of such Shares by, or on the death of, an individual shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax.

12.3.2 Unquoted shares in trading companies potentially qualify for 100 per cent. business property relief which gives up to 100 per cent. exemption from inheritance tax. One

of the main conditions is that the investor held the shares for two years before the date of transfer or death. Therefore, where an investor makes a lifetime gift of such shares or dies while still owner of the shares and the above conditions are satisfied, no inheritance tax may be payable in respect of the value of the shares, provided certain conditions are met.

12.4 Stamp Duty and Stamp Duty Reserve Tax

The below statements are intended as a general guide to the current stamp duty and SDRT position. Certain categories of person are not liable to stamp duty or stamp duty reserve tax ("SDRT") and others may be liable at a higher rate or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

12.4.1 No stamp duty or SDRT will generally be payable on the allotment and issue of the Shares;

12.4.2 No liability to stamp duty or SDRT will arise on issue of the Placing Shares or on the issue of definitive Share certificates by the Company (provided that the Placing Shares are not issued to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or issuing depository receipts);

12.4.3 Any subsequent transfers of Shares outside the CREST system will generally be liable to stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration given (rounded up to the nearest multiple of £5). Stamp duty is normally the liability of the purchaser or transferee of the Shares. An agreement to transfer shares will generally be subject to SDRT at the rate of 0.5 per cent. of the agreed consideration. If, however, within the period of six years of the date of the agreement or, in the case of a conditional agreement, the date on which it becomes unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be repaid or cancelled. SDRT is normally the liability of the purchaser or transferee of the shares;

12.4.4 Under the CREST system for paperless transfer, no stamp duty or SDRT will arise on a transfer of shares into CREST for conversion into uncertified form, unless such transfer is made for a consideration in money or money's worth, in which case a liability to stamp duty or SDRT will arise, usually at the rate set out above;

12.4.5 A transfer of shares effected on a paperless basis within CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value or the consideration. CREST is obliged to collect SDRT from the purchaser of the shares on relevant transactions settled within the system;

12.4.6 Where shares are issued or transferred: (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services; or (ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty (in the case of a transfer only to such persons) or SDRT may be payable at a rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the shares or, in the case of an issue to such persons, the issue price of the shares; and

12.4.7 Special rules apply to certain categories of person including intermediaries, market makers, brokers and dealers, and persons connected with depositary arrangements and clearance services.

13. Intellectual Property

The Company is not dependent on patents or licences, industrial, commercial or manufacturing processes which are material to the Company's business or profitability, except as otherwise disclosed in this document.

14. Third-party information

The information in this document which has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

15. General

15.1 Other than the current application for Admission, the Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in such Shares.

15.2 The financial year end of the Company is 31 December of each year and the first audited financial statements of the Company have been prepared for the period ending 31 December 2006. The Company does not have any audited financial statements for any other periods.

15.3 Other than as disclosed in "Part II — The Company," there are no investments of the Company in progress which are or may be significant.

15.4 There has been no significant change in the financial or trading position of the Company since the date up to which the consolidated financial results for the year ended 31 December 2006 of the Company were prepared.

15.5 The financial information contained in this document does not constitute statutory accounts of the Company within the meaning of section 240 of the Companies Act 1985.

15.6 Save as disclosed in this document, no person (other than a professional adviser referred to in this document and trade suppliers) has:

15.6.1 received, directly or indirectly, from any member of the Group within 12 months preceding the application for Admission; or

15.6.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission, any of the following:

15.6.2.1 fees totalling £10,000 or more;

15.6.2.2 securities in the Company with a value of £10,000 or more, calculated by reference to the expected operating price of the Placing Shares on the first day of dealings on AIM; or

15.6.2.3 any other benefit with a value of £10,000 or more at the date of Admission.

15.7 The expenses of, and incidental, to Admission and the Placing are estimated to amount to approximately US$8.5 million.

15.8 The minimum amount which, in the opinion of the Directors, must be raised pursuant to the Placing to satisfy the matters described in "Part II — The Company — Use of Proceeds" is US$125 million.

15.9 The Company had thirteen employees as of 1 April 2007, being the Chief Executive Officer, Mikhail Ivanov, the Chief Financial Officer, Alistair Stobie, six exploration and development employees and five administrative and support staff.

15.10 The ISIN number of the Shares is GB00BIVN4809. The Shares will be traded on AIM under the ticker symbol VGAS.

16. Financial Dependence

The Company is currently dependent upon the financial support received from its investors and other related parties until its revenues from primary business activities are sufficient to satisfy its obligations and fully finance its exploration programme. The Company's management believes that the capital resources available at the date of this document are sufficient for the Company to continue as a going concern for the foreseeable future but only when taking into account income generated from future operations and the receipt of the proceeds arising from the Placing. Accordingly, the financial information has been prepared on the assumption that the Company will continue as a going concern.

17. Responsibility and Consent

17.1 The Directors of the Company, whose names appear on page 9, and the Company, accept responsibility, individually and collectively, for the information contained in this document

and compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Company and the Directors, each of whom has taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

17.2 KBC Peel Hunt, whose name and registered office appear on page 9, is acting in the capacity of nominated adviser, Joint Lead Manager and Joint Broker to the Company. KBC Peel Hunt has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

17.3 Renaissance, whose name and registered office appear on page 9, is acting in the capacity of sole global coordinator and bookrunner and Joint Lead Manager to the Company. Renaissance Capital is acting as Joint Broker to the Company. Renaissance and Renaissance Capital have given and not withdrawn their written consent to the inclusion in this document of references to their names in the form and context in which they appear.

17.4 Moore Stephens LLP has given and has not withdrawn its written consent to the inclusion in this document of its report set out in "Part VII — Accountants' Report" and references to its report and its name in the form and context in which they appear, and has authorised the contents of those parts of this document. Moore Stephens LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

17.5 Schlumberger Logelco has given and not withdrawn its written consent to the issue of this document with its name included in it and with inclusion herein of its report and references thereto in the form and context in which they are included for the purposes of Annex I to the AIM Prospectus Directive Rules. Schlumberger Logelco accepts responsibility for the information contained in the Petroleum Consultant's Report set out in "Part V — Petroleum Consultant's Report" of this document and to the best knowledge and belief of Schlumberger Logelco, having taken reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

17.6 Ryder Scott has given and not withdrawn its written consent to the issue of this document with its name included in it and with inclusion herein of its report and references thereto. Ryder Scott accepts responsibility for the information contained in its report set out in Appendix C of this document and to the best knowledge and belief of Ryder Scott, having taken reasonable care to ensure that such is the case, the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

18. Availability of documents for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (excluding public holidays) at the offices of Akin Gump Strauss Hauer & Feld, CityPoint, Level 32, One Ropemaker Street, London EC2Y 9AW from the date of this document until the fourteenth day after Admission:

18.1 the Memorandum of Association and the Articles of Association of the Company;

18.2 the Petroleum Consultant's Report, a copy of which appears in "Part V — Petroleum Consultant's Report";

18.3 the Ryder Scott Report, a copy of which appears in Appendix C;

18.4 the accountants' report, a copy of which appears in "Part VII — Accountants' Report";

18.5 the material contracts, summaries of which appear or are referenced in paragraph 7 in "Part IX — Additional Information — Material Contracts"; and

18.6 the letters of consent referred to in paragraph 17 of "Part IX — Additional Information — Responsibility and Consent."

Dated 20 April 2007

PART X

CLASSIFICATION OF RESERVES AND RESOURCES

The estimation of resources of hydrocarbons such as natural gas, gas condensate and crude oil can be broken down into two components: (i) geological resources, or the quantities of hydrocarbons contained in the subsoil and (ii) recoverable resources, or the portion of geological resources whose extraction from the subsoil as of the date the resources are calculated is economically efficient given market conditions and rational use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection. The following discussion is intended to summarise the categories and methodologies of SPE standards.

Introduction

Under SPE standards, total hydrocarbons-initially-in-place include quantities of hydrocarbons which, on a given date, have already been produced from or are estimated to be contained in known accumulations ("discovered hydrocarbons-initially-in-place"), plus the estimated quantities in accumulations yet to be discovered ("undiscovered hydrocarbons-initially-in-place").

The quantities of hydrocarbons which have already been produced from an accumulation, plus those quantities which are estimated to be potentially recoverable therefrom, on a given date, collectively constitute the estimated ultimate recovery ("EUR") from the accumulation. EUR is not a resource classification as such, and may be applied to an accumulation of any status/maturity (discovered or undiscovered).

Some users consider only the estimated potentially recoverable portion of hydrocarbons-initially-in-place to constitute resources. The estimated potentially recoverable portion of discovered hydrocarbons-initially-in-place may be subdivided into commercial and sub-commercial categories, which are classified as reserves and contingent resources, respectively. Estimated potentially recoverable undiscovered hydrocarbons-initially-in-place are classified as prospective resources.

Hydrocarbon quantities classified as reserves, contingent resources or prospective resources should not be aggregated with each other without due consideration of the significant differences in the criteria associated with their classification. In particular, there may be a significant risk that accumulations containing contingent resources or prospective resources will not achieve commercial production.

Resource Classifications

The Company has included in this document information about its reserves at the Vostochny-Makarovskoye Licence Area, and about its prospective resources at the Karpenskiy Licence Area, under SPE standards based on the evaluations of its fields by the Petroleum Consultant.

Reserves

Under SPE standards, reserves represent quantities of hydrocarbons which are estimated to be commercially recoverable from discovered accumulations from a given date forward. The definition of commerciality for an accumulation will vary according to local conditions and circumstances and is left to the discretion of the country or company concerned. However, reserves must still be categorised according to the specific criteria of the SPE/WPC definitions and therefore proved reserves will be limited to those quantities that are commercial under current economic conditions, while probable and possible reserves may be based on future economic conditions. In general, quantities should not be classified as reserves unless there is an expectation that the accumulation will be developed and placed on production within a reasonable timeframe. In certain circumstances, reserves may be assigned even though development may not occur for some time. An example of this would be where fields are dedicated to a long-term supply contract and will only be developed as and when they are required to satisfy that contract.

Reserves, in turn, are classified as "proved," "probable" and "possible," based on both logical and commercial factors:

Proved reserves include reserves that are confirmed with a high degree of certainty through an analysis of development history and/or volume method analysis of the relevant geological and engineering data. Proved reserves are those that, based on the available evidence and taking into account technical and economic factors, have a better than 90 per cent. chance of being produced.

Probable reserves are those reserves in which hydrocarbons have been located within the geological structure with a lesser degree of certainty because fewer wells have been drilled and/or certain operational tests have not been conducted. Probable reserves are those reserves that, on the available evidence and taking into account technical and economic factors, have a better than 50 per cent. chance of being produced.

Possible reserves are those unproven reserves that, on the available evidence and taking into account technical and economic factors, have a 10 per cent. chance of being produced.

An evaluation of proved, probable and possible natural gas reserves naturally involves multiple uncertainties. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the audit date, reserves may be significantly restated upwards or downwards. Changes in the price of the relevant hydrocarbons may also affect the Company's proved and probable reserves estimates, as well as estimates of its future net revenues and net present worth, because the reserves are evaluated, and the future net revenues and net present worth are estimated, based on prices and costs as of the audit date.

Contingent Resources

Contingent resources are those quantities of hydrocarbons which, on a given date, are estimated to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. Some ambiguity may exist between the definitions of contingent resources and unproved reserves, which is a reflection of variations in current industry practice. SPE recommends that if the accumulation is not expected to be developed and placed in production within a reasonable timeframe, the estimated recoverable volumes for the accumulation be classified as contingent resources. Contingent resources may include, for example, accumulations for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is still at an early stage.

Prospective Resources

Prospective Resources are those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

Estimating Potentially Recoverable Quantities of Hydrocarbons

Estimates of potentially recoverable quantities of hydrocarbons derived under SPE standards rely on the integrity, skill and judgement of the evaluator and are affected by the geological complexity, stage of exploration or development, degree of depletion of the reservoirs, and amount of available data.

All hydrocarbons-initially-in-place may be potentially recoverable, since the estimation of the proportion which may be recoverable can be subject to significant uncertainty and will change with variations in commercial circumstances, technological developments and data availability. A portion of those quantities classified as unrecoverable may become recoverable resources in the future as commercial circumstances change, technological developments occur, or additional data are acquired.

Because any estimation of potentially recoverable volumes of hydrocarbons for an accumulation is subject to both technical and commercial uncertainties, it should, in general, be quoted as a range. In the case of reserves, this range of uncertainty can be reflected in estimates for proved reserves (1P), proved plus probable reserves (2P) and proved plus probable plus possible reserves (3P) scenarios. For other resource categories, the terms low estimate, best estimate and high estimate are recommended. The low estimate, best estimate and high estimates of potentially recoverable volumes should reflect some comparability with the reserves categories of 1P, 2P and 3P, respectively.

The term "best estimate" is used here as a generic expression for the estimate considered to be the closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely/mode, median/P50 or mean). The terms "low estimate" and "high estimate" should provide a reasonable assessment of the range of uncertainty in the best estimate. If probabilistic methods are used, these estimated quantities should be based on methodologies analogous to the 1P and 3P definitions of reserves, respectively. Therefore, in general, there should be at least a 90 per cent. probability that, assuming the accumulation is developed, the quantities actually recovered will equal or exceed the low estimate, and, an equivalent probability value

of 10 per cent. should, in general, be used for the high estimate. Where deterministic methods are used, a similar analogy to the reserves definitions should be followed.

While there may be a significant risk that sub-commercial known accumulations (contingent resources) or undiscovered accumulations (prospective resources) will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk. For example, consider an accumulation that is currently not commercial due solely to the lack of a market. The estimated recoverable volumes are classified as contingent resources, with low, best and high estimates. Where a market is subsequently developed, and in the absence of any new technical data, the accumulation moves up into the reserves classification and the proved reserves estimate would be expected to approximate the previous low estimate, the probable reserves estimate would be expected to approximate the previous best estimate, and the possible reserves estimate would be expected to approximate the previous high estimate.

For undiscovered accumulations (prospective resources) the range will, in general, be substantially greater than the ranges for discovered accumulations. In all cases, however, the actual range will be dependent on the amount and quality of data (both technical and commercial) which is available for that accumulation. As more data become available for a specific accumulation (e.g. additional wells, reservoir performance data) the range of uncertainty in EUR for that accumulation should be reduced.

APPENDIX A

DEFINITIONS

References in this document to statutes or government agencies are, unless specifically stated otherwise, to statutes or government agencies in the UK. The following definitions apply throughout this document unless the context requires otherwise:

"Admission"	the admission to trading of the Shares on AIM
"AIM"	a market operated by the London Stock Exchange
"AIM Rules for Companies"	the rules for companies of the London Stock Exchange governing the admission to and the operation of AIM
"Amended Law"	as defined in "Part VI — Regulation"
"Articles of Association"	the articles of association of the Company, a summary of which is set out paragraph 3.2 of "Part IX — Additional Information — Memorandum and Articles of Association"
"Baring Vostok"	Baring Vostok Capital Partners Limited
"Baring Vostok Group"	as defined in paragraph 7.16 of "Part IX — Additional Information — Material Contracts — Relationship Agreement"
"Baring Vostok Private Equity Fund III"	Baring Vostok Private Equity Fund III L.P.1, Baring Vostok Private Equity Fund III L.P.2, and Baring Vostok Fund III Co-Investment L.P.
"Board"	the board of Directors
"Branan Report"	as defined in paragraph 9 of "Part IX — Additional Information — Branan Report"
"Cavendish Nominees"	Cavendish Nominees Limited
"Civil Code"	as defined in "Part VI — Regulation"
"Combined Code"	the Combined Code on Corporate Governance published in June 2006
"Companies Act"	means the Companies Act 1985 and the Companies Act 2006, as applicable
"Companies Act 1985"	the UK Companies Act 1985 (as amended)
"Companies Act 2006"	the UK Companies Act 2006 (as amended)
"Company" or "Volga Gas"	Volga Gas plc
"Controlling Shareholders"	as defined in paragraph 7.16 of "Part IX — Additional Information — Material Contracts — Relationship Agreement"

"CREST"	the computerised settlement system, operated by CRESTCo Limited, which facilitates the transfer of title to Shares in uncertificated form
"CRESTCo Limited"	Central Securities Depository for the UK market and operator of the CREST system
"Customs Union"	parties to the Agreement on Customs Union, Moscow, 20 January 1995, which, at the date of this document are Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan
"Directors"	the directors of the Company, as listed in "Part II — The Company"
"Enlarged Issued Share Capital"	the issued share capital of the Company following the Placing, but assuming that the over-allotment option is not exercised
"EU"	European Union
"EUR"	estimated ultimate recovery
"FAS"	Russian Federal Anti-Monopoly Service
"Federal Energy Agency"	as defined in "Part VI — Regulation"
"Federal Agency for Subsoil Use"	as defined in "Part II — The Company — Description of the Assets — Karpenskiy Licence Area"
"FSA"	the Financial Services Authority
"FSMA"	the Financial Services and Markets Act 2000 (as amended)
"FST"	the Russian Federation's Federal Service on Tariffs
"FST Order"	Order of the FST of 28 December 2006 No. 474-e/2 "On Tariffs on Gas Transportation Services Through the System of Main Gas Pipelines of Gazprom for Independent Organizations" (as amended by Order of the FST of 27 February 2007 No. 29-e/5)
"Gas Export Law"	as defined in "Part VI — Regulation"
"Gas Supply Law"	as defined in "Part VI — Regulation"
"Gazprom"	OAO Gazprom and its affiliates
"Geoproekt"	OOO NSK Geoproekt
"GNS"	OOO Gaznefteservice
"Group"	the Company, Woodhurst, PGK and GNS
"Hard Lock In Period"	as defined in "Part II — The Company — Lock-up and orderly trading arrangements"
"HM Revenue & Customs"	Her Majesty's Revenue & Customs

"Independents"	as defined in "Part III — Overview of the Russian Gas Industry"
"Issued Share Capital"	the existing issued share capital of the Company, before the Placing
"Itera"	OOO Neftegazovaya Kompaniya Itera
"Joint Brokers"	KBC Peel Hunt and Renaissance Capital
"Joint Lead Managers"	KBC Peel Hunt and Renaissance
"Joint Stock Companies Law"	Russian Federal Law 208-FZ "On Joint Stock Companies", of 26 December 1996, as amended
"Karpenskiy Licence"	as defined in "Part II — The Company"
"Karpenskiy Licence Area"	as defined in "Part I — Key Information"
"KBC Peel Hunt"	KBC Peel Hunt Ltd
"London Stock Exchange"	London Stock Exchange plc
"LUKoil Group"	OAO LUKoil, together with its direct and indirect subsidiaries
"LUKoil-NVN"	LUKoil-Nizhnevolzhskneft
"Member State"	Member State of the European Economic Area
"Memorandum of Association"	the memorandum of association of the Company
"Ministry of Natural Resources	Ministry of Natural Resources of the Russian Federation
"Netback Parity"	as defined in "Part II — The Company"
"New York Convention"	1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards
"Nomad and Broker Agreement"	as defined in paragraph 7.15 of "Part IX — Additional Information — Material Contracts — Nomad and Broker Agreement"
"Not in Public Hands"	securities held, directly or indirectly (including via a related financial product) by (a) a related party (as defined in the AIM Rules for Companies); (b) any person who under any agreement has a right to nominate a person to the board; or (c) any person who is subject to lock-in agreements.
"OAO"	Open Joint Stock Company
"Offer Period"	as defined in paragraph 3.2.11 of "Part IX — Additional Information — Memorandum and Articles of Association"
"Official List"	the official list of securities that have been admitted to listing by the United Kingdom Listing Authority
"OOO"	Limited Liability Company

"Optional Shares"	as defined on the cover page
"p"	pence; one one-hundredth of a pound sterling
"PE"	as defined in "Part VI — Regulation"
"Petrel"	exploration and production software for subsurface interpretation and modelling which provides the understanding of risks and uncertainties in the fields of geophysics and geology as well as reservoir engineering and drilling
"Petroleum Consultant"	Schlumberger Logelco, Inc.
"Petroleum Consultant's Report"	the report prepared by the Petroleum Consultant set out in "Part V — Petroleum Consultant's Report"
"PGK"	OOO Pre-Caspian Gas Company
"Placing"	as defined on the cover page
"Placing Price"	US$6 per Share
"Placing Shares"	as defined on the cover page
"Pre-Caspian Basin"	see the definition of "North Caspian Basin" in Appendix B
"Pre-Caspian Licence"	as defined in "Part II — The Company"
"Pre-Caspian Licence Area"	as defined in "Part I — Key Information"
"Prospectus Directive"	EU Directive 2003/71/EC
"Qualifying Directors"	as defined in paragraph 7.16 of "Part IX — Additional Information — Material Contracts — Relationship Agreement"
"Registrar"	Capita Registrars
"Relationship Agreement"	as defined in paragraph 7.16 of "Part IX — Additional Information — Material Contracts — Relationship Agreement"
"Renaissance"	Renaissance Securities (Cyprus) Limited
"Renaissance Capital"	Renaissance Capital Limited
"Rosprirodnadzor"	Rosprirodnadzor, a governmental agency subordinate to the Federal Agency for Subsoil Use
"RUR"	Russian roubles
"Russia"	the Russian Federation
"Russian Tax Code"	Tax Code of the Russian Federation
"Ryder Scott"	Ryder Scott Company, L.P.

"Ryder Scott Report"	as defined in "Part II — The Company"
"SAS"	Central Asian Centre pipeline
"Schlumberger Group"	Schlumberger Logelco, Inc., together with its direct and indirect subsidiaries
"Schlumberger IPM"	Schlumberger Group's Integrated Project Management Unit
"Schlumberger Logelco"	Schlumberger Logelco, Inc.
"Schlumberger Logelco Agreement"	as defined in paragraph 7.8 of "Part IX — Additional Information — Material Contracts — Schlumberger Logelco Agreement"
"SDRT"	Stamp Duty Reserve Tax
"Securities Act"	U.S. Securities Act of 1933, as amended
"Shares"	ordinary shares of 1p each in the capital of the Company
"SNG"	OAO Saratovneftegeophysika
"Soviet Union"	Union of Soviet Socialist Republics
"SPE"	Society of Petroleum Engineers
"State Commission for Mineral Resources"	the State Commission for Mineral Resources of the Russian Federation
"Subsoil Law"	as defined in "Part I — Key Information"
"Table A"	Table A in the Schedule to the Companies (Tables A to F) Regulations 1985, as amended
"Takeover Offer"	as defined in paragraph 3.2.10 of "Part IX — Additional Information — Memorandum and Articles of Association"
"Takeover Offeror"	as defined in paragraph 3.2.10 of "Part IX — Additional Information — Memorandum and Articles of Association"
"Tambey Licence"	as defined in "Part III — Overview of the Russian Gas Industry"
"Trans Nafta"	ZAO Trans Nafta
"UGSS"	Unified Gas Supply System, including the Central Asian Centre pipeline
"UK"	United Kingdom of Great Britain and Northern Ireland
"US"	United States of America
"US$"	US dollar

"Underwriting Agreement"	the underwriting agreement dated 20 April 2007 and made between (1) KBC Peel Hunt, (2) Renaissance Securities (Cyprus) Limited, (3) the Company and (4) the Directors, which is summarised in paragraph 7.14 of "Part IX — Additional Information — Material Contracts — Underwriting Agreement"
"United Kingdom Listing Authority"	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"United States," or "U.S."	the United States of America, its territories and possessions, any state in the United States of America, the District of Columbia and all other areas subject to its jurisdiction
"VAT"	value added tax
"Vesla"	ZAO Vesla
"Vlarenhill"	Vlarenhill Limited
"Vostochny-Makarovskoye Licence"	as defined in "Part II — The Company"
"Vostochny-Makarovskoye Licence Area"	as defined in "Part I — Key Information"
"Woodhurst"	Woodhurst Holdings Limited
"ZAO"	Closed Joint Stock Company
"£"	pounds sterling
"€"	Euro

APPENDIX B

GLOSSARY OF TECHNICAL TERMS

The following technical terms are used in this document. Grammatical versions of these terms should be interpreted in the same way:

"2-D seismic"	geophysical data that depict the subsurface strata in two dimensions
"3-D seismic"	geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D seismic
"associated gas"	natural gas that occurs as gas in the free gas cap above the oil and gas dissolved in crude oil
"bcm"	billion cubic metres
"best estimate"	as defined in "Part X — Classification of Reserves and Resources"
"BOE"	barrels of oil equivalent; where 1 BOE = 169.9 cm or 1 cm = 0.0058857 BOE
"Caspian Depression"	a low-lying flatland region that lies at the northern end of the Caspian Sea
"Caspian Petroleum Province"	a basin bounded by the Paleozoic carbonate platform of the Volga-Ural province to the north and west and by the Ural, South Emba, and Karpenskiy Hercynian foldbelts to the east and south
"cm"	cubic metres
"condensate"	liquid hydrocarbons associated with the production from a primarily natural gas reservoir
"contingent resources"	as defined in "Part X — Classification of Reserves and Resources"
"field"	means an area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition
"gas"	natural gas
"gas processing facilities"	together with the laboratory, gathering pipelines and storage facilities (if any), a plant comprising one or more units such that after conditioning the gas will be of pipeline quality as, specified by Gazprom, such units may include dehydration, sweetening and separation of natural gas liquids
"gas-water contact"	bounding surface in a reservoir above which predominantly gas occurs and below which predominantly water occurs
"high estimate"	as defined in "Part X — Classification of Reserves and Resources"

"hydrocarbons"	compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms
"Kungurian Salt"	a layer of salt laid down during the lower Permian age which occurs in the Northern Caspian Petroleum Province
"licence area"	the particular subsoil plot specified in the subsoil licence issued by the applicable Russian federal authority, which the licence holder has the right to use for the purpose and on the terms specified in the subsoil licence. A licence area may contain one or more fields or may encompass only a portion of a field
"liquidation"	to apply a cement plug to close the well and weld a steel plate to the top of the well; the well is then abandoned
"low estimate"	as defined in "Part X — Classification of Reserves and Resources"
"mbbls"	thousand barrels
"mcm"	thousand cubic metres
"mmBOE"	million barrels of oil equivalent
"natural gas"	hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas) and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure
"North Caspian Basin"	Otherwise referred to as the Precaspian, Pricaspian and Peri-Caspian basin, the North Caspian Basin occupies the shallow northern portion of the Caspian Sea and a large plain to the north of the sea between the Volga and the Urals Rivers and farther east to the Mugodzhary Highland, which is the continuation of the Ural foldbelt. The basin is bounded by the Paleozoic carbonate platform of the Volga-Ural province to the north and west and the Ural, South Emba and Karpinsky Hercynian foldbelts to the east and south. The basin was originated by the pre-Late Devonian rifting and subsequent spreading that opened the oceanic crust, but the precise time of these tectonic events is not known
"parametric wells"	a well which is drilled to determine sub-surface geology. It is not a production well
"petroleum"	naturally occurring liquids and gasses which are predominantly comprised of hydrocarbon compounds
"possible reserves"	as defined in "Part X — Classification of Reserves and Resources"
"probable reserves"	as defined in "Part X — Classification of Reserves and Resources"

"prospective resources"	as defined in "Part X — Classification of Reserves and Resources"
"proved reserves"	as defined in "Part X — Classification of Reserves and Resources"
"proved plus probable reserves"	sum of the proved reserves and the probable reserves calculated in accordance with SPE standards
"reserves"	quantities of petroleum which are anticipated to be commercially recoverable from known accumulations from a given date forward
"reservoir	a porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs
"risk factor"	for contingent resources means the estimated chance, or probability, that the volumes will be commercially extracted; for prospective resources means the chance or probability of discovering hydrocarbons in sufficient quantity for them to be tested to the surface, this, then, is the chance or probability of the prospective resource maturing into a contingent resource
"SPE standards"	reserves definitions consistent with those approved in March 1997 by the Society of Petroleum Engineers and the World Petroleum Congresses
"sub-salt"	below the Kungurian salt layer
"supra-salt"	above the Kungurian salt layer
"tcm"	trillion cubic metres

APPENDIX C

RYDER SCOTT REPORT

VOLGA GAS

ESTIMATED

FUTURE RESOURCES

ATTRIBUTABLE TO CERTAIN

LEASEHOLD INTERESTS IN THE

SOUTH ERSHOV HIGH OF THE

KARPENSKY LICENSE AREA, RUSSIA

AS OF

DECEMBER 31, 2006

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DISCUSSION

RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
1100 LOUISIANA SUITE 3800 HOUSTON, TEXAS 77002-5218 TELEPHONE (713) 651-9191
FAX (713) 651-0849

October 26, 2006

The Directors
Volga Gas plc
27/28 Eastcastle Street
London, England W1W 8DH
United Kingdom

The Directors
KBC Peel Hunt Ltd.
111 Old Broad Street
London, England EC2N 1PH
United Kingdom

The Directors
Renaissance Advisory Services Limited
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Dear Sirs:

At your request we have completed a study of the resource potential and risks attributed to several drilling prospects of Volga Gas plc (Volga) located within the South Ershov high of the Karpensky license area in Russia. These prospects are new prospects identified by seismic and at this time there have been no successful economic producing wells drilled on these features identified in this report. Therefore in accordance with the Society of Petroleum Engineers (SPE), World Petroleum Congress (WPC) and the American Association of Petroleum Geologist (AAPG) these resources must be classified as prospective resources. This letter will serve to present our findings for these new prospects. We will provide our opinion as to the resource potential and quality of each of these newly developed prospects and present our estimate of unrisked prospective resources.

We have been informed by Volga that they have provided all information available and that there are no additional data with regard to these prospects that would result in a change to our evaluation.

Shown below is a summary of the results of our study. We present the summation of the Low, Most Likely, and High unrisked cases for the new prospects in both metric and field units. These results represent values of potential prospective resources derived using a deterministic approach. We emphasize that these totals are included herein for presentation purposes only and do not represent the probabilistic aggregation of risked resources. These potential prospective resources are inherently

1200, 530 8TH AVENUE, S.W. CALGARY, ALBERTA T2P 3S8 TEL (403) 262-2799 FAX (403) 262-2790
621 17TH STREET, SUITE 1550 DENVER, COLORADO 80293-1501 TEL (303) 623-9147 FAX (303) 623-4258

associated with considerable risk as we describe below. We emphasize that these volumes included herein do not represent reserves due to the associated risk by definition.

Summary of Original Volumes in Place South Ershov High			
	Unrisked		
	Low	ML	High
Condensate (Mtonnes)	8,000	30,400	49,600
Dry Gas (MMMm^3)	39	147	239

Summary of Original Volumes in Place South Ershov High			
	Unrisked		
	Low	ML	High
Condensate (Mbbl)	66,974	255,766	416,099
Dry Gas (BCF)	1,367	5,221	8,495

Summary of Gross Prospective Resources in South Ershov High			
	Unrisked		
	Low	ML	High
Condensate (Mtonnes)	4,000	15,200	24,800
Dry Gas (MMMm^3)	29	110	179

Summary of Gross Prospective Resources in South Ershov High			
	Unrisked		
	Low	ML	High
Condensate (Mbbl)	33,487	127,883	208,050
Dry Gas (BCF)	1,025	3,916	6,371

Data Supplied to Ryder Scott by Global Energy Development

Data supplied to us by Volga included a variety of geological, geophysical and engineering data. Specifically the interpreted 2D seismic, well logs and well test data for nearby wells were among the data provided by Volga that became the basis of our interpretation

Deterministic Methodology

The data received from Volga was reviewed and utilized to develop geological Low, Most Likely (ML) and High resource cases. Parameters such as gross rock volume, net/gross reservoir ratio, porosity, gas saturation, formation volume factor, gas compressibility and recovery factor were estimated for each case. Gross Rock Volume ranges were determined from the construction of gross reservoir area maps drawn from the structure maps derived from seismic interpretation and combined with estimated gross formation thicknesses (from well control data, and seismic data). Gross interval isopachs were constructed where adequate data existed and as deemed appropriate. Net/Gross ratios

for the various reservoirs were estimated from the available well data. Porosity values, gas saturation values, gas compressibility and formation volume factor ranges were determined utilizing offset well log, core, and well test data. Recovery Factor ranges were based on Ryder Scott experience of similar formations and considered reasonable. At Volga's request the geologic risk was not included for the prospect but would include additional risk for analysis of the following risk elements: trap, reservoir, source, and timing & migration. Upon completion of the planned 3-D seismic study in the prospect area, additional information may be available to allow better estimates of this geologic risk in future studies. Each of the deterministic case results (Low, ML, High) were calculated by using each individual parameter of that particular case. Deterministic totals at all levels are the arithmetic result of the individual prospects. The following is a review of the prospect that we evaluated for this study. Tables summarizing the input data and the results of all the cases are included under the tab "Tables" in this report. These tables also present estimates of original gas in place (OGIP) for the single gas prospect as well as the estimated potential resources on an unrisked basis.

Karpensky Prospect

The Karpensky Prospect, located in the northwest of the Caspian petroleum province, includes an area of 4188 km^2. The South Ershov high consisting of approximately 200 km^2 is the target structure in the prospect and is considered potentially hydrocarbon-bearing. An in-depth geologic description is included under the tab "Discussion".

Due to the uncertainty of hydrocarbon accumulation and the lack of direct measurement of any hydrocarbons in the identified potential patch reefs, all volumes presented in this report are considered "prospective resource" as defined by the SPE/WPC/AAPG. The definitions of resources are included under the tab "Petroleum Resources Definitions" in this report.

It should be noted that estimated quantities of resources presented in this report are before any geologic risk and economic consideration, if these resources were to be evaluated with economic constraints and the inclusion of geologic risk the quantities may differ from those presented in this report. All resources included herein are undiscovered. At the time of this report Volga has not presented an approved development plan for our analysis or comment. Volga has indicated that the development plan will be developed in the next stage of analysis. Volga has presented an approved plan to conduct the next stage of analysis. This plan is presented in detail in the Future Development section of the Resource Discussion. The study of the South Ershov high only covers a portion of the Karpensky License Area. Upon completion of the planned 3-D seismic study, interpretation and further geologic and geophysical analysis, additional reefs or structures may be discovered. This may or may not result in a significant revision of the resource volumes included herein.

All resources included are based on the assumption of a gas reservoir with associated condensate. Any resources that are discovered will be subject to the license agreement SPT #15522 NR registered on March 16, 2006 with an expiration date of August 15, 2021. Resources included in this report are estimates only and should not be construed as being exact quantities. They may or may not actually be discovered by future drilling, and if discovered, volumes could be more or less than estimated resource amounts presented in this report. Moreover, estimates of resources and the probability of success may increase or decrease as a result of future operations.

<u>General</u>

Estimates of undiscovered prospective resources presented herein are based upon a detailed study of the properties in which Volga Gas plc owns an interest; however, we have not made any field

examination of the properties, as it was deemed that an on-site visit would not provide any additional data pertinent to the evaluation of the resources. No consideration was given in this report to potential environmental liabilities which may exist or may exist in the future, nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices. Volga has informed us that they have furnished us all of the accounts, records, geological and engineering data, and reports and other data that is available for this investigation. The data received from Volga or from public sources were accepted as represented without further investigation.

Neither we nor any of our employees have any interest in the subject properties and neither the employment to make this study nor the compensation is contingent upon our estimates of resources and future income for the subject properties.

This report was prepared for the exclusive use and sole benefit of Volga Gas plc and may not be put to other use without our prior written consent for such use. The data, work papers, and maps used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Yours very truly,

RYDER SCOTT COMPANY, L.P.

Larry P. Connor, P. Eng.
Senior Vice President

LPC/pl

CERTIFICATE OF QUALIFICATION

I, LARRY PATRICK CONNOR, HEREBY CERTIFY:

1. THAT I am a registered Professional Engineer in the Provinces of Alberta, British Columbia and Saskatchewan, the State of Texas and that I reside in Houston, Texas.

2. THAT I graduated from Texas A&M University with a Bachelor of Science degree in Industrial Engineering in 1977.

3. THAT I have been employed in the petroleum industry since graduation in 1977. During the time of employment I have been directly involved in reservoir engineering, petrophysical analysis, reservoir simulation, and property evaluation.

4. THAT I am presently an employee of Ryder Scott Company which prepared an evaluation effective December 31, 2006 for Volga Gas of certain interests within the South Ershov high of the Karpensky License Area in Russia.

5. THAT the parameters and conditions employed in the evaluation of interests of Volga Gas as of December 31, 2006 were examined by me and adopted as representative and appropriate in establishing true value of these properties.

6. THAT the aforementioned report was not based on a personal field examination of the properties in question; however, such an examination was not deemed necessary in view of the information available from Volga Gas, public sources and the fact that all leases are undeveloped at this time.

7. THAT I have not received, nor do I expect to receive, any direct or indirect interest in the holdings discussed, or in the securities of the Company.

8. THAT I have not examined the chain of title for the properties discussed but have relied on descriptions furnished by the client.

Larry R. Connor, P.E.

October 2, 2006

CERTIFICATE OF QUALIFICATION

I, OLGA VLADIMIROVNA LOGVINOVA, HEREBY CERTIFY:

1. THAT I graduated from Moscow University of Oil and Gas Industry with a Master of Science degree in geology and exploration for oil and gas in 1990.

2. THAT I have been employed in the petroleum industry since graduation in 1990. During the time of employment I have been directly involved in research on estimation of hydrocarbon reserves, reservoir modeling, and property evaluation.

3. THAT I am presently an employee of FDP Engineering Company which prepared an evaluation effective December 31, 2006 for Volga Gas of certain interests within the South Ershov high of the Karpensky License Area in Russia.

4. THAT the parameters and conditions employed in the evaluation of interests of Volga Gas as of December 31, 2006 were examined by me and adopted as representative and appropriate in establishing true value of these properties.

5. THAT the aforementioned report was not based on a personal field examination of the properties in question; however, such an examination was not deemed necessary in view of the information available from Volga Gas, public sources and the fact that all leases are undeveloped at this time.

6. THAT I have not received, nor do I expect to receive, any direct or indirect interest in the holdings discussed, or in the securities of the Company.

7. THAT I have not examined the chain of title for the properties discussed but have relied on descriptions furnished by the client.

Olga V. Logvinova

October 2, 2006

CERTIFICATE OF QUALIFICATION

I, OLEG PETROVICH SHMYGLIA, HEREBY CERTIFY:

1. THAT I graduated from Moscow University of Oil and Gas Industry with a Master of Science degree in Petroleum Engineering in 1970.

2. THAT I received a PhD degree in Technical Sciences in 1974.

3. THAT I have been employed in the petroleum industry since graduation in 1970. During the time of employment I have been directly involved in research on reservoir engineering, enhanced gas and oil recovery, reservoir simulation, and property evaluation.

4. THAT I am presently an employee of FDP Engineering Company, Ryder Scott affiliated company, which prepared an evaluation effective December 31, 2006 for Volga Gas of certain interests within the South Ershov high of the Karpensky License Area in Russia.

5. THAT the parameters and conditions employed in the evaluation of interests of Volga Gas as of December 31, 2006 were examined by me and adopted as representative and appropriate in establishing true value of these properties.

6. THAT the aforementioned report was not based on a personal field examination of the properties in question; however, such an examination was not deemed necessary in view of the information available from Volga Gas, public sources and the fact that all leases are undeveloped at this time.

7. THAT I have not received, nor do I expect to receive, any direct or indirect interest in the holdings discussed, or in the securities of the Company.

8. THAT I have not examined the chain of title for the properties discussed but have relied on descriptions furnished by the client.

Oleg P. Shmyglia, PhD

October 2, 2006

CERTIFICATE OF QUALIFICATION

I, DMITRI PAVLOVICH ZABRODIN, HEREBY CERTIFY:

1. THAT I graduated from Moscow University of Oil and Gas Industry with a Master of Science degree in Petroleum Engineering in 1972.

2. THAT I received a PhD degree in Technical Sciences in 1974.

3. THAT I have been employed in the petroleum industry since graduation in 1972. During the time of employment I have been directly involved in research on reservoir engineering, enhanced oil recovery, reservoir simulation, and property evaluation.

4. THAT I am presently an employee of FDP Engineering Company, Ryder Scott affiliated company, which prepared an evaluation effective December 31, 2006 for Volga Gas of certain interests within the South Ershov high of the Karpensky License Area in Russia.

5. THAT the parameters and conditions employed in the evaluation of interests of Volga Gas as of December 31, 2006 were examined by me and adopted as representative and appropriate in establishing true value of these properties.

6. THAT the aforementioned report was not based on a personal field examination of the properties in question; however, such an examination was not deemed necessary in view of the information available from Volga Gas, public sources and the fact that all leases are undeveloped at this time.

7. THAT I have not received, nor do I expect to receive, any direct or indirect interest in the holdings discussed, or in the securities of the Company.

8. THAT I have not examined the chain of title for the properties discussed but have relied on descriptions furnished by the client.

Dmitri P. Zabrodin, PhD

October 2, 2006

PETROLEUM RESOURCE DEFINITIONS

PETROLEUM RESOURCES CLASSIFICATION AND DEFINITIONS
AS ADAPTED FROM:

SOCIETY OF PETROLEUM ENGINEERS (SPE),
WORLD PETROLEUM CONGRESS (WPC)
AND
AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)

Resource Definitions[1]

In February 2000, SPE, WPC, and AAPG approved a "Petroleum Resources Classification and Definitions" system. These resource definitions were developed as a supplement to the existing "SPE/WPC Petroleum Reserves Definitions" (1997) and did not modify those definitions in any way. The two sets of definitions should be viewed as companion documents.

The key part of the resource definitions relates to the classification of estimated recoverable quantities from accumulations that have been discovered but are currently considered as sub-commercial, and from those accumulations that have yet to be discovered. These are termed Contingent Resources and Prospective Resources, respectively.

Definitions

The resource classification system is summarized in Figure 1 (SPE, WPC, AAPG) and the relevant definitions are given below. Elsewhere, resources have been defined as including all quantities of petroleum which are estimated to be initially-in-place; however, some users consider only the estimated recoverable portion to constitute a resource. In these definitions, the quantities estimated to be initially-in-place are defined as Total Petroleum-initially-in-place, Discovered Petroleum-initially-in-place and Undiscovered Petroleum-initially-in-place, and the recoverable portions are defined separately as Reserves, Contingent Resources and Prospective Resources. In any event, it should be understood that reserves constitute a subset of resources, being those quantities that are discovered (i.e. in known accumulations), recoverable, commercial and remaining.

Total Petroleum-Initially-In-Place

Total Petroleum-initially-in-place is that quantity of petroleum which is estimated to exist originally in naturally occurring accumulations. Total Petroleum-initially-in-place is, therefore, that quantity of petroleum which is estimated, on a given date, to be contained in known accumulations, plus those quantities already produced therefrom, plus those estimated quantities in accumulations yet to be discovered. Total Petroleum-initially-in-place may be subdivided into Discovered Petroleum-initially-in-place and Undiscovered Petroleum-initially-in-place, with Discovered Petroleum-initially-in-place being limited to known accumulations.

It is recognized that all Petroleum-initially-in-place quantities may constitute potentially recoverable resources since the estimation of the proportion which may be recoverable can be subject to significant uncertainty and will change with variations in commercial circumstances, technological developments and data availability. A portion of those quantities classified as Unrecoverable may become recoverable resources in the future as commercial circumstances change, technological developments occur, or additional data are acquired.

Discovered Petroleum-Initially-In-Place

Discovered Petroleum-initially-in-place is that quantity of petroleum which is estimated, on a given date, to be contained in known accumulations, plus those quantities already produced therefrom. Discovered Petroleum-initially-in-place may be subdivided into Commercial and Sub-commercial categories, with the estimated potentially recoverable portion being classified as Reserves and Contingent Resources respectively, as defined below.

Reserves

Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. Reference should be made to the full SPE/WPC Petroleum Reserves Definitions for the complete definitions and guidelines.

Estimated recoverable quantities from known accumulations which do not fulfil the requirement of commerciality should be classified as Contingent Resources, as defined below. The definition of commerciality for an accumulation will vary according to local conditions and circumstances and is left to the discretion of the country or company concerned. However, reserves must still be categorized according to the specific criteria of the SPE/WPC definitions and therefore proved reserves will be limited to those quantities that are commercial under current economic conditions, while probable and possible reserves may be based on future economic conditions. In general, quantities should not be classified as reserves unless there is an expectation that the accumulation will be developed and placed on production within a reasonable timeframe.

In certain circumstances, reserves may be assigned even though development may not occur for some time. An example of this would be where fields are dedicated to a long-term supply contract and will only be developed as and when they are required to satisfy that contract.

Contingent Resources

Contingent Resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable.

It is recognized that some ambiguity may exist between the definitions of contingent resources and unproved reserves. This is a reflection of variations in current industry practice. It is recommended that if the degree of commitment is not such that the accumulation is expected to be developed and placed on production within a reasonable timeframe, the estimated recoverable volumes for the accumulation be classified as contingent resources.

Contingent Resources may include, for example, accumulations for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is still at an early stage.

Undiscovered Petroleum-Initially-In-Place

Undiscovered Petroleum-initially-in-place is that quantity of petroleum which is estimated, on a given date, to be contained in accumulations yet to be discovered. The estimated potentially recoverable portion of Undiscovered Petroleum-initially-in-place is classified as Prospective Resources, as defined below.

Prospective Resources

Prospective Resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

Estimated Ultimate Recovery

Estimated Ultimate Recovery (EUR) is not a resource category as such, but a term which may be applied to an individual accumulation of any status/maturity (discovered or undiscovered). Estimated Ultimate Recovery is defined as those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from an accumulation, plus those quantities already produced therefrom.

Aggregation

Petroleum quantities classified as Reserves, Contingent Resources or Prospective Resources should not be aggregated with each other without due consideration of the significant differences in the

criteria associated with their classification. In particular, there may be a significant risk that accumulations containing Contingent Resources or Prospective Resources will not achieve commercial production.

Range of Uncertainty

The Range of Uncertainty, as shown in Figure 1, reflects a reasonable range of estimated potentially recoverable volumes for an individual accumulation. Any estimation of resource quantities for an accumulation is subject to both technical and commercial uncertainties, and should, in general, be quoted as a range. In the case of reserves, and where appropriate, this range of uncertainty can be reflected in estimates for Proved Reserves (1P), Proved plus Probable Reserves (2P) and Proved plus Probable plus Possible Reserves (3P) scenarios. For other resource categories, the terms Low Estimate, Best Estimate and High Estimate are recommended.

The term "Best Estimate" is used here as a generic expression for the estimate considered to be the closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely/mode, median/P50 or mean). The terms "Low Estimate" and "High Estimate" should provide a reasonable assessment of the range of uncertainty in the Best Estimate.

For undiscovered accumulations (Prospective Resources) the range will, in general, be substantially greater than the ranges for discovered accumulations. In all cases, however, the actual range will be dependent on the amount and quality of data (both technical and commercial) which is available for that accumulation. As more data become available for a specific accumulation (e.g. additional wells, reservoir performance data) the range of uncertainty in EUR for that accumulation should be reduced.

Resource Classification System

Graphical Representation

Figure 1 is a graphical representation of the definitions. The horizontal axis represents the range of uncertainty in the estimated potentially recoverable volume for an accumulation, whereas the vertical axis represents the level of status/maturity of the accumulation. Many organizations choose to further sub-divide each resource category using the vertical axis to classify accumulations on the basis of the commercial decisions required to move an accumulation towards production.

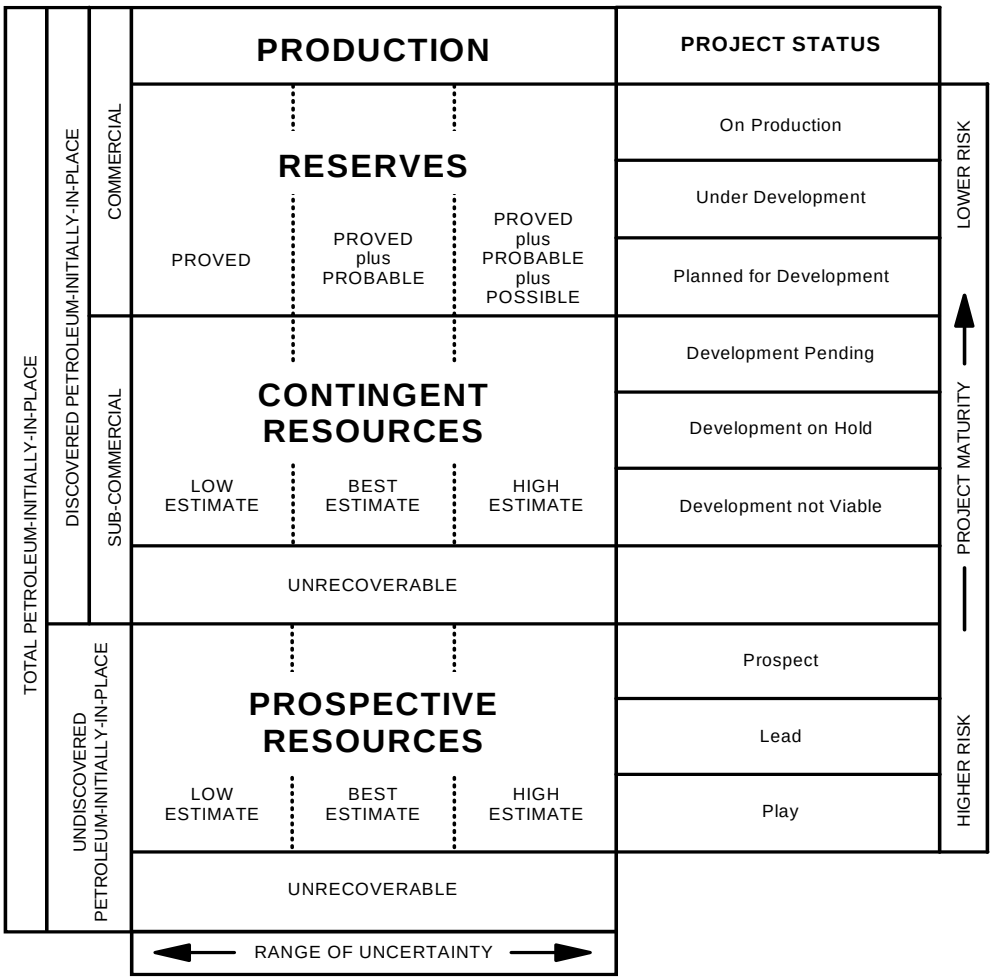
As indicated in Figure 1, the Low, Best and High Estimates of potentially recoverable volumes should reflect some comparability with the reserves categories of Proved, Proved plus Probable and Proved plus Probable plus Possible, respectively. While there may be a significant risk that sub-commercial or undiscovered accumulations will not achieve commercial production, it is useful to consider the range of potentially recoverable volumes independently of such a risk.

If probabilistic methods are used, these estimated quantities should be based on methodologies analogous to those applicable to the definitions of reserves; therefore, in general, there should be at least a 90% probability that, assuming the accumulation is developed, the quantities actually recovered will equal or exceed the Low Estimate. In addition, an equivalent probability value of 10% should, in general, be used for the High Estimate. Where deterministic methods are used, a similar analogy to the reserves definitions should be followed.

As one possible example, consider an accumulation that is currently not commercial due solely to the lack of a market. The estimated recoverable volumes are classified as Contingent Resources, with Low, Best and High estimates. Where a market is subsequently developed, and in the absence of any new technical data, the accumulation moves up into the Reserves category and the Proved Reserves estimate would be expected to approximate the previous Low Estimate.

SPE, WPC, AAPG - Figure 1

RESOURCE CLASSIFICATION SYSTEM
(showing possible Project Status Categories)



[1] Ross, James G. “Guidelines for the Evaluation of Petroleum Reserves and Resources”, Society of Petroleum Engineers Inc.; 2001.

DISCUSSION

INTRODUCTION

Sources of Information used in the report

All information used in the evaluation of the resources for this prospect was provided by Volga Gas. This included the hard copy seismic cross-sections, well logs, core analysis, well test information, previous reservoir studies, reports and analysis conducted by other third parties. This information and data became the basis of our interpretation.

A detailed discussion of the information and how the information was utilized is contained in the section “Resource Methodology” in this report.

Description of Resources

The prospects presented are new prospects that have been identified by seismic interpretation. At this time there have been no successful economic wells completed on these features identified in this report and therefore, all volumes are classified as prospective resources in accordance with the Society of Petroleum Engineers (SPE), World Petroleum Congress (WPC) and the American Association of Petroleum Geologist (AAPG).

The resources contained herein are natural gas with an associated condensate yield. This assessment is based on the available well test data (discussed in detail in Attachment 3).

We utilized the information provided by Volga to develop resource estimates using the deterministic methodology. Volumetric estimates for each of the potential seismic features identified was used to develop a geological Low, Most Likely (ML) and a High resource cases. The basic parameters: gross rock volume, net/gross reservoir ratio, porosity, gas saturation, formation volume factor, gas compressibility and recovery factor were estimated for each case. A detailed description of the process is contained in the section “Resource Methodology” and tables summarizing the input data and the results for all the cases are included under the tab “Tables” in this report. These tables also present estimates for the original gas in place for each prospect as well as the total estimated potential resources on an unrisked basis.

The geologic risk associated with this prospect was not included, but would include additional risk for the following elements: trap, reservoir, source, and timing & migration. Due to the inconclusive and scarcity of data on the identified features, and the wide range of possible values for the geologic risk factors, at Volga’s request this was omitted from the report.

Volga gas has informed us of their future plans to exploit the resources. Since this prospect is still in the exploration phase additional data gathering and analysis is required before any specific development plan can be prepared. Volga’s future plans are discussed in the section “Future Development”.

GEOLOGY

PRE-CASPIAN OIL AND GAS PROVINCE

The Karpensky license area is located in the North-Western part of the Pre-Caspian oil and gas province. Two hydrocarbon bearing mega-complexes are present: Subsalt and Presalt within the license limits and generally throughout the province. These complexes are separated by the pre-salt interval of Kungurian age.

A number of fields have been discovered in the Presalt complex: Kurilovskoye oil, Talovskoye and Starshinovskoye gas fields in the immediate vicinity of the Karpensky area, and the Sportivnoye gas field to the south of the license area. The hydrocarbon presence in the Presalt complex may be indicative of the Subsalt hydrocarbon potential in the Karpensky area.

Another indication of high Subsalt hydrocarbon potential is the regional commercial oil and gas presence in the Permian, Carboniferous, Devonian deposits.

- The availability of commercial oil and gas in the Middle and Upper Devonian is proved in the Karachaganak field in the nearby Kuznetcko-Karachaganak oil and gas region. The Middle and Upper Devonian horizon is also the major complex considered prospective for hydrocarbons in the Saratov sector of the Volga-Urals oil and gas province, and is in the immediate vicinity of the Karpensky area.
- The carbonate deposits of the Middle Frasnian–Lower Visean age are regionally hydrocarbon bearing in the neighboring Volga-Urals oil and gas province. The discovery of the Karachaganak and Tengiz fields have proved their potential in the Pre-Caspian province.
- The Upper Visean-Lower Bashkirian carbonate complex is the most prolific hydrocarbon complex in the Pre-Caspian province. The main hydrocarbon reserves of the major Astrakhanskoye, Karachaganak and Tengiz fields are confined to the carbonate platforms and large reef constructions of these ages.

Despite the absence of proved reefs in the section penetrated by the Chernaya Padyna #1, one cannot exclude the potential presence of subsalt reefs of different sizes within the limits of the Karpensky license area.

The data on the gas and oil shows from the subsalt Paleozoic deposits in the Chernaya Padyna #1 was in general not enough to confirm the expected high hydrocarbon potential of the Lower Permian, Visean-Bashkirian and Upper Devonian carbonate horizons. The reason for this conclusion is that in our opinion the well penetrated rocks of poor reservoir quality deposited in a deep water environment, rather than the expected shallow water complexes of the same age. However, if the production test were run for sufficient time to definitively test the reservoir fluids (see discussion Attachment 3) and if the results were significantly different, our conclusion may be different than that presented. In this

conjunction the perceptiveness of the Karpensky license is directly bound with the future discovery of the shallow water organic constructions of the above mentioned ages.

KARPENSKY LICENSE AREA

(i) The deposits of interest belong to the Visean-Lower Bashkirean carbonate rocks of Lower Carboniferous, Famennian clastic and Frasnian carbonates of Upper Devonian. The sub-salt carbonate rocks are found at considerable depths varying from -4800 m to -5700 m. The presumptive patch reefs are considered potentially hydrocarbon-bearing structures on the South Ershov high, in which gas accumulations could exist. No wells are drilled on the South Ershov high, the only source of information pertaining to its geological structure is the 2D seismic data along with the log and test data from wells Chornaya Padina #1 & #2 and Solnechnaya #1 (wells CHP-1, CHP-2, S-1) located over 5 kilometers from South Ershov. In particular, gas, condensate and water production were reported while testing the Famennian and Frasnian intervals in well CHP-1. The gas test rate was only 1,500 m3/Day from Famennian, which does not look commercial. The gas rate was more significant from the lowermost Frasnian interval (on average 3,967 m3/Day of gas with 360 m3/Day of water). Meanwhile, our analysis brought us to a conclusion that the gas tested from the Frasnian was originally gas dissolved in formation water, not free formation gas. In other words, the test gas rate cannot be considered as evidence of a gas-water contact in the Frasnian. This analysis is based on the test data presented. However, the well was not tested for sufficient time to reach a steady state flow regime, and the analysis of the produced water (Geoinformelo report, prepared for Lukoil, 2000) indicated that a portion of that was actually mud filtrate. If the well were tested for sufficient time to definitively test the reservoir fluids, the conclusions may vary from those presented. The Frasnian interval in well CHP-1 is composed of carbonate rocks. There is not enough data to conclusively determine whether those carbonates represent a distant periphery of a primary reef or the wash-out tail. The significant depth of occurrence, massive salt deposits overlaying the horizons of interest, tectonic faulting as well as poor quality of available 2D seismic survey data make building the geological model highly risky and uncertain. Summing up the above-said, there are no grounds to consider the potential hydrocarbon volumes in the Carboniferous-Upped Devonian on the South Ershov high as reserves. Those volumes can only be assigned in the indicated resources category.

(ii) Further exploration of the South Ershov high needs additional wells drilled and seismic survey to confirm existence of presumptive reef reservoirs, estimate their areal extent and confirm hydrocarbon potential. Traditional natural flow production would be employed to produce the gas and condensate should the resources be confirmed by further exploration/drilling.

(iii) The estimated porosity of the carbonate rocks is 7 to 9.4 % based on the well ChP-1 data and analogy with the Karachaganak field. The permeability data is not available, it could vary largely due to the reef carbonate nature of the rock that typically exhibit caverns in the crestal part of the structure. The net pay thickness of the reservoirs is uncertain,

in our low and high cases it varies in the approximate range of 24 m to 192 m. The initial formation pressure is abnormally high, 82 MPa to 105 MPa, temperature is 90 ^{o}C to 135 ^{o}C. The recovery mechanism anticipated would presumably be depletion drive.

MAPS AND PLANS

(a) Exhibits 1 & 2 are base maps showing the location of the Karpensky license area within the Pre-Caspian oil and gas province and the South Ershov high within the Karpensky License Area.

(b) Exhibits 3 & 4 show the structural maps used to estimate the volumes of the resources. Map 1 represents top of the suppositional carbonate deposits of the Lower Carboniferous-Upper Devonian (C1-D3) age, while the map 2 is bottom of the Upper Devonian Fransian (D3frs) carbonate complex or top of the clastic Devonian (D3Sr). Both maps were the basis for finding out the inferred reefs' locations and heights.

RESOURCE METHODOLOGY

RESOURCE SUMMARY

CONDENSATE RESOURCES

Condensate resources were assigned to the prospect based on an anticipated condensate yield. A constant yield of 200 g/m3 of gas was applied for the life of the project to estimate the potential volume.

Gas Resource

(a) There are no hydrocarbon resources which have been sufficiently appraised to demonstrate them as reserves of any category on the South Ershov high. We could make an estimation of hydrocarbon resources (gas and condensate) only.

(b) Volumetric estimation of quantities of hydrocarbon resources was made.

(i) Due to the existing uncertainties in the geological model and major reservoir parameters we were forced to use certain assumptions to generate the low, middle and high cases for the resource volumes. The resources in place volumes by probability case are:

Low case	- 40 MMMm^3 gas wet unshrunk
Most Likely case	- 152 MMMm^3 gas wet unshrunk
High case	- 248 MMMm^3 gas wet unshrunk.

(ii) Our volumetric estimation methodology used the following procedure: The hydrocarbon-bearing reefs were anticipated in locations where the closed structures are mapped on both structures. Each reef's areal extent and thickness was estimated using different procedures to develop the different probability cases. The factual basis and methodology used for structural mapping is described in the Attachment 1. Exhibit 5 is an example of a seismic cross-section re-processed by GeoTekhSystem with our boundaries identified that we used for the structural mapping. The other assumed variables were: wedge factor (WF) applied to estimate the gross thickness based on the reef height (H), porosity (m), gas saturation (Sgi). The net to gross ratio (NTG) was the same in all probability cases, NTG = 0.4.

The formation gas parameters were estimated using the well Chernaya Padina #1 testing data and other information supplied by PGK. The formation pressure and temperature as a function of depth were found from the NVNIIGG-OOO RosGeoService-OOO NPK Geoproekt, Saratov, 2006 report data as shown in graphical form in the Attachment 2.

The values for the formation pressure and temperature were determined using the same plots for the individual block's as a function of depth.

While estimating the Z-factor, the specific gas gravity to air was assumed at 0.72 as the gas is reported to contain 200 gm/m3 of condensate.

Low case. Individual reef bodies were estimated in both the upper and lower horizons. The number of reefs is 4 and 5 correspondingly. The area of each reef was confined by the lowest closed contour line. Assumed parameters:

WF = 0.6
m = 0.07
Sgi = 0.70

Middle case. Two reefs located on the 2 maps are overlapping. An assumption was made that they extend from top to bottom of the entire carbonate section, i.e. from top of C1-D3 to base of D3Sr. Other individual reefs were addressed in the same manner as in the Low case. The following parameters were assumed for all the reefs:

WF = 0.7
m = 0.09
Sgi = 0.80

High case. We utilized the same reefs as estimated in the Middle case. The area of all the reefs, both overlapping and individual, was increased as result of estimated the outer limit at half-distance between the lowest closed and the next contour lines. Parameters used:

WF = 1.0
m = 0.094
Sgi = 0.85.

(iii) Expected recovery factor (RF). The most recent report provided by PGK contains the gas RF equal to 85% of the volume initially in place. To our professional view, the RF might be lower in particular conditions of the presumed deep gas reservoirs that exhibit abnormally high formation pressure. Studies are known (for the Tengiz oil field) that demonstrated significant dependency of hydrocarbon recovery on the rock deformation processes following the formation pressure decline. Rock deformation results in lowering of permeability and well productivity. Thus we assumed a lower ultimate gas RF in the order of 75%. The assumed condensate RF is 50% at the abandonment pressure.

(iv) Assuming the condensate content in formation gas at 200 gm/m3, the separator gas shrinkage would be approximately 3.5%. Using these parameters and the above resource in place and recovery factor values the expected producible resource volumes would be (rounded numbers):

DRY (SEPAPATOR) GAS:

Low case	- 29 MMMm^3
Middle case	- 110 MMMm^3
High case	- 179 MMMm^3.

CONDENSATE:

Low case	- 4 MMton
Middle case	- 15 MMton
High case	- 25 MMton.

(v) No information pertaining to the processing volumes or tonnages was provided for our analysis.

NATURE OF EVIDENCE

(c)

(i) The evidence we used in our estimation of the indicated resources included the following original information provided by PGK: Seven (7) seismic cross-sections across the South Ershov high recently re-processed by GeoTekhSystem, in hard copy format. These seismic cross-sections have been used to map the structures of the inferred reef bodies. A standard set of well logs and their interpretation in electronic form for the only existing three (3) distant wells ChP-1, ChP-2, S-1 was utilized to estimate petrophysical characteristics of the reservoir. In addition we utilized written description and analysis of core taken from the well ChP-1 to verify the log and prepare the geological model. Certificates of the well CHP-1 testing data were used to estimate pressure and other reservoir characteristics. Information relevant to the formation properties included in previous reports by other contractors are listed below in sub-paragraph (iv).

(ii) The most important piece of data used was the seismic cross-sections. Their reliability is quite questionable due to both complicated nature of the evaluated reservoirs (significant depth of occurrence, presence of salt deposits in the higher horizons and faulting) and the poor quality of initial seismic data. The well logging data was, along with the core analysis data, good enough to estimate the porosity, while the absence of specific petrophysical correlations made it difficult to estimate the gas saturation. The duration of the flow periods during the well CHP-1 test from the Frasnian layer was only 40 to 120 minutes and is too short to draw sound conclusion as to the nature of the fluid produced and the formation pressure. The volume recovered is comparable to the volume of the well bore. Our analysis indicates that the average test gas-water ratio (8.9 to11.1 m3/m3) is indicative of production of gas initially dissolved in water under the reservoir conditions not of free gas as believed by PGK. Comments on our analysis of the test data are given in the Attachment 3.

(iii) No wells have been drilled on the South Ershov high. One of the existing nearby wells ChP-1 tapped the carbonate rock similar to the rock that could compose a suppositional reef, but the net thickness is too small to represent a significant reef. Two other wells located more closely to the

study area, ChP-2 and S-1 have not confirmed the inferred reef structures that they were to test. This fact is an important warning to be taken into consideration while estimating the hydrocarbon-bearing potential of the license.

However, it should be noted that ChP-2 did not reach the Frasnian interval by 350 meters, and has been plugged due to technical issues. In addition, Volga Gas has reported that the S-1 well was drilled as a delineation well and was not specifically designed to identify a reef structure.

(iv) Prior to our study the following organizations carried out the investigation and analysis of the Karpensky block:

LUKOIL-ZAO Geoinformeko, Saratov, 2000
NVNIIGG, Saratov, 2000
OOO NPK Geoproekt, Saratov, 2002 and 2003
OAO "VNIPIgazdobycha", Saratov, 2003
OAO Saratovneftegeofizika, Saratov, 2003
GeoTekhSystem, Moscow, 2006
NVNIIGG-OOO RosGeoService-OOO NPK Geoproekt, Saratov, 2006.

PRODUCTION SCHEDULE

(d) No information pertaining to the company production policy, estimated production rates, working well life, expertise of the existing or future technical staff was provided.

COMMENCEMENT OF WORKING

(e) No information pertaining to the company's expected production commencement date was provided.

PROGRESS OF WORKING

(f) PGK is currently re-processing the existing seismic data to gain better understanding of the geological structure of the Karpensky block.

FORECAST EXTRACTION RATES

(g) No information pertaining to the directors' forecasts of the rates of extraction was provided.

Non Associated Gas

No solution gas sales reserves have been assigned to the property.

BY-PRODUCTS

No natural gas liquids were assigned.

FUTURE DEVELOPMENT

Volga has presented a plan of future field development to the Federal Agency for Natural Resources (Rosnedra), Saratov Branch (the address and contact information is included in the tables section of this report) and has received approval to proceed.
The future plan includes:

- Conducting 3D seismic on two plots: Yuzhno-Ershovsky and Yuzhno-Mokrousovsky.
- Performing in-depth processing and interpretation of acquired data
- Creating a detailed geological model
- Drilling two wells (one well on each structure) with a full spectrum of logging and DST testing
- Initiating production test
- Continuing with extensive testing of horizons and creating a hydrodynamic model of the reservoirs

The first phase of the 3D seismic field operations has begun with the navigation crew currently in the field. In addition a contract was signed with SaratovNefteGeophysica – a regional oil and gas service provider – to conduct 100 sq. km of 3D seismic on Yuzhno-Ershovsky and 160 sq. km. on Yuzhno-Mokrousovsky. The latest Input/Output 4th generation acquisition system will be used; with the methodology (geometry) designed by Western Geco (WG). WG will also quality check the acquired data.

A processing and interpretation contract was signed with Western Geco and DCS (Data Consulting Services) Schlumberger. We anticipate that the seismic interpretation will provide structural mapping of the reservoir and identification of attributes for further geologic modeling. The plan includes an updated Petrel geological model of the structure based on the results of seismic interpretation. Volga Gas is anticipating that the geological modeling will include:

1.1 Petrophysical analysis based on regional petrophysical concept (conclusions), including log and core studies analysis
1.2 Brief review of regional geology; conceptual description of geology for the license block
1.3 Geological modeling
- Structural framework construction
- Facies modeling
- Petrophysical property population
- Model quality control and uncertainty analysis
- Volumetrics and mapping

We concur that this is the next logical step in the project analysis, and may assist in mitigating the potential geologic risk associated with the prospect and associated resources.

No future opportunities were identified. Volga has indicated that future study may result in the identification of drilling prospects.

LONG TERM PROSPECTS

No information pertaining to any other mineral resources relevant to the long term future of the company was provided for our analysis.

OTHER ASSETS

No other assets that may be material to Volga are presented in this report.

PLANT AND EQUIPMENT

Currently there are no specific long term prospects identified. Following the next phase of analysis Volga will prepare a detailed development plan. With the development plan and projected production rates it will be possible to determine the quantity and quality of the infrastructure necessary for future development and operations.

ECONOMIC SUMMARY

No economic analysis was performed on this property in accordance with the rules and guidance of the London Stock Exchange pertaining to resource volumes.

The current condition of the field, or any gathering and processing facilities that may exist in the field was not accounted for, nor was there any field inspection conducted on the prospect.

No consideration was given in this report to potential environmental liabilities, which may exist, nor were any costs included for potential liability to restore and clean up damages, if any, caused by past or future operating practices.

SPECIAL FACTORS

a statement setting out any additional information required for a proper appraisal of any special factors affecting the exploration or extraction businesses of the company, including difficulties of access to, or in recovery of, mineral reserves on properties where that company has extraction rights, and special circumstances, such as difficulties in transporting or marketing the extracts which may affect the commercial viability of the project, or an appropriate negative statement.

Prikaspiyskaya Gas Company, LLP (PGC) owns valid license issued by appropriate state authority of the Russian Federation – Ministry of Natural Resources of the Russian Federation - # CRT 13522 NR that gives PGC the right to search for, explore and produce oil, gas and condensate within the borders of Karpensky license block. The license was issued on March 16, 2006 and is valid till August 15, 2021. The license is properly registered with the Federal Agency on the usage of subsurface of the Russian Federation and has all required attachments. It should be noted that initially the license owner was one of subdivisions of the giant Russian oil company LUKoil – LUKoil-Nizhnevolzhskneft, and PGC is the assign of LUKoil-Nizhnevolzhskneft.

With regard to market access PGC is very favorably situated. This parameter becomes of increasing value as far as the main type of hydrocarbon that is going to be extracted at Karpensky block is natural gas. The Central Asia-Center (CAC) gas-main pipeline crosses the Karpensky block, it has 2 lines of 1220 and 1020 mm. The already existing gas station of CAC pipeline – Mokrous – is situated in 30 km from Karpensky block. So PGC has 2 options: either to build a pipeline to Mokrous station or build its own metering station.

We were provided with a valid contract for gas sales signed between Gaznefteservice, LLP (the Seller) and JSC Trans-Nafta (the Buyer) on September 7, 2006. As we were told by representatives of Volga Gas plc Gaznefteservice, LLP controls PGC. If it is so then PGC has valid gas sales agreement. JSC Trans-Nafta is a reputable Russian gas-trading company. The selling price in the above-mentioned agreement equals to approximately 60 US$/1,000 m^3. Internal Russian gas market is still controlled by the state so it is not too easy to understand what is the fair domestic market price of natural gas. According to official information of the Ministry of Economic Development and Trade of the Russian Federation that might be found at WWW site of this Ministry (www.economy.gov.ru) the state controlled wholesale gas price in 2006 was equal to approximately 42 US$/1,000 m^3. We were told by Volga Gas plc that new sale price is already agreed with JSC Trans-Nafta that will be equal to approximately 79 US$/1,000 m^3. We were also told by Volga Gas plc that they conducted negotiations with Saratov Region electrical plants to sell gas at the price of approximately 120 US$/1,000 m^3 as well talks have been hold with Moscow city authorities to sell gas at the same price. No documents confirming gas sales at price higher than stated in the contract with JSC Trans-Nafta have been provided. It should again be stressed that all these gas sales will not be possible prior to construction of either its own gas station or pipeline to existing Mokrous station.

On environmental issues we were provided with an abstract from the environmental audit report prepared by Branan Environment Company, Moscow (www.branan-environment.ru) According to the abstract provided the preliminary analysis undertaken by environmental auditor shows that “crucial risks and liabilities associated with the past operations on the license area and planned activities are lacking”. At the same time the same auditor mentioned the necessity of obtaining official position of the Federal State Environmental

Review – authorized state environmental monitoring authority – with regard to clarifying the level of the project environmental review (either local or federal). According to the information provided by the Client such clarification was not received as on the date of current report preparation.

KARPENSKY LICENSE AREA. South Ershov high.
Preliminary structural mapping and expert opinion on hydrocarbon bearing potential of the suppositional Lower Carboniferous-Upper Devonian carbonate bodies

Goals of the study:
1. Preliminary mapping of the suppositional Lower Carboniferous-Upper Devonian carbonate bodies
2. Preliminary estimation of sedimentation environments of the potentially petroliferous deposits based on the well Chernaya Padina #1 drilling data.

The following materials have been provided for our review:
1. Research Report "Seismic survey with Common Mid-Point method (CMP) aimed at the study of the geological structure of the Karpensky license block", Saratov, 2003.
2. Research Report "Seismic survey with Common Mid-Point method (CMP) on the Southern slope of the Ershov nose and on the Uzen lease", Saratov, 2002.
3. Research Report "Re-processing of seismic survey data for the Karpensky license block", Saratov, 2003.
3. Research Report "Scientific processing of parametric data from the drilling of the well Chernaya Padina #1", Saratov, 2000.
4. Memorandum "Substantiaion of gas-bearing potential of the clastic-carbonate deposits within the limits of the Karpensky license block"
5. Hardcopies of 7 depth-dynamic cross-sections along the lines 0902120, 0902123, 0902122, 0902118, 0902119, 0902124, 0902115 re-processed by GeoTechSystem.

Structures

Our expert's hand interpreted a limited number (7) of hard copies of depth-dynamic seismic cross-sections re-processed by "GeoTechSystem" in 2006 that were aimed at picking out the top and base of predominantly carbonate rock complex. First step was to pick out and trace those top and base surfaces. Then the corresponding structures were mapped. A number of uplifts were allocated on the two maps. We believe that if the theory assuming the presence of reefs is valid, then the local uplifts might indicate locations of those suppositional reefs.

Our analysis of previous structural drawings and the results of our expert's hand interpretation of the depth-dynamic cross-sections obtained in 2006 demonstrate the need to re-interpret the seismic data. After the re-interpretation the structural maps would be further refined and a more correct geological model might be obtained.

Lithological-facial interpretation of the sub-salt deposits

The analysis of the macro and micro descriptions of the rock samples from the well Chernaya Padina #1 contained in the report (4) revealed that:
1. The Upper Bahkirian-Upper Moskovian terrigenous complex (4570 – 5583 m), penetrated by well Chernaya Padina #1 is represented with the slope and deep basin facies. Black claystones and mudstones containing spicules of spongia and radiolaria are seen in the cross-section.
2. The Upper Vesean, Lower Bahkirian rock complex in the 5583 – 5611m interval composed of silica-carbonate rocks, mudstones and wackystones containing spicules of spongia and radiolaria formed under conditions of considerable depth, supposingly in the deep basin part, possibly on the outer shelf or on the slope.
3. The Lower and Upper Visean complex (5611 – 5689 m) formed under analogous conditions as indicated by presence of radiolaria in cored interval 5611 –5620 m.

4. The Middle Famennian, Turnaisian rock complex (5689 – 5731 m) represented in cores by claystones, mudstones and wackystones containing plankton foraminifera formed under the pelagian and hemipelagian conditions.
5. The Upper Frasnian, Lower Famennian terrigenous rock complex (5731 – 5843 m) represented as per core description, by fine and medium grained silica sandstones with bioturbation and fragments of normal marine fauna accumulated apparently under the littoral-marine conditions during the raise of the sea level. The presence of regeneration quartz cement that can annihilate any primary voidage space is typical for the sandstones. One cannot exclude that accumulation of the deposits resulted from the action of turbidite flows.
6. The Middle Frasnian carbonate complex (5845 – 5852 m) accumulated in the slope facies and possibly, as a portion of a organic reef body.

Based on the core description, the rocks taken from the 5837 – 5845 m interval might be allocated to the Middle Frasnian deposits, as by their composition and structure they are analogous to the Middle Frasnian ones.

CONCLUSIONS

1. Analysis of the seismic wave field allows us to suppose that during the Devonian age on the territory of the license block there existed up to a few hundred meters of organic constructions that constituted separate “reefs” in the marine environment. As a rule, the area of constructions of such kind is rather small, while the amplitude might be significant. The hydrocarbon reservoirs contained in “reefs” of this type may not be totally controlled by the structural factor. Their measurement will require more detailed geological and geophysical efforts.
2. The lithological-facies outlook of the rocks of the sub-salt deposits penetrated by well Chernaya Padina #1 indicates that accumulation of the rocks has occurred mainly in the deeper part of the sedimentation basin. Possible exceptions could be the terrigenous Upper Frasnian – Lower Famennian accumulations presented by littoral deposits (transgressive system tract TST) as well as the carbonate accumulations of the Middle Frasnian and Givetian formed presumably during the high system tract (HST). In this case the Upper Frasnian – Lower Famennian sandstones and the Middle Frasnian carbonate deposits could have formed a single reservoir. Meanwhile, we cannot exclude that the terrigenous complex is genetically connected with the action of the turbidite flows and is not included in a single reservoir with the carbonate deposits of the Middle Devonian.
3. The Middle Frasnian possibly biohermal limestones should be considered the most promising deposits on the study area.
4. The reservoir properties of the Upper Frasnian – Lower Famennian silica sandstones found at well depths over 5000 m, are very low as confirmed by the core data and that is predominantly due to the processes of compacting and intense quartz cementation.

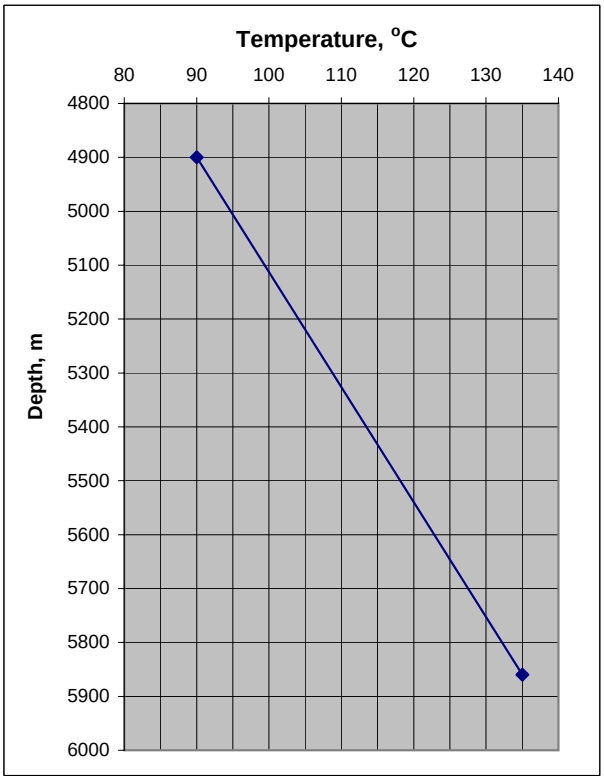
RECOMMENDED ACTIONS

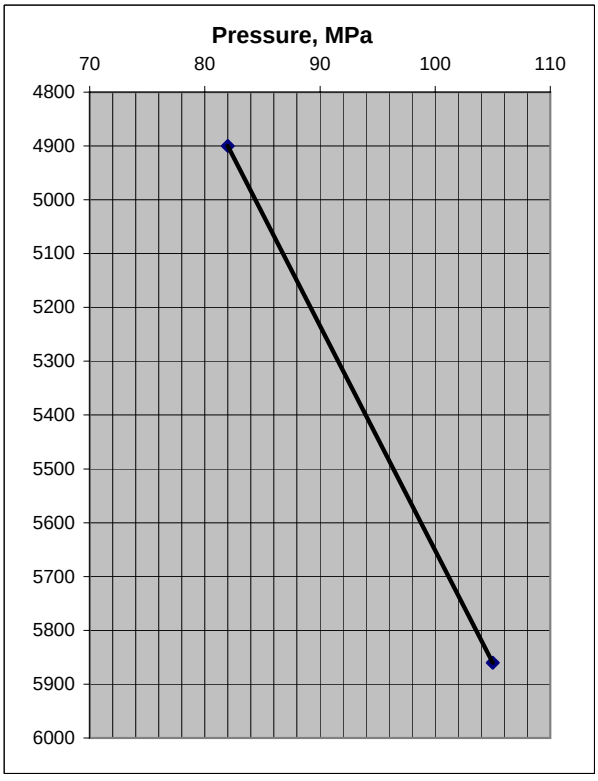
1. Re-interpretation of the seismic data basing on the concept of sequential stratigraphy.
2. Cyclo-stratigraphic analysis of all the available geologic/geophysical data (core, logging, seismic).
3. More accurate definition of the sedimentation environments of the sub-salt rock complex.

Attachment 2

The South Ershov High
The RSC assumed formation pressure and temperature

Depth, m	Tf, °C	Pf, MPa
5860	135	105
4900	90	82





Problem of presumptive free gas production while testing the Frasnian interval in the well Chernaya Padina #1

The well Chernaya Padina #1 testing data of March, 29th of 2000, are attached to and analyzed in the research report by Geoinformeco dated 2000. The well was produced from the Frasnian interval at three flow rates through a test separator with the liquid (water) and separated gas rates were recorded. The water rate was gauged to a tank, gas rate shown by a prover. The testing sequence and interpretation results including calculations of water and gas rate at different flow stages are summarized in the attached tables 1 and 2. The reported maximum test GWR of the produced fluid ($17m^3/m^3$) is considered by Geoinformeco as possible indication of presence of formation free gas. A Table of the physical and chemical properties and the composition of gas produced on the Karpensky License Area is included in the Tables section of this report.

Discussion

Noteworthy is the short duration of the "constant" flow periods, 40 to 120 minutes. Establishment of a required steady (pseudo-steady) flow regime is doubtful within such a short period of time.

Moreover, the volume of water produced during each flow period (10-$17m^3$) is comparable with the volume of tubing string (nearly $14m^3$), making representativeness of the produced formation fluid doubtful. Therefore, the fluid tested probably contains a combination of formation fluids and mud filtrate (up to 60% per Geoinformeco).

Another issue is the accuracy of calculation of the reported separated gas rate and consequently of the GWR, based on gas and water rate records. As follows from the table, the reported maximum GWR value of $17m^3/m^3$ was calculated using the gas rate estimated at the maximum prover pressure instead of the test period average pressure, which seems to be more correct.

We have independently estimated the gas rate using the average prover pressure. The resulting GWR is 8,9 to $11,4m^3/m^3$.

The formation pressure in the tested horizon is approximately 1000 to 1115 kg/cm^2, and temperature is nearly 135 ^oC. Using these parameters our estimated gas to water ratio range is quite within possible range of content of gas dissolved in water. In other words, the produced formation fluid might be gas-saturated water without any free gas.

However, we stress that the well test was limited in duration and the representiveness of the recovered fluids doubtful, that the well recovered hydrocarbons on the tests, and that the horizon appears to have permeability at this location.

Therefore, if a flow test of this horizon were run for sufficient time periods to recover formation fluids, the results and conclusions may vary.

Conclusion

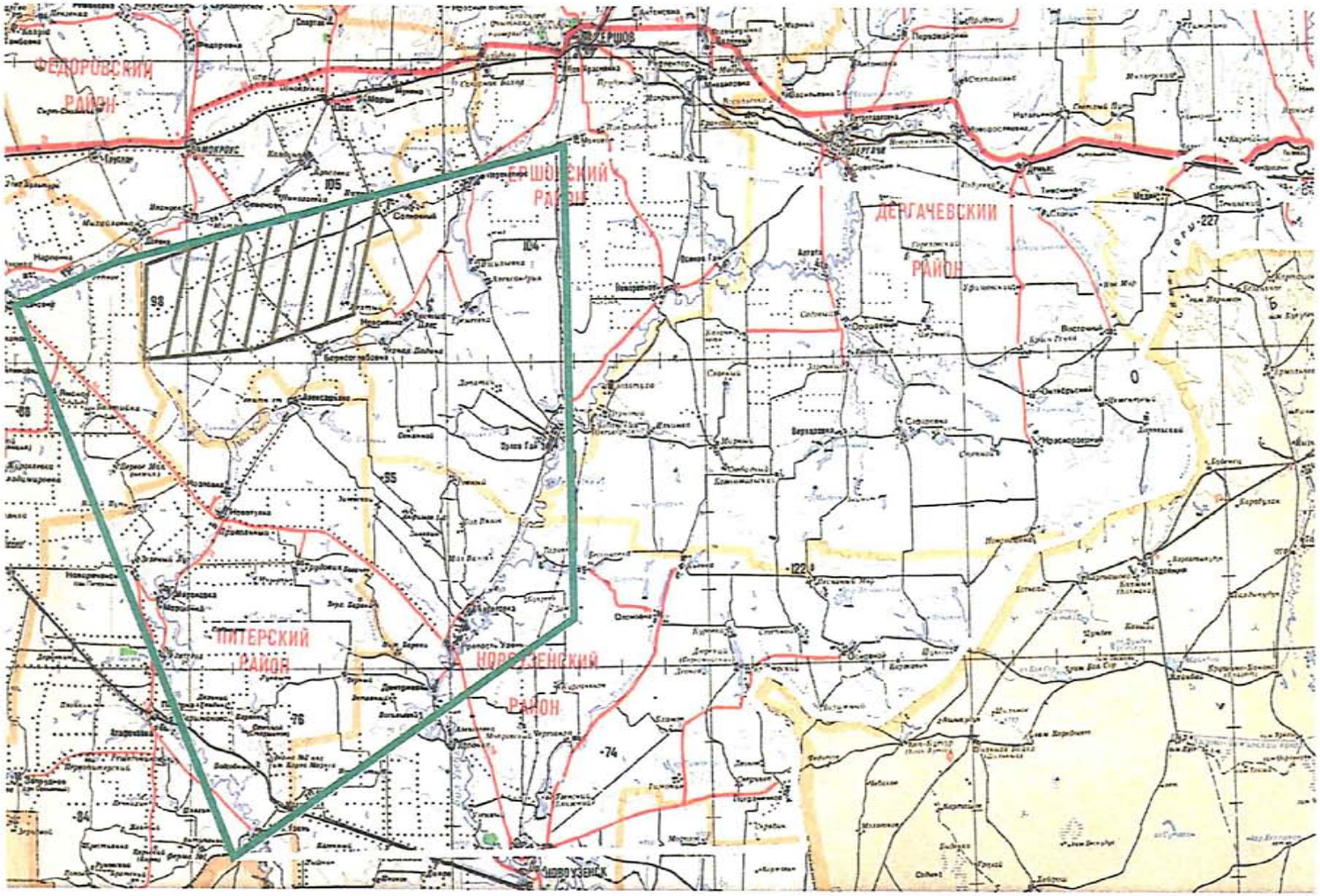
The high dissolved in water gas content could be indicative of hydrocarbon potential of the horizon. A zone containing free gas might exist not far from the well Chernaya Padina #1. Meanwhile, basing on the well test data available, it is impossible to demonstrate with whichever certainty that any free gas exists in the formation nor all the more, to locate the hypothetical gas-water contact.

MAPS


Russia
Kazakhstan
Central Asia pipeline
Karpensky
Belokamennoe
Mikhailovka
Volzhskiy
VOLGOGRAD
Svetly Yar
Elton
Saikhin
Akhtubinsk
Barun
Tatal
Kharabali
ASTRAKHANSKOE
Kozhagali
Karasyr
Akkystau
Iskine
Lagan
Korchagin
Rakushechnoe
Kashagan
Korolevskoe
TENGIZ
Zhetibai
Furmanovo
Kuleshovka
Mogutovskoe
Pokrovka
Bobrovskoe
Sorochinsko-Nikolskoe
Rostashinskoe
Zaikinskoe
Fedorovskoe
Chinarevskoe
URALSK
Shotkar
Aksai
KARACHAGANAK
ORENBURGSKOE
Sol-Iletsk
Kopanskoe
Nagumanovskoe
Chapaev
Yesensai
Kaleny
Karatobe
Kalmykowo
Novoalekseyevka
AKTYUBINSK
Khromtau
Alga
Uil
Miyaly
Karabau
Shubarkuduk
Kandyagach
KENKIYAK
Zhanazhol
Alibekmola
Emba
Akshiy
Kopbulak
Terenkuduk
Kumertau
Tyulgan
Sibai
Mednogorsk
Orsk
Karabu

EXHIBIT NO. 1

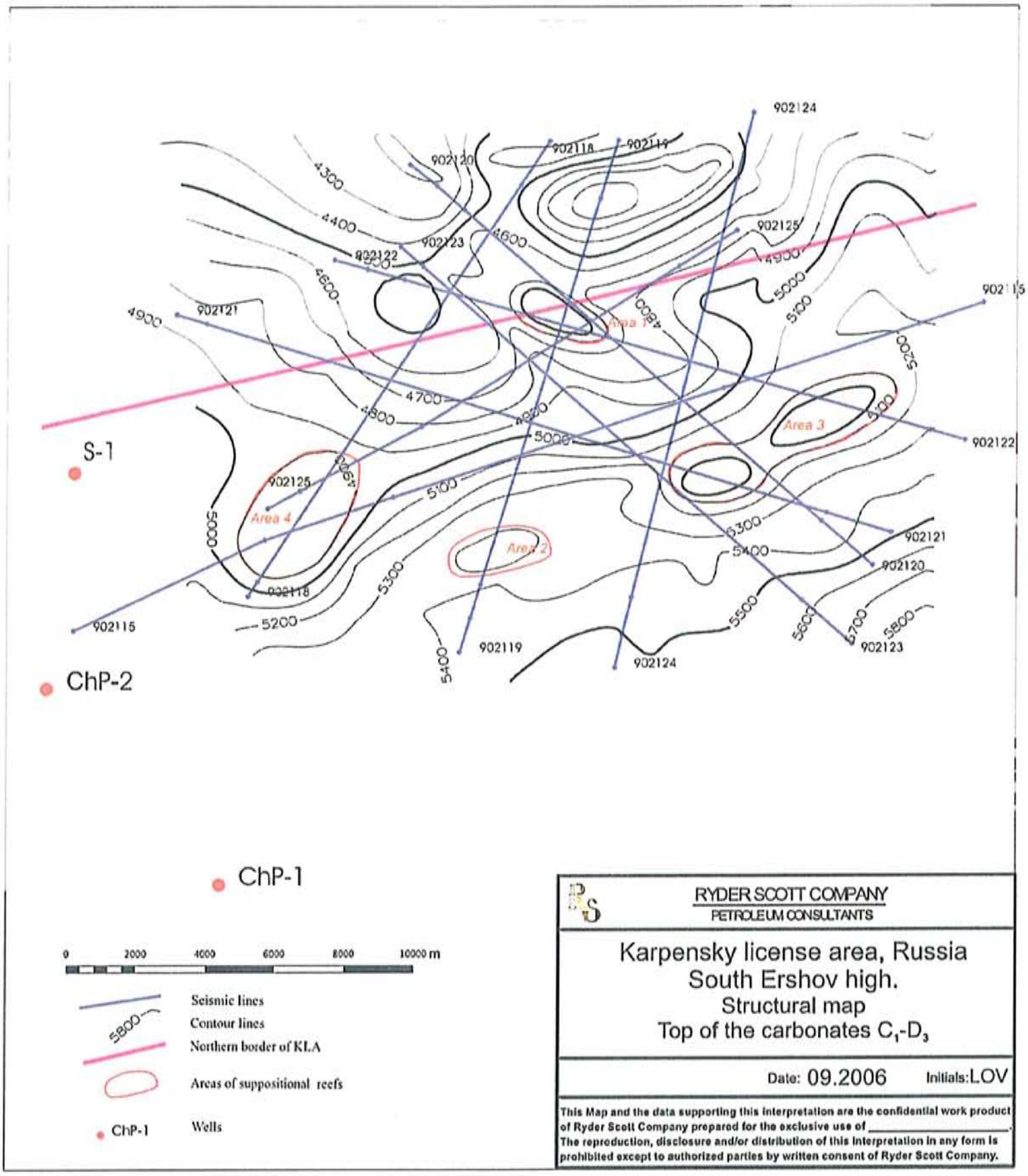
General map



Licence area limits

- study area

EXHIBIT NO. 2


S-1
ChP-2
ChP-1
Area 1
Area 2
Area 3
Area 4
902115
902118
902119
902120
902121
902122
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902124
902125
4300
4400
4600
4700
4800
4900
5000
5100
5200
5300
5400
5500
5600
5700
5800
0
2000
4000
6000
8000
10000 m
Seismic lines
Contour lines
Northern border of KLA
Areas of suppositional reefs
Wells
RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
Karpensky license area, Russia
South Ershov high.
Structural map
Top of the carbonates C_1-D_3
Date: 09.2006
Initials:LOV
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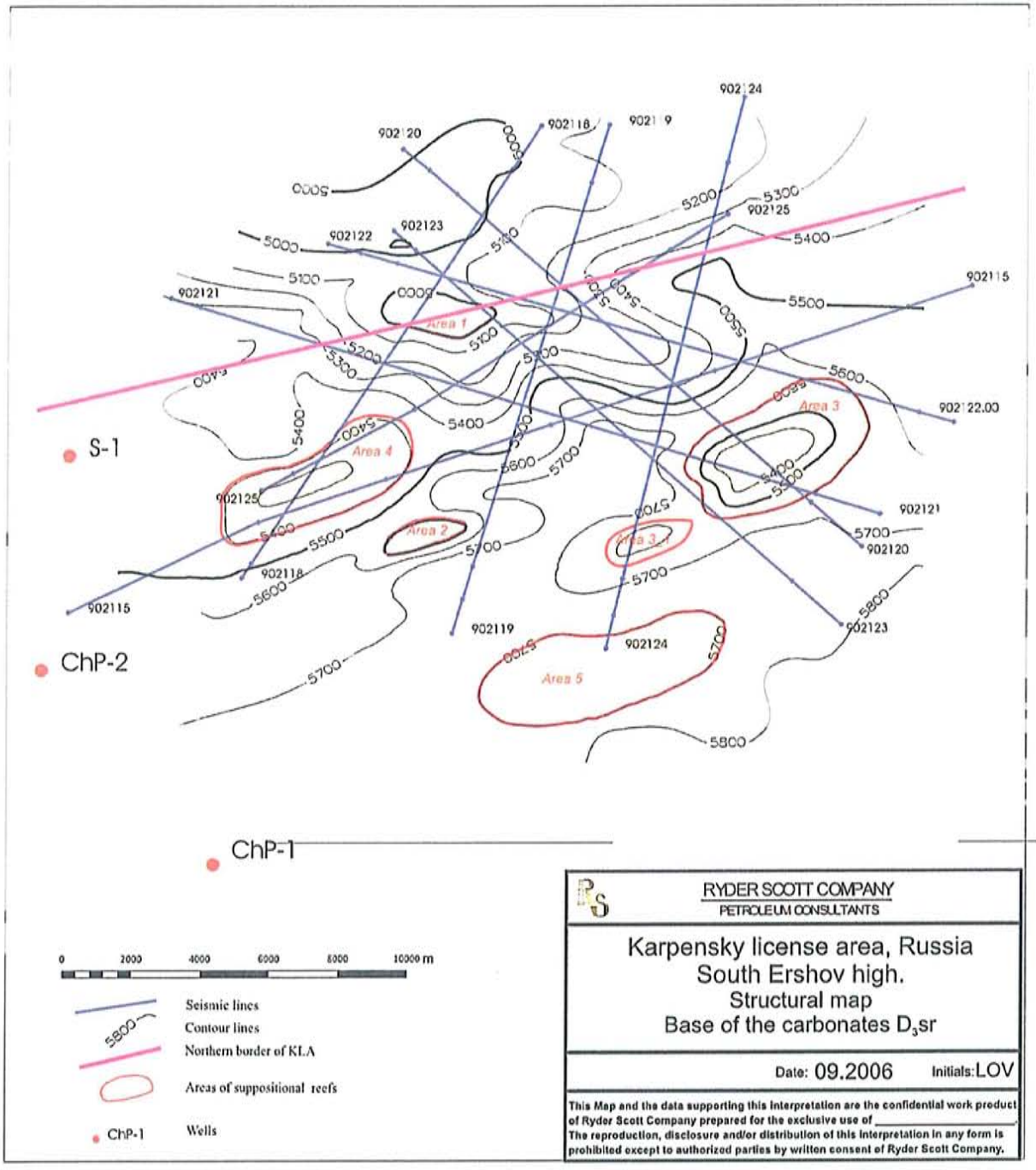
EXHIBIT NO. 3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902120
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902122.00
902120
902119
902124
902123
Area 1
Area 2
Area 3
Area 3.1
Area 4
Area 5
S-1
ChP-2
ChP-1
5000
5100
5200
5300
5400
5500
5600
5700
5800
0
2000
4000
6000
8000
10000 m
Seismic lines
Contour lines
Northern border of KLA
Areas of suppositional reefs
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RYDER SCOTT COMPANY
PETROLEUM CONSULTANTS
Karpensky license area, Russia
South Ershov high.
Structural map
Base of the carbonates D3sr
Date: 09.2006
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EXHIBIT NO. 4

seismic cross section 0902122

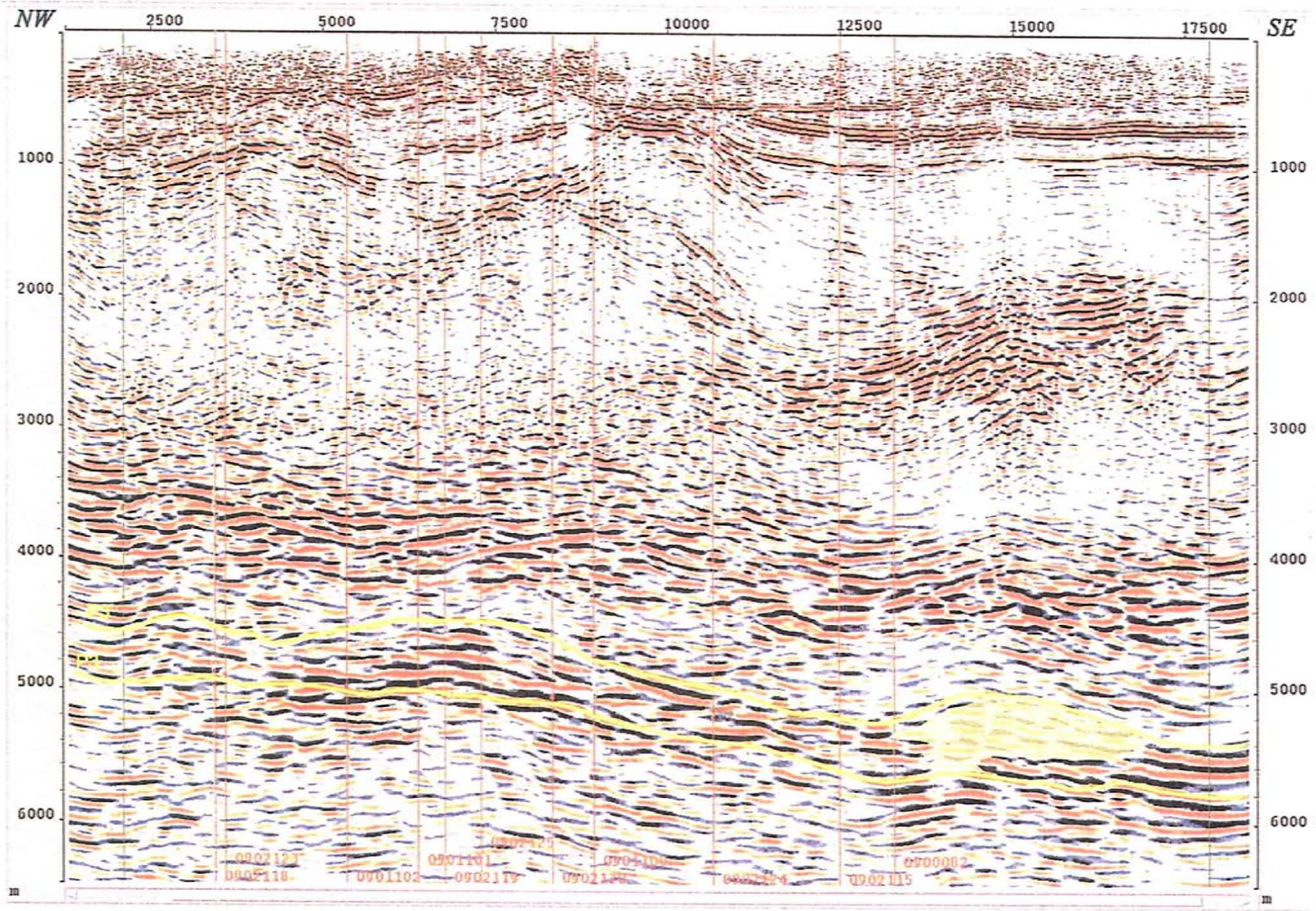


EXHIBIT NO. 5

TABLES

SUMMARY TABLE OF ASSETS

OIL & GAS

Asset	Operator	Interest (%)	Status	License Expiry Date	License Area	Comments
Karpensky	Volga Gas	100%	Exploration	15-Aug-21	200 km^2	South Ershov High of Karpensky License Area*

* total Karpensky License Area includes 4188 km^2

SUMMARY OF RESERVES AND RESOURCES BY STATUS

OIL & GAS -- Prospective Resources

	Gross			Net Attributable			Risk Factor	Operator
	Low Estimate	Best Estimate	High Estimate	Low Estimate	Best Estimate	High Estimate		
Oil & Liquids (bbls) Prospective Resources	66,974,000	255,766,000	416,099,000	66,974,000	255,766,000	416,099,000	*	Volga Gas
Gas (MMcf) Prospective Resources	1,367,000	5,221,000	8,495,000	1,367,000	5,221,000	8,495,000	*	Volga Gas

* Risk Factor not presented at the request of Volga Gas

Volumetric estimation of hydrocarbon resources of the South Ershov high, Karpensky license.

Horison, Block	Depth	Area	Gas Net Pay	Porosity	Sgi	Compressibility factor (Zo) @ Po & Tf	Formation temperature (Tf)	Formation pressure (Po) (abs)	Molar fraction of "dry" gas in the formation gas	Abandonament formation pressure Pa (abs)	Compressibility factor (Za) @ Pa & Tst	Gas-saturated rock volume	Gas-saturated pore volume	1 / Z	Temperature correction	Original Formation Gas in Place	Original "Dry" Gas in Place
	m	Mm^2	m				°C	MPa		MPa		MMm^3	MMm^3			$MMMm^3$	$MMMm^3$
Low case																	
P3' reef 1	4900	1865	36	0.07	0.7	1.62	91	82.0	0.965	0.15	1.0	67	3.3	0.617	0.805	1.32	1.27
P3' reef 2	5300	3185	24	0.07	0.7	1.72	110	92.0	0.965	0.15	1.0	76	3.7	0.581	0.765	1.5	1.46
P3' reef 3	5100	10235	36	0.07	0.7	1.67	101	87.0	0.965	0.15	1.0	368	18.1	0.599	0.783	7.3	7.00
P3' reef 4	4900	9122.5	24	0.07	0.7	1.62	91	82.0	0.965	0.15	1.0	219	10.7	0.617	0.805	4.3	4.15
P3 reef 1	5000	1207.5	30	0.07	0.7	1.64	96	84.5	0.965	0.15	1.0	36	1.8	0.610	0.794	0.7	0.69
P3 reef 2	5500	1897.5	30	0.07	0.7	1.76	119	96.5	0.965	0.15	1.0	57	2.8	0.568	0.747	1.1	1.09
P3 reef 3	5600	13827.5	30	0.07	0.7	1.78	123	99.0	0.965	0.15	1.0	415	20.3	0.562	0.740	8.2	7.95
P3 reef 3_1	5600	270	30	0.07	0.7	1.78	123	99.0	0.965	0.15	1.0	8	0.4	0.562	0.740	0.2	0.16
P3 reef 4	5400	11060	30	0.07	0.7	1.74	114	94.5	0.965	0.15	1.0	332	16.3	0.575	0.757	6.6	6.35
P3 reef 5	5700	14682.5	30	0.07	0.7	1.81	128	101.5	0.965	0.15	1.0	440.5	21.6	0.552	0.732	8.7	8.41
TOTAL low case												**2019**	**99**			**40**	**39**
Most Likely case																	
P3' reef 1	4900	1865	42	0.09	0.8	1.62	91	82.0	0.965	0.15	1.0	78	5.6	0.617	0.805	2.26	2.18
P3' reef 2	5300	3185	28	0.09	0.8	1.72	110	92.0	0.965	0.15	1.0	89	6.4	0.581	0.765	2.6	2.50
P3 reef 1	5000	1207.5	35	0.09	0.8	1.64	96	84.5	0.965	0.15	1.0	42	3.0	0.610	0.794	1.2	1.18
P3 reef 2	5500	1897.5	35	0.09	0.8	1.76	119	96.5	0.965	0.15	1.0	66	4.8	0.568	0.747	1.9	1.86
P3 reef 3_1	5600	270	35	0.09	0.8	1.78	123	99.0	0.965	0.15	1.0	9	0.7	0.562	0.740	0.3	0.27
P3 reef 5	5700	14682.5	35	0.09	0.8	1.81	128	101.5	0.965	0.15	1.0	514	37.0	0.552	0.732	14.9	14.42
P3' reef 3 - P3 reef 3	4950-5600	17860	140	0.09	0.8	1.72	110	92	0.965	0.15	1.0	2500.4	180.0	0.581	0.765	72.5	69.98
P3' reef 4 - P3 reef 4	4800-5400	14002.5	140	0.09	0.8	1.67	101	87.0	0.965	0.15	1.0	1960	141.1	0.599	0.783	56.7	54.72
TOTAL middle case												**5260**	**379**			**152**	**147**
High case																	
P3' reef 1	4900	2573	60	0.08	0.85	1.62	91	82.0	0.965	0.15	1.0	154.4	10.5	0.617	0.805	4.21	4.06
P3' reef 2	5300	6230	40	0.08	0.85	1.72	110	92.0	0.965	0.15	1.0	249.2	16.9	0.581	0.765	6.8	6.59
P3 reef 1	5000	2000	50	0.08	0.85	1.64	96	84.5	0.965	0.15	1.0	100.0	6.8	0.610	0.794	2.7	2.64
P3 reef 2	5500	2713	50	0.08	0.85	1.76	119	96.5	0.965	0.15	1.0	135.7	9.2	0.568	0.747	3.7	3.59
P3 reef 3_1	5600	450	50	0.08	0.85	1.78	123	99.0	0.965	0.15	1.0	22.5	1.5	0.562	0.740	0.6	0.60
P3 reef 5	5700	14682.5	50	0.08	0.85	1.81	128	101.5	0.965	0.15	1.0	734.1	49.9	0.552	0.732	20.2	19.46
P3' reef 3 - P3 reef 3	4950-5600	24942	160	0.08	0.85	1.72	110	92	0.965	0.15	1.00	3990.7	271.4	0.581	0.765	109.3	105.48
P3' reef 4 - P3 reef 4	4800-5400	19145	192	0.08	0.85	1.67	101	87	0.965	0.15	1.00	3675.8	250.0	0.599	0.783	100.4	96.90
TOTAL high case												**9062**	**616**			**248**	**239**

Well Chornaya Padina #1. Testing chronology of the Frasnian interval

Date (Time)	Choke size	Tubing WHP		Annulus WHP		Prover Pressure		Prover Temp.	Orifice diameter	Water production rate		Time on Prod	Total water production during test
	MM	kg/cm2 gauge	kg/cm2 abs	kg/cm2 gauge	kg/cm2 abs	kg/cm2 gauge	kg/cm2 abs	oC	mm	m3/ time	m3/day	min	m3
3/29/2000													
	Open well to Separator with 4mm Choke												
9.00	4	240.00	241.03	200.00	201.03	0.48	1.51	12.9	8				
9.30	4	240.00	241.03	200.00	201.03	0.64	1.67	13	8				
9.45	4	240.00	241.03	200.00	201.03	0.80	1.83	13	8				
10.00	4	240.00	241.03	200.00	201.03	0.84	1.87	12.2	8		168	90	10.5
10.15	4	240.00	241.03	200.00	201.03	0.64	1.67	12.2	8				
10.22	4	240.00	241.03	200.00	201.03	0.60	1.63	11.8	8				
10.30	4	240.00	241.03	200.00	201.03	0.60	1.63	11.8	8				
							1.69	12.4					
	Change 4mm Choke to 6 mm												
11.00	Open well to Separator												
11.15		315.00	316.03	260.00	261.03				8				
11.25	6												
11.35	6												
12.00	6	300	301.03	250	251.03	1.80	2.833		8				
12.05	6	255	256.03	240	241.03	1.92	2.953	14.6	8				
12.10	6	245	246.03	220	221.03	1.63	2.663	12.3	8				
12.16	6	245	246.03	220	221.03	1.80	2.833	12.4	8		211	120	17.5
12.25	6	210	211.03	220	221.03	1.60	2.633	14.6	8				
12.30	6	182	183.03	220	221.03	1.60	2.633	14.6	8				
12.34	6	182	183.03	220	221.03	1.68	2.713	14.6	8				
12.42	6	140	141.03	190	191.03	1.60	2.633	15.0	8				
12.55	6	126	127.03	160	161.03	1.12	2.153	14.6	8				
13.00	6	180	181.03	200	201.03	1.86	2.893	14.6	8				
							2.729	12.3					
	Bild UP and change 6 mm Choke to 8 mm												
13.23		252											
13.24		280											
13.25		315											
13.26		350											
13.27		385											
13.28		420											
	Surge of annulus pressure to a~ 800 kg/cm2 and appearance of pressure in casing annulus (47 kg/cm2)												
13.30	Open well to Separator												
13.33	8	280	281.033	Well produces 1.1 gr/cm3 density water									
13.35	8	210	211.033										
	Change 8mm Choke to 4mm												
13.40	Open well												
13.42	4												
13.45	4												
13.50	4												
13.55	4												
	Well produces to Separator												
14.00	4	203	204.03	240	241.03	1.60	2.633	9.4	8	3m3/10min			
14.05	4	203	204.03	240	241.03	2.80	3.833	15.1	8				
14.10	4	203	204.03	240	241.03	2.84	3.873	16.8	8	4m3/10min			
14.16	4	196	197.03	230	231.03	3.80	4.833	18.1	8		288 ??? *	60	16.5
14.25	4	196	197.03	230	231.03	4.60	5.633	19.3	8				
14.30	4	196	197.03	230	231.03	4.02	5.053	19	8	3m3/20min			
14.40	4	196	197.03	230	231.03	3.75	4.783	18.6	8				
							4.475	17.52					
									Average:	10m3/40min	360		

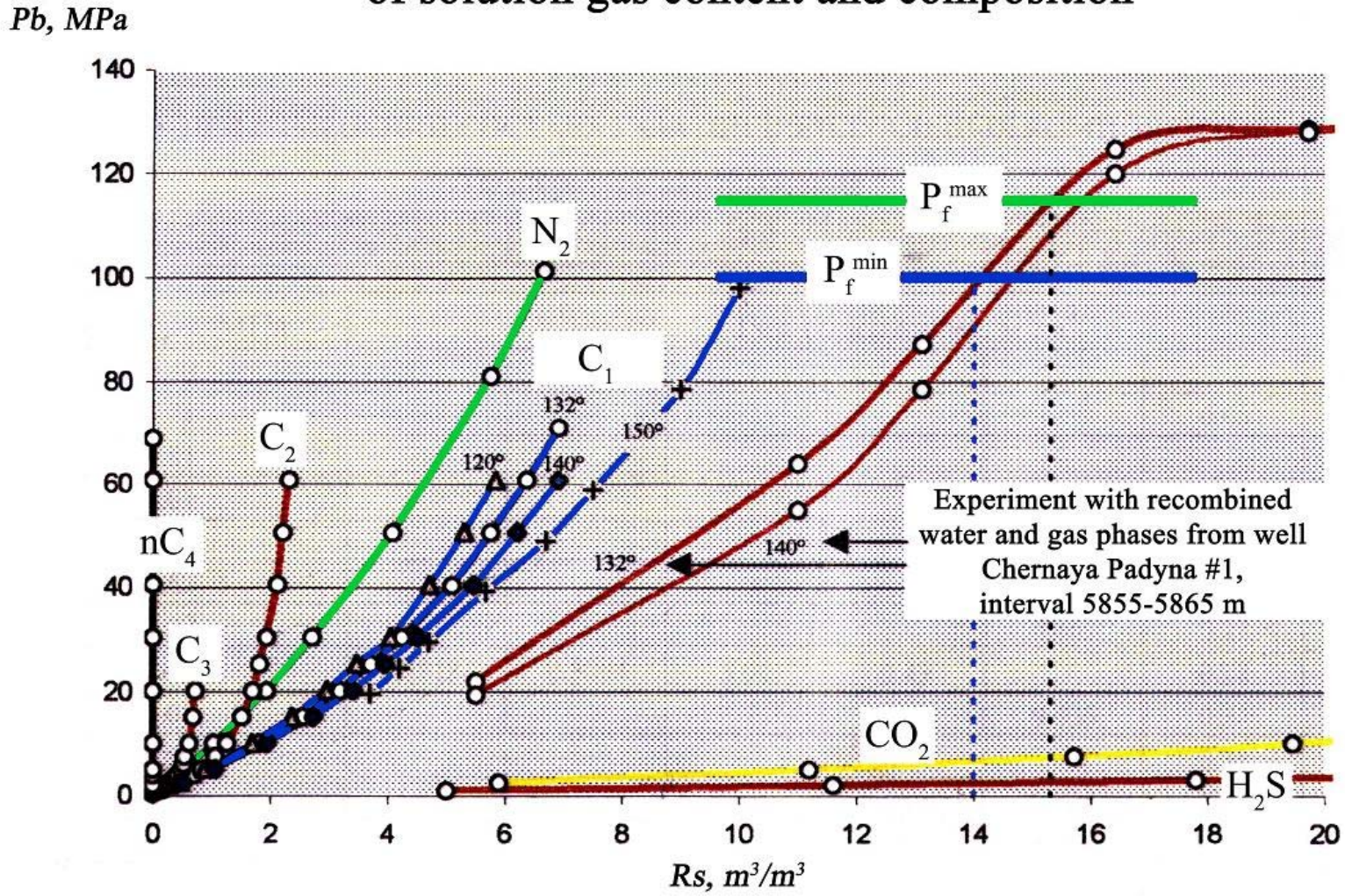
* the reported 288 m3/day Water production rate is not supported by the original test data

Comparison of the Saratovneftegaz and RSC estimation of the well Chornaya Padina #1 test GWR from the Frasnian interval

Saratovneftegaz estimation (year 2000)											
Choke size	Flowmeter Pressure	Prover Temp.		Gas SG	Z	Z*T*SG	(Z*T*SG)0.5	C orifice	Production rate, m3/day		GWR
mm	kg/cm2	oC	oK						Gas	Water	m3 / m3
4	1.84		285.2	0.651	0.99	183.8	13.6	12.038	1634	168	9.7
6	2.95		287.6	0.666	0.99	189.6	13.8	12.038	2579	211	12.2
4	5.63		292.3	0.614	0.99	177.0	13.3	12.038	5084	288	17.7

RSC estimation												
Time	Gas production rate = $C_{or} * P_{fm} / (GSG * Z * T_{fm})^{0.5}$											
	Choke size	Flowmeter Pressure (P_{fm})	Flowmeter Temperature (T_{fm})		Gas SG (GSG)	Z	Z * T * GSG	$(Z*T*GSG)^{0.5}$	C_{or}	Production rate		Reporded water production	GWR
										Gas	**Water**		
	mm	kg/cm^2 abs	oC	oK						Mm^3/day	m^3/day	m^3/time	m^3 / m^3
1st Flow Period. 4mm Choke													
9.00	4.0	1.51	12.9	285.9	0.651	0.99	184.3	13.6	12.038	1.342	168	no data	8.0
9.30	4.0	1.67	13.0	286.0	0.651	0.99	184.3	13.6	12.038	1.483	168	no data	8.8
9.45	4.0	1.83	13.0	286.0	0.651	0.99	184.3	13.6	12.038	1.625	168	no data	9.7
10.00	4.0	1.87	12.2	285.2	0.651	0.99	183.8	13.6	12.038	1.663	168	no data	9.9
10.15	4.0	1.67	12.2	285.2	0.651	0.99	183.8	13.6	12.038	1.485	168	no data	8.8
10.22	4.0	1.63	11.8	284.8	0.651	0.99	183.6	13.5	12.038	1.451	168	no data	8.6
10.30	4.0	1.63	11.8	284.8	0.651	0.99	183.6	13.5	12.038	1.451	168	no data	8.6
									Average	**1.500**	**168**		**8.9**
2nd Flow Period. 6mm Choke													
12.05	6.0	2.95	14.6	287.6	0.666	0.99	189.6	13.8	12.038	2.581	211	no data	12.2
12.10	6.0	2.66	12.3	285.3	0.666	0.99	188.1	13.7	12.038	2.337	211	no data	11.1
12.16	6.0	2.83	12.4	285.4	0.666	0.99	188.2	13.7	12.038	2.486	211	no data	11.8
12.25	6.0	2.63	14.6	287.6	0.666	0.99	189.6	13.8	12.038	2.302	211	no data	10.9
12.30	6.0	2.63	14.6	287.6	0.666	0.99	189.6	13.8	12.038	2.302	211	no data	10.9
12.34	6.0	2.71	14.6	287.6	0.666	0.99	189.6	13.8	12.038	2.372	211	no data	11.2
12.42	6.0	2.63	15.0	288.0	0.666	0.99	189.9	13.8	12.038	2.300	211	no data	10.9
12.55	6.0	2.15	14.6	287.6	0.666	0.99	189.6	13.8	12.038	1.882	211	no data	8.9
13.00	6.0	2.893	14.6	287.6	0.666	0.99	189.6	13.8	12.038	2.529	211	no data	12.0
									Average	**2.343**	**211**		**11.1**
3rd Flow Period. 4mm Choke													
14.00	4.0	2.633	9.4	282.4	0.614	0.99	171.7	13.1	12.038	**2.419**	**432**	3 m^3 during 10 min	5.6
14.05	4.0	3.833	15.1	288.1	0.614	0.99	175.1	13.2	12.038	**3.487**	**432**		8.1
14.10	4.0	3.873	16.8	289.8	0.614	0.99	176.2	13.3	12.038	**3.513**	**576**	4 m^3 during 10 min	6.1
14.16	4.0	4.833	18.1	291.1	0.614	0.99	176.9	13.3	12.038	**4.374**	**576**		7.6
14.25	4.0	5.633	19.3	292.3	0.614	0.99	177.7	13.3	12.038	**5.087**	**576**		8.8
14.30	4.0	5.053	19.0	292.0	0.614	0.99	177.5	13.3	12.038	**4.566**	**216**	3 m^3 during 20 min	21.1
14.40	4.0	4.783	18.6	291.6	0.614	0.99	177.3	13.3	12.038	**4.325**	**216**		20.0
									Average	**3.967**	**360**	**10 m3 during 40 min**	**11.1**

Water bubble point pressure as function of solution gas content and composition



Notes: the solubility of nC_4, C_3, C_2, N_2, C_1, CO_2, H_2S is given at 132°C basing on Reamer, Kobayashi, Katz, Culberson, Wiebe, Gaddy, Selleck data (summarized by A.Yu.Namiot in 1976). Additionally the solubility of C_1 is given at 120°C, 140°C, 150°C (blue lines).

gas content range at separator

max gas content of the fully saturated formation system at 100 MPa

max gas content of the fully saturated system at 115 MPa

Physical and chemical properties and composition of gas. Karpenskiy License Areas.

Lab	Volgogradnipineft	NVNIIGG	Volgogradnipineft		NVNIIGG	Volgogradnipineft		NVNIIGG		Volgogradnipineft	
Sampling data		06/24/99	04/26/00		11/03/99	02/17/00		03/29/00			
Depth, mTVDss	4515-4587	5597-5600	5779-5809		5820	5855-5865					
Interval	P1a-C2m2	C1v3al-C2b	D3f3-fm1			D3f2sr-sm					
	Drilling	Drilling	Perforation		Drilling			Perforation			
Component	Formation tester		Separator	WH				Separator			
H2	0.00	0.00	0.00	0.00	0.57	0.00	0.00	0.25	0.26	0.25	0.00
He	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
N2	2.00	0.55	0.17	0.30	8.90	0.72	0.62	0.15	0.16	0.72	0.71
CO2	0.01	0.59	0.16	0.21	1.43	4.51	2.64	5.91	5.58	6.19	7.47
H2S	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CH4	87.44	97.27	95.32	64.44	88.52	94.12	96.01	92.86	93.19	91.98	91.31
C2H6	5.99	0.62	3.43	25.17	0.51	0.55	0.58	0.69	0.66	0.69	0.47
C3H8	2.83	0.59	0.50	6.27	0.06	0.07	0.05	0.11	0.12	0.13	0.04
i-C4H10	0.33	0.11	0.12	1.31	0.01	0.01	0.01	0.01	0.01	0.02	0.00
n-C4H10	0.85	0.23	0.20	0.74	0.00	0.01	0.01	0.02	0.02	0.02	0.00
i-C5H12	0.22	0.04	0.06	0.64	0.00	0.00	0.01	0.00	0.00	0.00	0.00
n-C5H12	0.17	0.00	0.03	0.31	0.00	0.00	0.01	0.00	0.00	0.00	0.00
Hexanes	0.11	0.00	0.01	0.41	0.00	0.01	0.01	0.00	0.00	0.00	0.00
C7+	0.06	0.00	0.00	0.20	0.00	0.00	0.05	0.00	0.00	0.00	0.00
Total	100	100	100	100	100	100	100	100	100	100	100
Mol mass, g/mol	18.85	16.69	16.96	23.47	117.52	17.50	17.06	17.82	17.72	17.98	18.34
Density, rg/m3	0.784	0.696	0.705	0.976	0.730	0.729	0.709	0.743	0.739	0.749	0.763

Федеральное агентство по недропользованию
(Роснедра)
ТЕРРИТОРИАЛЬНОЕ АГЕНТСТВО ПО НЕДРОПОЛЬЗОВАНИЮ ПО САРАТОВСКОЙ ОБЛАСТИ
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