

VOLGA GAS PLC

REGISTERED NUMBER: 05886534

**ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

Volga Gas plc is an independent oil and gas exploration and production company focused on the Volga Region of Russia. It has 100% interests in five oil and gas exploration and production licences in the Saratov, Volgograd and Bashkiriya regions.

Overview of 2019

- Reservoir study on Vostochny Makarovskoye field results in 48% downward revision to Group reserves
- 2019 production held within 4% of 2018
- Revenues level at US\$46.0 million (2018: US\$45.9 million) and EBITDA* down 6% at US\$15.9 million (2018:US\$16.9 million)
- Cash net of bank debt increased to US\$14.1 million (2018: US\$ 13.5 million)
- Successful initiation of slim hole drilling as a key exploration and development tool

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** This measure is adjusted EBITDA and represents earnings before interest, tax, depreciation, depletion, and amortization ("DD&A"), impairment and other operating income. Further reconciliation can be found on page 11.*

Volga Gas at a Glance

Our assets are located in an established oil and gas province. The area benefits from the existing rail, road and pipeline infrastructure and proximity to Russia's main energy markets.

Overview	2019 Progress	2020 Objectives
Dobrynskoye gas processing plant	Installed turbo expander and increased the yield and efficiency of LPG extraction. Improved the efficiency of Redox-based sweetening process with incremental process upgrade.	Implementation of cost reductions. Seek new projects/third party opportunities to utilise spare processing capacity
Vostochny Makarovskoye ("VM") and Dobrynskoye gas/condensate field	Unsuccessful sidetracks led to reduced output during 2H 2019 and reservoir study, culminating in 73% reduction in proved gas, condensate and LPG reserves.	Drilling of the VM#5 and VM#6 wells with slim hole rig. Manage production to maximise extraction of remaining reserves.
Uzenskoye oil field	Workovers to restore production rates from mature wells. Completed drilling of six new wells with slim hole drilling rigs, and acquired own slim hole rig to accelerate the programme. New reserves discovered in Upper Aptian reservoir offsetting unsuccessful sidetrack of Uzen#4	Optimise production of oil from new slim hole wells. Appraisal of reserves and submit development plan for the Upper Aptian reserves in Uzen. Re-development of the non-producing Sobolevskoye field with a new slim hole well.
Exploration	Developed slim hole drilling as for low-cost exploratory and development drilling into shallow horizons.	Drilling of seven exploratory wells in the Karpenskiy licence area

Overview

Resilient financial performance in spite of VM reserve revisions

- Revenues level at US\$46.0 million (2018: US\$45.9 million)
- EBITDA* down 6% to US\$15.9 million (2018: US\$16.9 million)
- Loss before tax of US\$10.5 million (2018: profit of US\$10.6 million) after impairment charges of US\$8.3 million (2018: nil)
- Operating cash flow of US\$16.3 million (2018: US\$20.7 million)
- Capital expenditure of US\$9.4 million (2018: US\$2.8 million)
- Cash balance net of bank debt increased to US\$14.1 million at 31 December 2019 (2018: US\$13.5 million)

VM and Dobrynskoye fields

- Reservoir studies extended following higher gas:water contact level revealed in well logs.
- Reserves re-determined on VM and Dobrynskoye with 73% downgrade (see page 8)
- Revised production management strategy, with two new wells to be drilled.

Positive start to slim hole drilling initiative

- Six slim holes drilled and three progressing by 31 December 2019
- Acquired company-owned rig to improve cost effectiveness
- Opportunity for low cost exploration drilling and advantageous field development economics

Further efficiency gains at the gas processing plant

- Minor upgrades to reduce maintenance down-time and improve cost efficiency.
- Installation of turbo expander at the LPG plant to improve extraction rates.
- Capacity available for third party/new asset gas processing

* This measure is adjusted EBITDA and represents earnings before interest, tax, DD&A, impairment and other operating income.
Further reconciliation can be found on page 11

Chairman's Statement

Dear Shareholder,

In this highly unusual year, production of the Volga Gas Annual Report and Accounts for the year ended 31 December 2019 has been delayed from its usual timetable not by Covid-19, but to allow the Company's legal counsel time to conduct an investigation into certain consultancy arrangements relating to gas sales by a Group company. The investigation, which was completed earlier in August 2020 at considerable expense to your Company, discovered no evidence or indication of illegality. Nevertheless, the auditors, KPMG LLP, continued to have certain reservations. As we approach the absolute deadline for filing accounts, which this year exceptionally was extended to 30 September 2020, there is insufficient time to pursue further investigations which may have enabled KPMG to provide an unqualified audit opinion. Your Board decided that it is in the interests of the Company and its shareholders to end this process and to accept the audit opinion KPMG felt able to provide. The Board is undertaking an extensive review of processes for engagement and operation of all material contractual relationships entered into by Group companies to ensure greater transparency and accountability to the Board. Apart from this introductory paragraph, the Report of the Auditors and updates to various disclosures, the contents of this Annual Report were completed in April 2020. There have been no amendments or alterations to the financial statements as presented in the preliminary results which were released on 6 April 2020.

Overview and Strategy

In 2019, the events of greatest impact operationally and financially for Volga Gas were at the Group's Vostochny Makarovskoye ("VM") field. As we announced in July 2019, it was found that water levels within the main producing reservoir in the VM field had risen significantly above management's expectations. An ongoing study on the reservoir was extended into a more extensive collection of data to enable a production management strategy to extract the maximum amounts of gas and condensate possible economically as well as to provide an updated estimate of the remaining economically recoverable reserves in the field. The details of the new reserve estimates and the forward plans for the VM field are covered by the Chief Executive in his Report on page 5.

The strategic challenge facing the Company at this stage is to re-build its reserve and production base and re-establish a growth profile. The Board and management have identified three key strands to achieving this:

- To maximise extraction from the VM field and extend the field's economic life with optimal reservoir management;
- To grow the Group's oil business centered on the Uzen field and exploration in the Karpenskiy licence area in which it sits; and
- New business opportunities, both to utilise the Group's gas processing infrastructure and expertise and to extend the Group's activities into new areas

I am pleased that Group's financial strength gives us the ability to survive the challenges posed by the Covid-19 pandemic to the entire world economy and to start on the process of rebuilding the Group's assets. The Chief Executive's report outlines the actions being taken by management to deal with the challenges of the pandemic.

Performance in 2019

During 2019 the external conditions for the oil and gas industry remained generally stable although oil prices on average in 2019 were approximately 10% lower than 2018. Despite challenging geopolitics, the Ruble and the Russian domestic energy market conditions were also stable during 2019. The Group has continued to benefit from the improved operational efficiency at the Dobrinskoye gas processing plant from switching of the gas sweetening process in 2018 to a Redox-based system. This is reflected in the lower operating expense in 2019 than in 2018.

Apart from further minor improvements to the gas processing facility, a further upgrade to the project for the capture of liquid petroleum gases ("LPG") was undertaken to improve the recovery of propane and butane from the gas stream. While the LPG project as a whole will manifestly generate sufficient additional revenues to recoup the costs, the final part of the project was sanctioned before the problems with the VM field became apparent. Given the now expected curtailment of the economic life of the field, the additional investment may not be fully recouped by the extra LPG that produced during the remaining economic field life.

One of the potentially most important developments in 2019 for the Group is the application of slim hole drilling. This technique uses a light weight, truck-mounted drilling rig, of a design that was originally developed for mineral exploration. These rigs produce narrow bore holes which can be used to develop the relatively shallow oil and gas deposits in the Group's licences. The key advantage is economic, as the cost of a producing slim hole well is typically one-fifth of the cost of a conventional well. Slim hole wells also provide a highly cost effective means of drilling exploratory wells, which will be part of the forward strategy of the Group.

These matters are discussed in greater detail by the Chief Executive Officer in the Operational Review.

Board and Governance

Finally, I would like to update you on the Board. As previously announced, Ronald Freeman retired from the Board on 31 December 2019. Vladimir Koshcheev has also advised me of his intention to retire from the Board at the next Annual General Meeting. Similarly, Michael Calvey will be retiring by rotation and this time will not be offering himself for re-election. I and my colleagues express our warm thanks to all three of them for their contributions to the Board over many years of service. I am delighted to report the appointments of Stewart Dickson and Andrei Yakovlev as independent non-executive directors of the Company. Their summarised biographies are included on pages 16 and 17.

Mikhail Ivanov
Chairman

Chief Executive's Report

As discussed in the Chairman's letter, the most significant events of 2019 centered on the VM field, where the Company had to downgrade reserves in the field by 73% and decide on a production strategy to maximise the economic recovery of hydrocarbons. The background to this is covered in greater detail in the operations report and I cover the forward plan later in this Report.

When the logging in VM during H1 2019 indicated much higher than anticipated levels of gas:water contact in the reservoir, the management team decided to reduce the production rates in order to prevent further rapid rise in water encroachment. For this reason, Group total production in 2H 2019 averaged 4,220 boepd compared to 5,634 boepd in H1 2019, to average 4,927 boepd for 2019 as a whole (2018: 5,144 boepd), a 4% reduction year on year.

On a more positive note, early in 2019, management identified an opportunity to utilise slim hole drilling technology as an advantageous way of developing relatively shallow hydrocarbon resources. Initially using a contractor owned slim hole rig, the Company drilled six slim hole wells in and around the Uzen oil field. This was in general a successful undertaking and provided the drilling team with valuable experience which has been put to use for the remainder of the programme. In mid-2019, the decision was taken to acquire a Company-owned slim hole rig at a cost of US\$0.7 million, equivalent to approximately 18 months of rig rental. By the end of 2019, a total of six slim hole wells had been drilled and three others were in progress.

Based on the experience acquired with slim hole drilling, an extended drilling programme fully utilizing two rigs has been proposed comprising 8 new wells during 2020, 6 on Uzen and 2 on VM, and a further 20 wells during 2021-2022. In addition to the development drilling programme there are plans for seven exploratory wells to be drilled on identified structures in the Group's Karpenskiy licence area. While success with any one of these cannot be assumed, management is optimistic of being able to report a measure of success in finding new oil reserves for the Group. Equally importantly, any newly discovered oil reserves can be rapidly and cost-effectively brought into production.

Included among the eight production wells included in the slim hole drilling programme are two new wells on the VM field, which will be required to produce the identified remaining reserves in the field, and a new well on the Sobolevskoye field, a small currently non-producing field in the Group's Urozhaivoye-2 licence area.

While during 2019, the most important aspects of the Group's activities relate to the sub-surface, additional works were carried out to improve the operational efficiency of the surface facilities, most especially at the Dobrinskoye gas processing plant.

The LPG unit, which was commissioned in May 2018 and has been operating since then, was upgraded with an additional investment of approximately US\$2.0 million in a turbo expander which has enabled a greater level of extraction of propane and butane from the gas stream by achieving lower temperatures in the LPG extraction vessel. This upgrade was completed in November 2019 with a notable increase in LPG extraction.

There were also further improvements to the Redox-based sweetening process to improve the operational efficiency of the plant, improving the reliability of the process and reducing operating costs.

In spite of the operational challenges, lower production rates and lower oil prices than seen in 2018, the Group control costs, especially overheads. This has enabled the Group to remain cash flow positive throughout the year and to preserve its financial strength and provide some cushion to deal with the present challenges facing the Group. The Financial Review on pages 9 to 11 sets out the details.

Medium-term strategy

Management's key objective is to rebuild the Group's reserve and production base to rebuild asset value and provide a sustainable profile of profit and cash generation. The key strategic actions identified with the Board have been set out in the Chairman's letter above. The specific actions to be undertaken in 2020 are:

- Drilling of two new production wells on the VM field using slim hole drilling and to undertake production management studies to mitigate future formation water production. This is with the aim of maintaining economic gas production and maximising the extraction of the remaining reserves.
- Sustained slim hole development drilling, especially of the Albion reservoir in the Uzen field to increase oil production.
- Commence a sustained exploration drilling programme in the Karpenskiy licence area during 2020-2021 to test the maximum number of prospects within the remaining exploration term, with the aim of discovering material new oil reserves.
- Business development activities to seek additional gas throughput on the Dobrinskoye gas plant, including tolling of third party production; and new licence areas and ventures which can utilise the skills of the operational and management team.

Covid-19 response

Whilst our operations to date have seen little direct impact from the Covid-19 pandemic, we have focused on implementing measures to ensure the safety of our employees and contractors, the integrity of our operational facilities and to prepare the business to face potential challenges that emerge. The potential impacts are currently unknown but could include production disruption due to government restrictions or customer sales, impact on our workforce and supply chain disruption. The actions implemented to mitigate the risks associated with the Covid-19 pandemic are set out on pages 14 and 15. In the current environment, with significantly lower oil prices and numerous uncertainties in the global economy, management expects the Group's financial performance in 2019 to be lower than that of 2018. Nevertheless, management is confident that the Group's planned capital expenditure of US\$8.3 million will be covered by operating cash flow and existing liquid resources. The Board is determined to maintain the Group's financial strength, if necessary by deferring capital expenditure, while taking the actions to rebuild the Group's asset value.

Andrey Zozulya
Chief Executive Officer

Operational Review

Operations overview

As outlined on the previous page, Group production in 2019, at an average daily rate of 4,927 boepd, was 4% lower than the 5,144 boepd achieved in 2018. Following higher production in H1 2019, in July the output from the VM field was significantly reduced following the finding of higher than anticipated levels of gas:water contact in the reservoir.

International oil prices were on average approximately 9% lower with the Urals oil price reaching an average level of US\$63.71 per barrel in 2019 compared to US\$69.69 per barrel in 2018. Nevertheless, the higher proportion of condensate to gas (as mentioned below) mitigated the impact of lower volumes and lower pricing on the total sales. Taking into account selling expenses, netback revenues (defined as revenues less selling expenses as shown in the Income statements) in 2019 of US\$42.2 million were just 3% lower than the US\$43.4 million in 2018. The fall in total sales volumes and oil prices were cushioned by a higher proportion of oil and condensate in the product mix.

Overall production costs were lower, with benefits of savings from improved operational efficiencies. On the other hand, the scheduled adjustments to the rate formulas led to higher rates of Mineral Extraction Tax. Consequently EBITDA* for 2019 was 6% lower at US\$15.9 million (2018: US\$16.9 million).

Gas/condensate production and development

The Dobrinskoye and VM fields are managed as a single business unit. Production from the fields is processed at the gas plant located next to the Dobrinskoye field, extracting the condensate and processing the gas to pipeline standards before input into Gazprom's regional pipeline system via an inlet located at the plant. The VM field was developed with wells drilled by Volga Gas, while the Dobrinskoye wells were acquired from previous licensees.

Production during 2019 averaged 16.2 mmcf/d of gas and 1,507 bpd of condensate and 287 bpd of LPG (2018: 18.8 mmcf/d of gas and 1,183 bpd condensate and 223 boepd LPG), a total of 4,500 boepd (2018: 4,537 boepd). It is notable that while the overall production volumes of hydrocarbons extracted from the wells decreased from July 2019, the proportion of condensate increased such that for the year as a whole, the average total production was not materially lower on a barrel of oil equivalent basis.

The VM field has three active production wells, VM#1, VM#3 and VM#4, in the principal reservoir, the Evlano Livinskiy carbonate, and a further well in the secondary Bobrikovski sandstone reservoir. Smaller volumes were also derived from the Dobrinskoye #26 well which in January 2019 were revived with a successful sidetrack.

A sidetrack well that commenced drilling late in 2018 on VM#2 was unsuccessful as several attempts made during early 2019 to cut off water incursion into the well bore failed. Management subsequently undertook logging in the VM#3 which showed that the gas:water contact was higher than previously expected. The Company appointed Schlumberger Ltd to conduct a comprehensive technical evaluation and reservoir study on the VM and Dobrinskoye fields. The study was completed recently and, based on the data accumulated, a independent re-calculation of remaining reserves was carried out.

These results indicate total estimates of Proved reserves for the VM field of 3.2 million barrels of oil equivalent ("mmboe"), a downward revision of approximately 7.6 mmboe, or 70%. The preliminary Proved reserves for the Dobrinskoye field, as at 31 December 2019 are 0.4 mmboe, a downward revision of approximately 0.7 mmboe, or 64%.

Two new wells, VM#5 and VM#6 are planned to be drilled during H1 2020 on locations on the eastern flank of the field, where the recently concluded study indicates there are undepleted resources of gas and condensate that would be accessed by these wells. These wells are to be drilled with slim holes to a vertical depth of approximately 2,000 metres. While this is a greater depth than the slim hole wells drilled hitherto, management is confident of achieving its aims. The aim of this is to maintain economic levels of production to cover the fixed costs of operating the gas processing facility. On current estimates, this is considered unlikely to extend beyond mid-2022.

Management estimates production in 2020 from the VM field to be approximately 10.0 mmcf/d of gas plus 1,300 bpd of condensate and 240 boepd of LPG, a total of 3,200 boepd. This rate is consistent with the strategy of reservoir management adopted after the detection of water influx in the wells. However, there is a significant risk that in the event of either disruption to our ability to market condensate or a shortage of manpower to operate the gas processing plant that may be caused by the Covid-19 pandemic, production of gas and condensate may need to be curtailed during the year. While there would be a financial impact, temporary shut-downs are unlikely to have an impact on the future ability of the VM wells to produce or on the remaining recoverable reserves in the field. In addition, the effects of the pandemic may disrupt plans to drill the new VM wells and may also lead management to defer the drilling.

Gas, condensate and LPG sales

The Group has been making its gas sales directly to Gazprom since 2017 and, although there is no long term contract, the Directors expect the current arrangements to remain in place.

During 2019, the Ruble exchange rate was stable but slightly weaker than in 2018. Since the gas pricing was fixed in Ruble terms, in US Dollar terms the average gas sales realisations were slightly lower in 2019 at US\$1.98/mcf (2018: US\$1.99), offsetting the 4% increase in the Ruble sales price.

During 2019, the Group found it advantageous as times to export its condensate. Consequently condensate exports in 2019 were 34% of total sales (2018: 12%).

** This measure is adjusted EBITDA and represents earnings before interest, tax, DD&A, impairment and other operating income. Further reconciliation can be found on page 11.*

During 2019, the average condensate netback price (after accounting for export taxes and transportation costs) was US\$41.75 per barrel (2018: US\$43.32).

LPG commenced on a pilot basis in May 2018. As a result of production during the full year ended 31 December 2019 total sales increased by 28% to 8,803 tonnes (2018: 6,903 tonnes). However the average realisations were lower in 2019 at US\$299 (2018: US\$412) per tonne. Our experience is that the selling price of LPG is highly seasonal. Management hopes to increase selling flexibility in 2020 to gain an improved market position.

The impact of Covid-19 on the domestic market for condensate in the Volga region of Russia is unpredictable. We will retain a flexible policy of selling domestically or exporting as necessary. However, possible disruption to logistics beyond the control of the Group may impact marketing of both condensate and LPG, which may lead to temporary reduction or shut-downs of production.

Production costs

Average unit production costs on the gas condensate fields decreased to US\$3.78 per boe in 2019 (2018: US\$4.21). The decline in the Ruble, in which effectively all the costs are denominated, improved throughput rates during 1H 2019 which reduced the impact of the fixed cost element of the operating expenses and benefits further operational efficiencies all contributed.

Gas processing plant

Since June 2017, the plant has been operating entirely with Redox-based gas sweetening. In this time, the process has been progressively optimised and the efficiency of the process improved. During 2019 the plant operated with expected uptime, with temporary closures only for routine maintenance and in periods when Gazprom was undertaking maintenance on its gas transmission lines.

Since May 2018, the LPG unit has been operational at the gas plant and has been providing an additional high value product stream from gas that was either previously flared or sold with natural gas at a lower value. During 2019, a turbo expander was added to the LPG unit, enabling the system to operate at a lower temperature and thereby capturing a greater proportion of the butane and propane in the gas stream.

The physical capacity of the plant is currently significantly greater than well output. As the plant is on a fairly open expansive site, it is possible to operate it while enabling personnel to maintain a safe distance between them. As the majority of staff live locally to the plant, travel restrictions should not have a material impact on the ability of the plant to operate. The Group has established changes to the work patterns, including to the catering facilities on site, to preserve the health of our workers.

Oil production and development

The Group's oil production is derived from the Uzen field. During 2019 production averaged 427 bopd (2018: 607 bopd). Up to and including 2019, the Uzen field has been producing oil from a cretaceous Aptian reservoir at a depth of approximately 1,000 metres. This is now at a late stage of maturity of production.

Early in 2019 the Group drilled a sidetrack to the Uzen#4 well into an undeveloped pool in the Albian reservoir. After a series of production tests, it was concluded that the pool into which the well was drilled was charged primarily with gas rather than oil. This small gas accumulation is not of significant commercial potential - although the gas can be utilised for in field fuel requirements. Consequently, the Group has decided to write off the cost of this well.

The majority of remaining reserves in the Uzen field are in the shallower Albian reservoir. The initial development of this reservoir with conventional horizontal wells was found to be economically marginal. For this reason, management sought a low cost drilling alternative and opted for slim hole drilling. This method uses a light, truck-mounted drilling rig that hitherto has been used primarily for mineral exploration drilling. With suitable adaptation and the use of appropriate tubing and tools, the Company undertook an extended trial of this method. After an initial six wells drilled with a rented rig, management decided to purchase a Company-owned rig, with higher specifications.

By the end of 2019 a total of 6 slim hole oil wells had been drilled, with a further 3 in progress. By 29 February a total of 10 wells have been drilled, with an eleventh in progress. Following installation of production tubing and or artificial lift mechanisms, the new wells are progressively being brought into production.

One of the slim hole wells drilled in 2019 discovered oil in a previously unevaluated geological layer, the Upper Aptian, at a depth of approximately 900 metres. As a newly identified resource, Volga Gas is required to prepare a drilling project, drill at least one appraisal well, calculate the reserves and submit development plans for approval by the State Reserves Committee. The normal timeline for this approval process is approximately one year.

As with condensate sales, oil sales may be disrupted by the effects of the Covid-19 pandemic. Production operations on the Uzen field are not manpower intensive and not critically dependent on external supplies. The Group has implemented changes to ensure the health of personnel on the field. Drilling operations, on the other hand, utilise more personnel on site and rely on the availability of consumables, such as drill pipe and drilling mud. While the Group has implemented enhanced health and safety processes on drill sites, the operations may be disrupted by illness, travel restrictions and supply constraints of consumables.

Exploration

During 2019, the Group's exploration activity was confined to technical studies principally on prospects in the Karpenskiy block, on which the Group has identified a number of exploration targets in the Karpenskiy Licence Area at shallow horizons of between 1,000 and 2,000 metres' depth. With the acquisition of slim hole drilling rigs and capability, the Group now has a highly cost effective manner of evaluating its exploration prospects for the remaining two year period of its exploration rights in the Karpenskiy licence area. During 2020, a total of seven exploratory wells have been identified for drilling in the Karpenskiy licence area.

In addition, the Group has acquired at low cost and with little committed capital expenditure a new exploration project, the Muradymovsky License Area, in the Bashkiriya region in an area of active oil production. Studies on this indicate the potential for material new reserves that could be brought rapidly into production. However, Volga Gas has not to date prepared estimates of any reserves or resources in this licence.

The comments of the potential impact of Covid-19 on development drilling clearly apply equally to exploration drilling.

Oil, gas and condensate reserves as of 1 January 2020

During 2019, the Company appointed Schlumberger Ltd to conduct a comprehensive technical evaluation and reservoir study on the VM field. The study was completed in December 2019 and a re-calculation of remaining reserves in the fields was carried out by independent reserve engineers Panterra. The results were presented to the Company in February. As announced on 27 January 2019, there is a significant reduction in the estimated remaining reserves in the VM field as a result of this work. Separately, a re-assessment of the reserves in the Dobrinskoye field was carried out and a reduction in remaining reserves estimates was indicated there as well.

At the Uzen field, as mentioned above there were two events in 2019 which may have an impact on reserve estimates on the Uzen field: the Uzen #4 sidetrack that encountered mainly gas rather than oil; and the discovery of oil in the Upper Aptian reservoir with one of the slim hole wells. Further appraisal drilling is required for an accurate determination of the Upper Aptian reserves. Meanwhile, a recent study by Panterra confirmed current geological reserves estimates.

The changes to oil, gas, condensate and LPG reserves between 1 January 2019 and 31 December 2019 are summarised in the following table.

Oil, gas and condensate reserves

	Oil & Condensate (mmbbl)	Gas (bcf)	LPG (tonnes '000)	Total (mmboe)
As at 31 December 2018				
Proved reserves	9.174	50.5	141	19.247
Proved plus probable reserves	10.472	70.7	198	24.592
Production: 1 Jan-31 Dec 2019	0.710	5.9	8.9	1.804
<i>Revisions to reserves:</i>				
<i>Proved reserves</i>	<i>(1.446)</i>	<i>(33.8)</i>	<i>(108.5)</i>	<i>(8.356)</i>
<i>Proved plus probable reserves</i>	<i>(2.745)</i>	<i>(54.1)</i>	<i>(165.5)</i>	<i>(13.701)</i>
As at 31 December 2019				
Proved reserves	7.018	10.7	23.6	9.087
Proved plus probable reserves	7.018	10.7	23.6	9.087
<i>Revision as % of 2018 reserves less 2019 production</i>				
Proved reserves	(17%)	(76%)	(82%)	(48%)
Proved plus probable reserves	(28%)	(83%)	(88%)	(60%)

Notes:

- Volga Gas (through its wholly owned subsidiaries PGK and GNS) is the operator and has a 100% interest in five licences to explore for and produce oil, gas and condensate in the Volga region.
- The reserve estimates as at 31 December 2019 for gas, condensate and LPG held by GNS were independently assessed in an updated study conducted by OOO Panterra dated 7 February 2020. The full reserve report is available on the Company's website: www.volgagas.com.
- There was an updated geological study by Panterra based on the results of the 2019 drilling activities which concluded there were no material net revisions to oil reserves.
- The reserve estimates were prepared in metric units: tonnes for oil, condensate and LPG and standard cubic metres for gas. The conversion ratios from tonnes to barrels applied in the table above were 7.833 barrels per tonne of oil, 8.75 barrels per tonne of condensate and 11.75 barrels per tonne of LPG. One cubic metre equates to 35.3 cubic feet and one barrel of oil equivalent is given by 6,000 standard cubic feet of gas.
- The above reserve estimates, prepared in accordance with the PRMS reserve definitions prepared by the Oil and Gas Reserves Committee of the SPE, have been reviewed and verified by Mr Andrey Zozulya, Director and Chief Executive Officer of Volga Gas plc, for the purposes of the Guidance Note for Mining, Oil and Gas companies issued by the London Stock Exchange in June 2009. Mr Zozulya holds a degree in Geophysics and Engineering from the Groznensky Oil & Gas Institute and is a member of the Society of Petroleum Engineers.

Andrey Zozulya
Chief Executive Officer

Financial Review

Results for the year

In 2019, the Group generated US\$46.0 million in turnover (2018: US\$45.9 million) from the sale of 729,147 barrels of crude oil and condensate (2018: 649,541 barrels), 8,803 tonnes of LPG (2018: 6,903 tonnes) and 5,674 million cubic feet of natural gas (2018: 6,471 million cubic feet).

During 2019, 34% by volume of condensate sales were exported (2018: 12%). In 2019 as in 2018 all oil sales were in the domestic market.

The gas sales price during 2019 averaged US\$1.98 per thousand cubic feet (2018: US\$1.99 per thousand cubic feet), the movement in the Ruble/US Dollar exchange rate which offset the increase in the Ruble selling prices. In 2019, as in 2018, the Group's gas sales were direct to Gazprom.

In 2019, the total cost of production decreased to US\$7.2 million (2018: US\$8.3 million), driven mainly by cost savings from chemicals used for gas sweetening and improved operational efficiency at the gas processing plant. Unit field operating costs were lower at US\$4.07 per boe (2018: US\$4.61 per boe), for similar reasons.

Production-based taxes increased to US\$14.3 million (2018: US\$13.2 million) reflecting the impact of higher oil Mineral Extraction Tax ("MET") rates as well as the impact of further formula changes that came into effect on 1 January 2019. MET paid in 2019 represented 33.8% of netback revenues, defined as revenues less selling expenses as shown in the Income statements (2018: 30.4% of netback revenues), reflecting a greater proportion of oil and condensate relative to gas in the oil equivalent sales volumes. Higher rates of MET apply to oil and condensate relative to gas.

The Depletion, Depreciation and Amortisation ("DD&A") charge in 2019 was US\$14.9 million (2018: US\$8.2 million) reflecting the higher unit DD&A rate applied to comparable production volumes.

As a consequence principally of higher DD&A, production activities generated a gross profit of US\$9.6 million in 2019 (2018: US\$16.1 million).

Operating and administrative expenses in 2019 were US\$4.8 million (2018: US\$4.9 million).

The Group experienced a 6% decrease in EBITDA (defined in the operational and financial summary on page 11 as operating profit before non-cash charges, including exploration expenses, depletion and depreciation) to US\$15.9 million (2018: US\$16.9 million).

There were no significant exploration and evaluation expenses in 2019 (2018: nil) or other provisions (2018: nil). However, as a result of the revision to reserves in the VM and Dobrinskoye fields, the Group recorded an asset impairment charge of US\$8.3 million mainly against the PP&E associated with those fields. In addition, there was a US\$2.6 million write off of development assets in 2019 (2018: US\$1.5 million), primarily as a result of unsuccessful development drilling operations on sidetracks to the VM#2 and the Uzen #4 wells. Consequently, the Group made an operating loss of US\$9.9 million in 2019 (2018: operating profit of US\$10.3 million).

Including net interest income of US\$0.3 million (2018: US\$0.4 million) and other net losses of US\$0.9 million (2018: net losses of US\$0.2 million) the Group recognised a loss before tax of US\$10.5 million (2018: profit before tax of US\$10.6 million).

The net loss after tax was US\$10.0 million (2018: net profit after tax US\$8.4 million) after a current tax charge of US\$2.2 million (2018: US\$2.2 million) and a deferred tax credit of US\$2.7 million (2018: deferred tax credit of US\$0.1 million).

For the year ending 31 December 2019, the Group recorded a currency retranslation gain of US\$6.1 million (2018: expense of US\$11.8 million) in its other comprehensive income, relating to the movements of the Ruble against the US Dollar.

Profitability by product

While the Group operates as a single business segment, as described in Note 2.7 to the accounts on page 40, management estimates the relative profitability, which for this purpose is defined to be gross profit less selling expenses, by product to be as follows:

US\$ 000	2019		2018	
	Oil	Gas, LPG and condensate	Oil	Gas and condensate
Revenue	7,023	38,933	10,473	35,402
MET	(4,039)	(10,218)	(5,575)	(7,619)
Depreciation	(1,010)	(13,846)	(944)	(7,276)
Other Cost of sales	(1,321)	(5,910)	(1,325)	(7,023)
Selling expenses	(40)	(3,731)	(59)	(2,414)
Gross profit net of selling expenses	613	5,228	2,570	11,070

Cash flow

Group cash flow from operating activities decreased by 18% US\$15.0 million (2018: US\$18.3 million). Net working capital movements contributed cash inflow of US\$1.1 million in 2019 (2018: net outflow of US\$0.7 million). Included in cash flow from operations was the receipt during 2018 was a sum of US\$3.1 million (2019: nil) being a court awarded settlement of a legal dispute. During 2019 there were payments of profit tax of US\$2.4 million (2018: US\$1.8 million).

With increased capital expenditures in 2019, the net outflow from investing activities was US\$9.6 million (2018: US\$2.1 million).

Volga Gas plc
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Cash outflow from financing activities was US\$7.2 million in 2019 (2018: US\$6.7 million), comprising equity dividend payments of US\$5.2 million (2018: US\$4.9 million), loan repayments of US\$1.8 million (2018: US\$1.8 million) and a net sum of US\$159,000 (2018: nil) spent on purchasing the Company's own shares which are held in treasury.

After a positive adjustment of US\$0.7 million for the exchange rate effects on cash and cash equivalents (2018: negative adjustment of US\$2.7 million), there was a net decrease in cash by US\$1.1 million (2018: net increase of US\$6.6 million), taking the year end cash balance to US\$14.1 million (2018:15.2 million).

Dividend

In May 2019 the Company paid a final dividend of US\$0.065 per ordinary share. No interim dividend was declared during 2019 (2018: interim dividend of US\$0.06 per Ordinary share, totaling US\$4.9 million). The Directors do not propose a final dividend in respect of 2019.

Capital expenditure

During 2019 expenditure of US\$9.4 million was capitalized (2018: US\$2.8 million), of which US\$9.0 million was added to PP&E in development and producing assets (2018: US\$2.6 million) and US\$0.4 million on exploration and evaluation (2018: US\$0.2 million).

The main capital expenditure in 2019 comprised the costs of drilling of slim hole wells of US\$3.4 million, installation of a turbo expander at the LPG plant of US\$2.0 million, drilling of well #4 sidetrack on Uzen field of US\$1.2 million, drilling of well #2 sidetrack on VM field of US\$0.6 million, the acquisition of a slim hold drilling rig of US\$0.6 million.

Balance sheet and financing

As at 31 December 2019, the Group held cash and bank deposits of US\$14.1 million (2018: US\$15.2 million). All of the Group's cash balances are held in bank accounts in the UK and Russia. Approximately 68% (2018: 61%) of the Group's cash is held in US Dollars and 32% (2018: 38%) held in Russian Rubles.

In February 2019, the remaining balance of a bank facility, which was utilised to fund purchases of equipment for the LPG project, was repaid in full. There were no other finance loans or leases outstanding either in 2019 or 2018.

As at 31 December 2019, the Group's intangible assets were US\$3.4 million (2018: US\$3.3 million). Property, plant and equipment decreased to US\$34.0 million (2018: US\$45.1 million), reflecting higher depreciation charges, asset write offs and asset impairments as outlined above. The carrying values of the Group's assets relating to its main cash-generating units have been subject to impairment testing. The impairment tests, including sensitivity analysis around the central economic assumptions and taking into account the reduction in oil and gas reserves are detailed in note 4(b) to the accounts. Based on this analysis, the Directors have decided to take an impairment charge of US\$8.3 million in the year to 31 December 2019 (2018: nil).

The Group's committed capital expenditures are less than expected cash flow from operations and cash-on-hand and such expenditures can be managed in light of the volatility in international oil prices and the Ruble. The Group may consider additional debt facilities to fund the longer-term development of its existing licences and operational facilities as appropriate. However, management expects for the foreseeable future to maintain capital expenditure within the level of operating cash flow and to maintain an adequate level of liquidity to meet all of the Group's commitments as and when they arise.

The Group's financial statements are presented on a going concern basis, as outlined in Note 2.1 to the accounts.

Vadim Son
Chief Financial Officer

Five-year operational and financial summary

Sales volumes	2019	2018	2017	2016	2015
Oil & condensate (barrels '000)	729	650	644	828	439
Gas (mcf)	5,674	6,471	6,378	9,320	4,545
LPG ('000 tonnes)	8.803	6.904	-	-	-
Total (boe)	1,778	1,809	1,707	2,381	1,196
Operating Results (US\$ 000)	2019	2018	2017	2016	2015
Oil and condensate sales	32,093	30,154	23,952	25,380	11,041
Gas sales	11,228	12,880	13,114	14,032	6,786
LPG sales	2,635	2,841	-	-	-
Revenue	45,956	45,875	37,066	39,412	17,827
Field operating expenses	(5,026)	(5,865)	(6,379)	(9,367)	(6,016)
Production based taxes	(14,257)	(13,194)	(10,936)	(10,255)	(5,876)
Depletion, depreciation and other	(14,856)	(8,220)	(8,580)	(5,037)	(2,345)
Other production costs	(2,204)	(2,483)	(2,941)	(1,601)	(1,352)
Cost of sales	(36,343)	(29,762)	(28,836)	(26,260)	(15,589)
Gross profit	9,613	16,113	8,230	13,152	2,238
Selling expenses	(3,771)	(2,473)	(2,221)	(4,052)	(319)
Exploration expense	-	-	-	(265)	(635)
Write-off of development assets	(2,608)	(1,513)	(65)	(1,798)	-
Impairment charge	(8,335)	-	-	-	-
Operating, administrative & other expenses	(4,822)	(4,921)	(5,831)	(4,525)	(3,377)
Other operating income	-	3,120	-	-	-
Operating (loss)/profit	(9,923)	10,326	113	2,512	(2,093)
Net realisation	2019	2018	2017	2016	2015
Oil & condensate (US\$/barrel)	44.02	46.39	37.19	30.65	25.16
Gas (US\$/mcf)	1.98	1.99	2.06	1.51	1.49
LPG (US\$/tonne)	299.33	411.50	-	-	-
Operating data (US\$/boe)	2019	2018	2017	2016	2015
Production costs	4.07	4.61	5.46	4.61	6.16
Production based taxes	8.02	7.29	6.40	4.31	4.91
Depletion, depreciation and other	8.42	4.54	5.02	2.11	1.96
EBITDA calculation (US\$ 000)	2019	2018	2017	2016	2015
Operating profit/(loss)	(9,923)	10,326	113	2,512	(2,093)
Exploration expense	-	-	-	265	635
DD&A and other non-cash expense	25,799	9,733	8,645	6,835	2,345
Other operating income	-	(3,120)	-	-	-
EBITDA	15,876	16,939	8,758	9,611	887
EBITDA per boe	8.93	9.36	5.13	4.04	0.74

Principal Risks and Uncertainties

The Group is subject to various risks relating to political, economic, legal, social, industry, business and financial conditions. The following risk factors, which are not exhaustive, are particularly relevant to the Group's business activities. The additional specific risks to which the Group is exposed as a result of the Covid-19 pandemic are detailed separately.

Volatility of oil prices

The supply, demand and prices for oil are influenced by factors beyond the Group's control. These factors include global and regional demand and supply, exchange rates, interest and inflation rates and political events. A significant prolonged decline in oil and gas prices would impact the profitability of the Group's activities.

All of the Group's revenues and cash flows come from the sale of oil, gas and condensate. If sales prices should fall below and remain below the Group's cost of production for any sustained period, the Group may experience losses and may be forced to curtail or suspend some or all of the Group's production, at the time such conditions exist. In addition, the Group would also have to assess the economic impact of low oil and gas prices on its ability to recover any losses the Group may incur during that period and on the Group's ability to maintain adequate reserves.

The Group does not currently hedge its crude oil production to reduce its exposure to oil price volatility as the structure of taxes applied to oil and condensate production in Russia effectively reduce the exposure to international market prices for oil. In addition, the Ruble exchange rate has tended to move with the oil price, reducing the overall volatility of oil prices when translated into Russian Rubles.

In particular, the recent and sudden collapse in international oil prices triggered by a fall in global oil demand resulting from the Covid-19 pandemic have a material impact on the Group's short term revenue and profitability outlook. The Directors have examined the impact of current low oil prices in preparing the financial statements:

- In assessment of the Group as a going concern should oil prices remain at US\$20 per barrel for an extended period. For details refer to note 2.1;
- Impairment testing. A significant drop in oil prices were considered in the sensitivity analysis conducted in relation to impairment testing. For details refer to note 4.

Market risks

The Group's revenues generated from oil and condensate production have typically been from sales to local domestic customers. There have been periods when the local market has been unable to purchase condensate, causing temporary suspension of production and loss of revenues. The Group has access to export channels for its condensate into regional export markets to mitigate this risk. Gas sales are currently made to Gazprom. While the arrangement is formalised annually rather than as a long term contract, the Directors believe the risk of renewal is low as the region in which the Group operates is reliant on external gas supplies. Gas sales have generally been conducted as expected, subject to occasional constraints during pipeline maintenance operations.

Oil and gas production taxes

The Group's sales generated from oil and gas production are subject to Mineral Extraction Taxes ("MET"), which form a material proportion of the total costs of sales. The rates of these taxes are subject to changes by the Russian government, which relies heavily on such taxes for its revenues. Changes to rate formulas which came into effect during in recent years have materially increased the rates on crude oil, condensate and, to a lesser extent, natural gas. As of 2019, the Russian government's policy is to transfer the burden of taxes from export taxes to MET and the formulas for both taxes are being changed over a five-year period from 2019. It is not certain that domestic oil sales prices will rise sufficiently to reflect in full the reduction in export taxes to compensate for the increase in MET on oil production sold in the domestic market.

Exploration and reserve risks

Whilst the Group will seek to apply the latest technology to assess exploration licences, the exploration for, and development of, hydrocarbons involves a high degree of risk. In relation to the exploration activities, these risks include the uncertainty that the Group will discover sufficient commercially exploitable oil or gas resources in unproven areas of its licences. Unsuccessful exploration efforts may result in impairment to the balance sheet value of exploration assets.

In July 2019, as detailed in the Operations Review on pages 7 and 8 management commissioned an extensive reservoir study on the VM field which concluded with an updated reserve evaluation of the VM and Dobrinskoye fields completed in February 2020. The reserve report, delivered to and adopted by management on 7 February 2020, resulted in a downward revision by approximately 48% to the Group's Proved Reserves as at 31 December 2019. Management also commissioned an updated geological resource estimate on the Uzen oil field, completed in March 2020. Management considers the independent reserve estimate to be in line with the currently available field data and accordingly has chosen to adopt the estimates as the statement of the Group's oil, gas and condensate reserves. The Group's reserve statement is shown in the Operational Review on pages 7 and 8. The impact of the reserve revision in 2019 has been to increase the depletion, depreciation and amortisation charge of the Group with consequent reductions in the profit and net book value of the Group's assets and to trigger an impairment of the net book value of Group's Property Plant and Equipment. These impacts are reflected in the Group's financial statements for the year ended 31 December 2019.

The Group's estimated reserves include substantial volumes that are expected to be produced from wells that have yet to be drilled:

On the VM and Dobrinskoye fields: 2.0 mmboe of reserves are expected to be extracted from existing wells in 2020-2021, while with the drilling of the new VM5 and VM6 wells an additional 1.5 mmboe of reserves are recovered from VM5 and VM6 and the production profile extended to mid-2023. Management's expectations have been formed on the basis of independent studies by Schlumberger and Panterra. Should the drilling of new wells be unsuccessful, the incremental reserves may not be extracted. This scenario was considered in sensitivity analysis in impairment testing. See note 4a.

On the Uzen field, 75% of the reserves are expected to be recovered from new wells from a multi-year slim hole drilling programme.

If the costs of drilling these wells, or the results of these wells differ significantly from expectations, there may be further changes in the future estimates of reserves and to the value in use of the related cash generating units. These may impact both the future profitability and the balance sheet carrying values of the Group's property, plant and equipment. Such scenarios are considered in the impairment testing process. See note 4a.

Environmental risk

The oil and gas industry is subject to environmental hazards, such as oil spills, gas leaks, ruptures and discharges of petroleum products and hazardous substances, including waste materials generated by the sweetening process formerly in use at the Dobrinskoye gas processing plant. These environmental hazards could expose the Group to material liabilities for property damages, personal injuries, or other environmental harm, including costs of investigating and remediating contaminated properties.

The Group is subject to stringent environmental laws in Russia with regard to its oil and gas operations. Failure to comply with such laws and regulations could subject the Group to material administrative, civil, or criminal penalties or other liabilities. Additionally, compliance with these laws may, from time to time, result in increased costs to the Group's operations, impact production, or increase the costs of potential acquisitions.

The Group liaises closely with the Federal Service of Environmental, Technological and Nuclear Resources of the Saratov and Volgograd Oblasts on potential environmental impact of its operations and conducts environmental studies both as required by, and in addition to, its licence obligations to mitigate any specific risk. The Group's operations are regularly subject to independent environmental audit. The Group did not incur any material costs relating to the compliance with environmental laws during the period.

Risk of operating oil and gas properties

The oil and gas business involves certain operating hazards, such as well blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution and releases of toxic substances. Any of these operating hazards could cause serious injuries, fatalities, or property damage, which could expose the Group to liabilities. The settlement of these liabilities could materially impact the funds available for the exploration and development of the Group's oil and gas properties. The Group maintains insurance against many potential losses and liabilities arising from its operations in accordance with customary industry practices, but the Group's insurance coverage cannot protect it against all operational risks. The Group has established a rigorous risk identification and reporting system throughout its operations as a key risk mitigation activity.

Foreign currency risk

The Group's capital expenditures and operating costs are predominantly in Russian Rubles ("RUR") while a minority of administrative expenses is in US Dollars, Euros and Pounds Sterling. Revenues are predominantly received in RUR, so the operating profitability is not materially exposed to moderate short-term exchange rate movements. The functional currency of the Group's operating subsidiaries is the RUR and the Group's assets and liabilities are predominantly RUR denominated. As the Group's presentational currency is the US Dollar, fluctuations in the exchange rate of the RUR against the US Dollar impact the Group's financial statements.

Business in Russia

Amongst the risks that face the Group in conducting business and operations in Russia are:

- Economic instability, including in other countries or the global economy that could lead to consequences such as hyperinflation, currency fluctuations and a decline in per capita income in the Russian economy.
- Governmental and political actions that could disrupt, delay or curtail economic and regulatory reform, increase centralised authority or result in nationalisations.
- Social instability from any ethnic, religious, historical or other divisions that could lead to a rise in nationalism, social and political disturbances or conflict.
- Uncertainties in the legal and regulatory environment, including, but not limited to, conflicting laws, decrees and regulations applicable to the oil and gas industry and foreign investment.
- Unlawful or arbitrary action against the Group and its interests by the regulatory authorities, including the suspension or revocation of their oil or gas contracts, licences or permits or preferential treatment of their competitors.
- Lack of independence and experience of the judiciary, difficulty in enforcing court or arbitration decisions and governmental discretion in enforcing claims.
- Unexpected changes to the federal and local tax systems.
- Laws restricting foreign investment in the oil and gas industry.
- The imposition of sanctions upon certain entities in Russia.

The Group's operations and financial management have not been impacted directly by any sanctions to date.

Legal systems

Russia, and other countries in which the Group may transact business in the future, have or may have legal systems that are less well developed than those in the United Kingdom. This could result in risks such as:

- Potential difficulties in obtaining effective legal redress in the court of such jurisdictions, whether in respect of a breach of contract, law or regulation, including an ownership dispute.
- A higher degree of discretion on the part of governmental authorities.
- The lack of judicial or administrative guidance on interpreting applicable rules and regulations.
- Inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions.
- Relative inexperience and lack of transparency of the judiciary and courts in such matters.

In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to

abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the jurisdictions in which the Group operates.

Liquidity risk

At 31 December 2019, the Group had US\$14.1 million (2018: US\$15.2 million) of cash and cash equivalents, of which US\$4.8 million was held in bank accounts in Russia (2018: \$13.8 million). As at 31 December 2019, there was no bank debt (2018: US\$1.7 million), the balance of bank debt having been repaid in January 2019. The Group intends to fund its ongoing operations and development activities from its cash resources and cash generated by its established operations. At 31 December 2019 the Group had budgeted capital expenditures of US\$8.3 million, comprising primarily expenditures on drilling production wells on the Group's proven fields but also including up to US\$1.0 million of exploration expenditure. There were approximately US\$1.0 million of accounts payable relating to capital expenditures and other expenses incurred in the year ended 31 December 2019 (2018: US\$1.1 million). The Group's cash flow projections have been tested for the ability to withstand an extended period of oil prices at US\$30 per barrel.

The Board considers that the Group will have sufficient liquidity to meet its obligations and to weather an extended period of low oil prices. All current and planned capital expenditures are discretionary and may be deferred or cancelled in the light of the Group's cash generation and liquidity position.

Through the ordinary course of its activities, the Group is exposed to legal, operational and development risk that could delay growth in its cash generation from operations or may require additional capital investment that could place increased burden on the Group's available financial resources. However, with its asset base already in production, this risk would not impede its ability to continue as a going concern.

Capital risk

The Group manages capital to ensure that it is able to continue as a going concern whilst maximising the return to shareholders. The Group is not subject to any externally imposed capital requirements. The Board regularly monitors the future capital requirements of the Group, particularly in respect of its ongoing development programme. Management expects that the cash generated by the operating fields and the Group's existing cash reserves will be sufficient to sustain the Group's operations and committed capital investment for the foreseeable future. The Group has a policy of maintaining a minimum level of liquidity to cover forward obligations. Further short-term debt facilities may be arranged to provide financial headroom for future development activities.

Bribery

The Company is subject to numerous requirements and standards, including the UK Bribery Act. In addition the Group is subject to anti-bribery and anti-corruption laws and regulations in all jurisdictions in which it operates. Failure to comply with regulations and requirements, such as failure to implement adequate systems to prevent bribery and corruption, could result in prosecution, fines or penalties imposed on the Company or its officers or suspension of operations. The Group's mitigation measures include compliance-related activities, training, monitoring, risk management, due diligence and regular review of policies and procedures. We prohibit bribery and corruption in any form by all employees and by those working for, or connected with the business. Employees are expected to report actual, attempted or suspected bribery or other issues related to compliance to their line managers or through our confidential reporting process, which is available to all staff as well as third parties.

Fraud

The Group has been exposed to fraudulent transfers of funds from its bank accounts and is at various times at risk to attempted fraud. The Group has established enhanced protections of its information technology infrastructure, operational systems and procedures against fraudulent activities.

Covid 19

The direct impact of Covid-19 has as of the date of this report not been significant. No members of staff or contractors have tested positive for the disease. Although there have been some periods when production was suspended due to low demand for condensate, there have not been any interruptions to the operations of the Group's facilities imposed by regulators or as a result of actions taken to reduce spread of Covid-19. In light of the enhanced risk and oil price volatility, the directors decided to reduce capital expenditures in 2020 and to reduce operating costs. The Directors believe the Group, may still be materially impacted by several factors that arise as a result of the Covid 19 pandemic. The following table sets out the specific business risk issues identified by the Group, the potential impact and risk mitigation action plans enacted by the Group. Where possible, the scale of the exposure is indicated along with the probability. However, the ultimate exposure and scale of impact depends on many factors such as the scale and duration of the pandemic, which are presently unknown. While the full range of possible effects are unknown, the Directors considered the several severe adverse scenarios and are satisfied that the Group has adequate resources to continue as going concern. For details refer to Note 2.1.

Category	Risk/probability	Impact	Mitigating Action
Industry specific risks, primarily relating to oil prices	Low oil pricing is already a reality and further falls are possible.	Revenues from oil, condensate and LPG sales and consequences for profitability, cash flow and liquidity. The impact is partly offset by lower production taxes.	• Market monitoring, regularly updating forecasts. • Deferral of capital expenditures as necessary • Management of costs

Customers	Reduction of demand in the regional markets. (probability: uncertain)	Possible need to shut-in producing wells once storage tanks are full.	- Diversity of customer relationships - Access to export markets Close contacts with customers, flexible and quick price correction to continue sale of products. - Close monitoring our stock capacity to avoid shutting down the wells
	Failure of customers to buy contracted volume (probability: uncertain) Credit default (probability: low)	Delay with payment or non-payment	Continue sale of products only after prepayment is done
Supply Chain, for production and drilling and plant maintenance	Catering in the field: lack of food provision. (Probability: unknown)	High demand on food stuff can lead to catering issues. Need to find alternatives to feed personnel at field sites.	Made upfront payment to catering company to make some buffer stock
	Drilling chemicals non-delivery from Kazakhstan (Probability: unknown) Cross border / logistics restrictions (Probability: unknown)	Delay in drilling	Contracting & testing local alternatives
		Delays in delivery	LPG parts (compressor parts from China) – change to sea delivery from air. Looking for opportunities to local manufacture.
Employees (including production)	Illness due to being infected or quarantined (probability: moderate to high)	Office staff: have been ordered to work remotely. Not expecting severe impact.	- Following government advice on self-isolation and reporting of symptoms. - Online office working facilitated. - Disinfections in the office, installation of disinfecting dispensers
		Production staff have been ordered to maintain safe distance from each other at all times.	- First aid kits check - Ventilate the rooms - Travel restrictions
		Drilling staff is more at risk due to living in remote locations across Russia and CIS	Undertaking additional training of local staff
Financing	Availability of external finance (probability: not known)	No impact in the near future. Not anticipated to be required	Close monitoring company liquidity and get ready in case own funding required from abroad.

Other risks/Brexit

The Company is not significantly commercially exposed to the outcome of the future trade negotiations between the UK and EU following the departure of the UK from the EU.

- **Customers and supply chain:** The Company conducts no trade between the UK and the EU.
- **Employees:** The Group has no employees based in the UK or the EU.
- **Financing:** The Company does not have significant external financing in place and the day to day requirements are met from its cash balances in Russia.
- **Regulations:** There are no specific regulations which could potentially have significant impact on the Company arising from Brexit.

The Company continues to monitor the political and economic events and forecasts to manage any potential impacts to its business including its employees.

Vadim Son,
Chief Financial Officer

Engaging with stakeholders

Effective and high-quality engagement with stakeholders is vital for the success of the company. Therefore, the Company regularly engages with employees, customers, suppliers, shareholders, and other relevant stakeholders. Effective engagement with key stakeholders enables two-way dialogue, stakeholders are informed on a regular basis on Company's key activities and strategies which may potentially impact them and Company obtains valuable information from key stakeholders which helps to shape company's plans and strategies to ensure sustainability and future growth of the Company.

Senior leaders of the Company regularly participate in face to face meetings with clients, industry events and conferences. By carefully listening to the concerns of key stakeholders, the Company could successfully deliver bespoke solutions to its customers and improved the way it works with its customers, which serves as an invaluable differentiating factor in the competitive market.

Listening to the concerns of stakeholders, the Company rolled out digitalisation initiative in the year, which has significantly improved the efficiency of communication with various stakeholders.

The Strategic Report, which comprises pages 2 to 15, was approved by the Board on 4 September 2020 and signed on its behalf by

Andrey Zozulya
Chief Executive Officer

Board of Directors

Mikhail Ivanov

Non-executive Chairman

Appointed to the Board: **25 July 2006**

Appointed as Chairman: **5 June 2015**

Committee membership: **n/a**

Mr Ivanov was Chief Executive Officer of the Company from its foundation until 5 May 2015. Mr Ivanov was also a partner and director of Oil and Gas Projects at Baring Vostok Capital Partners. He has a long history of involvement in the oil sector. He worked for over ten years at Schlumberger, the international oil services company, where he served as head of its Iran operations and was responsible for business development in Russia. Prior to joining Schlumberger, he founded and headed two companies that focused on oil production and service. Mr Ivanov holds an MS degree in Geophysics from Novosibirsk State University and an MBA from the Kellogg School of Management of Northwestern University. He is an elected member of the Society of Petroleum Engineers.

Andrey Zozulya

Chief Executive Officer, Executive Director

Appointed to the Board: **5 May 2015**

Committee membership: **n/a**

Mr Zozulya is a Russian citizen and has over 20 years' experience in the oil sector in Russia, both with major oil and oil service companies, including over ten years with Schlumberger. He also has experience of operating in the Saratov region in which Volga Gas' operations are based. He has a degree in Geophysics and Engineering from the Groznensky Oil & Gas Institute and is a member of the Society of Petroleum Engineers.

Michael Calvey

Non-executive Director

Appointed to the Board: **29 September 2006**

Committee membership: **Audit, Nomination**

Mr Calvey is a senior partner of Baring Vostok Capital Partners and a director of Baring Private Equity International and is on the boards of several of Baring Vostok's portfolio companies. He began working in Moscow in 1994 as one of the members of the consulting committee of the First NIS Regional Fund. He is a member of the investment committees of three Baring Vostok funds. He is also a member of the Investment Committees of the Baring Asia and Baring India funds. Before 1994, Mr Calvey lived in London and New York, where he worked at the European Bank for Reconstruction and Development ("EBRD") and Salomon Brothers. At EBRD he was responsible for investments in the energy sector of Central and Eastern Europe. At Salomon Brothers, Mr Calvey worked on mergers and acquisitions and capital market projects in the oil and gas sector. Mr Calvey is due to retire by rotation and does not offer himself for re-election at the next Annual General Meeting.

Ronald Freeman

Non-executive Director

Appointed to the Board: **14 March 2007**

Retired from the Board on 31 December 2019

Committee membership: **Audit, Nomination, Remuneration**

Mr Freeman is a member of the Executive Committee of the Atlantic Council of the United States (Washington DC), and a past independent director on the Boards of Sberbank, Severstal and Troika Dialog. From 1973 to 1991 and from 1997 until his retirement from Citigroup as co-head of European Investment Banking in 2000, he was an investment banker specialising in financing and mergers and acquisitions for companies in the oil and gas industry with Salomon Brothers, now a unit of Citigroup. From 1991 to 1997, he was head of the Banking Department of the European Bank for Reconstruction and Development (London).

Aleksey Kalinin

Non-executive Director

Appointed to the Board: **29 September 2006**

Committee membership: **Remuneration**

Mr Kalinin served as Chairman of the Board from 14 March 2007 until 5 June 2015, remaining as a Non-executive Director. Mr Kalinin is a senior partner of Baring Vostok Capital Partners. He joined Baring Vostok in 1999 from Alfa Capital, where he served for six years as the director of the Department for Direct Investments. Aleksey represents the interests of Baring Vostok's funds on the board of directors of a wide range of portfolio companies. He has a doctorate from the Moscow Power Engineering Institute, where he conducted scientific research, lectured for 12 years and served as the director of the Youth Center for Scientific and Technical Creativity.

Vladimir Koshcheev

Non-executive Director

Appointed to the Board: **29 September 2006**

Committee membership: **n/a**

Mr Koshcheev currently acts as president of Joint Stock Company "NPO POG". Until 2009 he was president of Pervaya Investizionno-Stroitel'naya Company LLC, Spinaker LLC. Mr Koshcheev received a specialist diploma from Moscow State Technical University in 1978 and he is a member of the Russian Academy of Natural Sciences. Mr Koshcheev has advised his intention to retire from the Board at the next AGM.

Stephen Ogden
Non-executive Director

Appointed to the Board: **14 March 2007**

Committee membership: **Audit, Nomination, Remuneration**

Mr Ogden was previously a non-executive director of United Confectioneries (Russia), Heineken Russia, Metropolis Media (former Yugoslavia)) and the Prospera Property Fund (Turkey). Mr Ogden was chief financial officer of the Bochkarev Brewery in St Petersburg from 1997 to 2002. Prior to becoming chief financial officer of Bochkarev, 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.

Stewart Dickson
Non-executive Director

Appointed to the Board: **16 March 2020**

Committee membership: **Audit, Nomination, Remuneration**

Mr Dickson has significant corporate and commercial experience across the natural resources and financial services sectors. He is currently Chief Executive Officer of ASX listed Variscan Mines Limited and is a non-executive director of LSE listed Trans-Siberian Gold plc. He previously worked as a corporate finance director for over ten years, advising on equity capital markets and M&A in the mining and oil sectors, working at Daniel Stewart & Co, Seymour Pierce and latterly at Cantor Fitzgerald Europe. Prior to his finance career, he served as an officer in the British Army.

Andrei Yakovlev
Non-executive Director

Appointed to the Board: **16 March 2020**

Committee membership: **Audit, Nomination, Remuneration**

Dr. Yakovlev is a City lawyer with 25 years of experience with leading international law firms in corporate finance, M&A, corporate governance and dispute resolution in the areas of foreign investment, M&A, joint ventures and fraud. He is qualified in law in Russia, New York and England. He is currently a partner at King & Wood Mallesons, having joined his present firm in 2014. He has dual Russian and British citizenship.

Corporate Governance Statement

Introduction

In recognition of the importance of good corporate governance, the Directors have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the 'QCA Code'). The QCA Code was developed by the QCA in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. The underlying principle of the QCA Code is that "the purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term". To see how the Company addresses the key governance principles defined in the QCA Code, please refer to the section on corporate governance on our website.

The Board

The Group's business is international in scope and carries political, commercial and technical risks. Accordingly, particular attention is paid to the composition and balance of the Board to ensure that it has wide experience of the sector and regulatory environment in which the Group operates and appropriate financial and risk management skills. In each Board appointment, whether executive or non-executive, the Board considers that objectivity and integrity, as well as skills, experience and ability which will assist the Board in its key functions, are pre-requisites for appointment. The Board currently comprises the non-executive Chairman, the Chief Executive Officer and six other non-executive Directors, three of which are deemed independent while the other non-executives are deemed non-independent.

Role of the Chairman

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman with the assistance of the Chief Executive Officer sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues, including managing Board appointments/removals, delegation of Board's powers, agreeing membership and terms of reference of Board Committees and task forces, and addressing matters referred to the board by the Board Committees.

The Chairman promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and clear information.

Role of the Chief Executive Officer and the Chief Financial Officer

The Chief Executive Officer (CEO) is responsible for running the business and implementing the decisions and policies of the Board. The CEO is also responsible for ensuring the Company's communication with shareholders is timely, informative and accurate with due regard to commercial sensitivity and regulatory requirements.

The Chief Financial Officer (CFO) is responsible for the Company's finances. Currently, the CFO is not part of the Board.

Role of the non-executive directors

The Non-executive Directors are appointed not only to provide independent oversight and constructive challenge to the Executive Directors but are also chosen to provide strategic advice and guidance.

All Directors are able to allocate sufficient time to the Company to discharge their duties. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The search for Board candidates is conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

The Board has established the following committees:

Audit Committee

The Audit Committee was established in March 2007 and comprises three Directors:

Mr Ogden – Chairman

Mr Dickson

Dr Yakovlev

The Audit Committee is responsible for selecting the Group's independent auditors, pre-approving all audit and non-audit related services, reviewing with management and the independent auditors the Group's financial statements, significant accounting and financial policies and practices, audit scope and adequacy of internal audit and control systems. The Audit Committee keeps the independence and objectivity of the auditor under review and a formal statement of independence is received from the external auditor each year. The Audit Committee meets at least twice each year.

Remuneration Committee

The Remuneration Committee was also established in March 2007 and comprises three Directors:

Mr Ogden – Chairman

Mr Dickson

Dr Yakovlev

The Remuneration Committee is responsible for reviewing the performance of the Directors and for determining 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 Remuneration Committee meets at least twice each year.

The Directors' Remuneration Report is set out on pages 24 to 25.

Nomination Committee

The Nomination Committee was established in March 2007 and comprises three Directors:

Mr Ogden – Chairman

Mr Dickson

Dr Yakovlev

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 Officer 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.

Board meetings

The Board met six times during the year ended 31 December 2019 (2018: five times) with the following attendance:

	2019	2018
Mikhail Ivanov	6	5
Andrey Zozulya	6	5
Michael Calvey	1	5
Ronald Freeman	5	5
Aleksey Kalinin	6	5
Vladimir Koshcheev	5	5
Stephen Ogden	6	5

Indemnification of Directors

In accordance with the Company's Articles of Association and to the extent permitted by the law of England and Wales, Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year. This policy has been renewed for the next financial year.

Re-election of Directors

The Company requires that all Directors stand for re-election at intervals of no more than three years. Accordingly, Messrs Calvey and Kalinin will retire at the forthcoming AGM and will seek re-election by shareholders. As newly appointed directors, Mr Dickson and Dr Yakovlev will retire in accordance with the Article 21.7 of the Company's Articles of Association and will seek re-election by shareholders.

Internal controls

The Directors acknowledge their responsibility for the system of internal controls for the Group and for reviewing its effectiveness. Any system of internal control can only provide reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated.

The Group's risk and controls framework covers all material risks and controls including those of an operational, financial, and compliance nature. Internal control procedures consist, inter alia, of formal delegations of expenditure authority by the Board to executive management, and controls relating to key stages of transactions including supplier approval, contract signature and payment release.

The Directors consider that the frequency of Board meetings and level of detail presented to the Board for its consideration in relation to the operations of the Group provide an appropriate process to identify, evaluate and manage significant risks relevant to its operations on a continuous basis, and this process is considered to be in accordance with the revised guidance on internal control published in October 2005 ("Turnbull Guidance").

In addition to formal Board meetings, management prepare detailed financial and operational reports on a monthly basis which are disseminated and discussed within the Board.

Investor relations

The Board is committed to maintaining good communication and having constructive dialogue with the Company's shareholders and engages them on a wide range of issues. The Group has an ongoing programme of dialogue and meetings between the Executive Directors and institutional investors, fund managers and analysts as well as private investors. At these meetings a wide range of relevant issues, including strategy, performance, management and governance are discussed within the constraints of the information already made public.

Significant developments are disseminated through the Regulatory Information Service (RIS) and timely updates of the Company's website. In addition to compliance with the requirement to disseminate all information on a timely basis, the Company issues monthly reports on production and provides regular operational updates on the RNS. The Company retains a financial public relations adviser and an investor relations consultant, whose contact details are reproduced on each RNS announcement and inside the back cover of this Annual Report.

Shareholders would normally have the opportunity to meet and question the Board at the Annual General Meeting which will be held on 30 September 2020, but with the Covid-19 pandemic the 2020 AGM will be held with minimal attendance. The notice of the AGM is posted to all shareholders at least 21 working days before the meeting. Financial and other information is available on the Company's website (www.volgagas.com).

By order of the Board

Caros Consulting Ltd

Company Secretary

4 September 2020

Report of the Directors

The directors present their report together with the Group's audited consolidated financial statements for the period from 1 January 2019 to 31 December 2019.

Results and dividend

The Group's results are set out on pages 32 to 37 and show a net loss of US\$10.0 million for the year ended 31 December 2019 (2018: net profit of US\$8.4 million). On 28 May 2019, the Company paid a final dividend of \$0.065 per ordinary share. The Directors do not propose a final dividend in respect of 2019, given the priority to re-build the Group's production base. The Board's standing policy of distributing up to 75% of the Group free cash flow, being the sum of cash generated from operating activities less the cash utilised in investing activities, is subject to the financial requirements of the Group which are for the time being concentrated on re-building its production base.

Principal activities, business model and future developments

Volga Gas is a public limited company registered in England and Wales with registered number 5886534, was incorporated in the United Kingdom on 25 July 2006 and admitted to trading on the AIM market of the London Stock Exchange on 25 April 2007. Volga Gas operates primarily through subsidiary companies as set out in Note 21 to the accounts. The principal activity of the Group is the exploration, development and production of its gas, condensate and oil fields in the Volga Region of European Russia. During the year, the Group owned 100% interests in five licence areas in the Saratov, Volgograd and Bashkiriya regions: Karpenskiy, Vostochny Makarovskoye, Dobrinskoye, Urozhainoye-2 and Muradymosky.

The Group's business model is to provide returns to shareholders through both dividends and value appreciation. Its strategy is to maximise the economic production of oil, gas, condensate and LPG from its fields and to explore the potentially prospective structures on the Group's licence areas. During 2020 and 2021, the Group's envisages exploration activity to be at a higher level than in the recent past, as it seeks to re-establish growth in its reserve base and production profile. The Group also evaluates acquisition opportunities as part of its overall strategy of growing value for its shareholders. It will also be seeking opportunities for utilisation of its spare processing capacity at its gas plant, either by tolling third party gas production or by acquiring fields that could utilise the processing plant.

Key events in the Group's activities for the period ended 31 December 2019 were:

- Re-evaluation of recoverable reserves in the VM and Dobrinskoye fields, following the finding of significantly higher than anticipated gas:water contacts within the main reservoir of VM. As detailed in pages 6 and 7, this led to a reduction of the Group's estimated reserves.
- Continued improvement in the efficiency of the Redox gas sweetening process and the LPG extraction plant.
- Commencement of a successful programme of slim hole drilling on the Uzen field. Management plans a sustained programme of slim hole drilling during 2020-2021, to embrace exploration and appraisal drilling as well as development wells on the Group's main fields.

The Group's activities are described in greater detail in the Chief Executive's Report on page 5 and in the Operational Review on pages 6 to 8. The principal risks associated with the Group's activities are set out in the Principal risks and uncertainties section on pages 12 to 15.

Key performance indicators

Given the nature of the business and that the Group has only three operating fields, the Directors are of the opinion that further analysis using KPIs is not appropriate for an understanding of the development, performance or position of our business at this time. The directors are of the opinion that the Operational Review on pages 6 to 8 provides the relevant information.

Going concern

Having made appropriate enquiries and having examined the major areas that could affect the Group's financial position, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they consider it appropriate to adopt the going concern basis in preparing the financial statements as described in Note 2.1.

Directors

The Directors who served during the year were:

Mikhail Ivanov, Chairman

Michael Calvey, Non-executive

Aleksey Kalinin, Non-executive

Stephen Ogden, Non-executive

Andrey Zozulya, Chief Executive Officer

Ronald Freeman, Non-executive

Vladimir Koshcheev, Non-executive

On 31 December 2019, Mr Freeman retired from the Board. Mr Koshcheev has advised the Board of his intention to retire as a Director at the next Annual General Meeting. On 16 March 2020, Mr Stewart Dickson and Dr Andrei Yakovlev were appointed to the Board to replace Mr Freeman and to strengthen the Board. The biographies of each director can be found on pages 16 and 17.

Of the eight Board members, the following are considered to be independent: Stewart Dickson, Vladimir Koshcheev, Stephen Ogden and Andrei Yakovlev. Although Messrs Koshcheev and Ogden have each served for over nine years, they meet all the other criteria of independence as defined in the Corporate Governance Code and have performed in an independent manner. Moreover, their experience with the Company is considered by the Board to be of value.

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By virtue of being representatives of major shareholders, Michael Calvey and Aleksey Kalinin are deemed to be non-independent. By virtue of being respectively former and current Chief Executive Officer, Mikhail Ivanov and Andrey Zozulya are also deemed to be non-independent.

The record of Board meetings and attendances in 2019 are detailed on page 19.

Messrs Calvey and Kalinin will retire by rotation. Only Mr Kalinin will offer himself for re-election. Mr Dickson and Dr Yakovlev will retire in accordance article 21.7 of the Company's Articles of Association and offer themselves for re-election.

Share capital

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 16 to the accounts. Each ordinary share carries the right to one vote at general meetings of the Company. Shares held by the Company in treasury are excluded from the number of voting rights.

Directors' interests

The Directors serving during the year and appointed since the year end had the following beneficial interests in the shares of the Company:

	Ordinary shares of 1p each	
	31 December 2019	31 December 2018
Mikhail Ivanov	1,000,000	1,000,000
Andrey Zozulya	521,652	271,000
Michael Calvey ¹	-	-
Stewart Dickson	-	-
Ronald Freeman	55,000	55,000
Aleksey Kalinin ¹	-	-
Vladimir Koshcheev	269,210	269,210
Stephen Ogden	205,000	205,000
Andrei Yakovlev	-	-

¹ Mr Calvey and Mr Kalinin are Co-Managing Partners of Baring Vostok Capital Partners Limited, a related party to Baring Vostok Investments PCC Limited, Baring Vostok Nominees Limited and Dehus Dolmen Nominees Limited. As such Mr Calvey and Mr Kalinin have an indirect beneficial interest in the Company.

Substantial shareholders

On 4 September 2020, the following parties had notifiable interests of 3% or greater in the nominal value of the Company's issued 1p ordinary shares:

	Number of shares	Percentage of voting rights ¹
Dehus Dolmen Nominees Ltd ²	47,526,889	58.81
Mr Nicholas Mathys	12,163,000	15.05
Baring Vostok Investments PCC Limited ³	4,800,460	5.94
Genesis Development Holdings Co., Limited	2,828,089	3.50

¹ The company holds 199,348 shares in Treasury therefore the total number of shares with voting rights is 80,818,452.

² Dehus Dolmen Nominees Ltd is a nominee vehicle which holds the interests of the limited partnerships which comprise Baring Vostok Private Equity Funds III and IV.

³ Baring Vostok Investments PCC Limited is a closed-end investment company registered in Guernsey and advised by Baring Vostok Capital Partners Group Limited, which also advises the Baring Vostok Private Equity Funds.

There is a relationship agreement between Volga Gas plc and Baring Vostok. The terms of this agreement, which have not been varied, are set out on page 164 in the Volga Gas Admission Document which may be downloaded from the website.

Options granted

No options were granted during either of the years ended 31 December 2019 or 2018 and no options are outstanding.

Interests in contracts

There were no contracts or arrangements during the period in which a Director of the Company was materially interested and which were significant in relation to the business of the Group.

Political and charitable contributions

No political or charitable contributions were made in the year (2018: nil).

Business principles and values

It is the Board's view that the Company's corporate culture is consistent with its objectives, strategy and business model and a good example of this is how Principle 3 of the QCA Code (Wider Stakeholder and Social Responsibilities) has been adopted by the Company. The Board has the means to determine that ethical values and behaviours are recognised and respected via the management team.

The Group's corporate and social responsibility policy may be found on the Company's website: <https://volgagas.com/investors> from which it is also possible to download the detailed policy documents covering the Group's Code of Business Conduct and Statement of Ethics.

Stakeholder engagement

The directors regularly and actively engaged with the Company's employees, customers, suppliers, shareholders, and other relevant stakeholders to understand relevant stakeholder views. This is to ensure that all decision making is sufficiently informed and is supportive of directors' duties under Section 172 of Companies Act 2006. Further details on how Company's relationships with stakeholders shapes and influences strategic consideration around issues material to them can be found in the Strategic Report on pages 2 to 15.

Employees

The Company regards its employees as its most valued asset and puts great emphasis on the wellbeing and morale of the employees. Regular engagement with employees helps the Company understand the areas of importance with regards to the working environment and Company culture. Directors conduct regular face to face engagement sessions with employees to inform them on the latest developments and to hear employees' concerns and suggestions.

Customers and suppliers

The Company and relevant directors proactively and continuously engage with its customers and suppliers through both face to face meetings and digital platforms. Business trips to office locations of key customers and suppliers ensure loyalty and expansion of the Company's business relationships. Directors also regularly participate in industry events specific to the Russian petroleum industry, to meet new customers and suppliers and foster new business relationships.

Shareholders

The Company regularly engages with its shareholder, Baring Vostok, with representation at the shareholder's board of directors meetings, providing regular updates on business performance, strategies and plans for future years, as well as participating in other regular meetings and workshops at the Barin Vostok headquarters in Moscow.

Other stakeholders

The Company also regularly engages with its bankers, government agencies and service providers to provide them with the required regulatory information to comply with laws and regulations.

Creditors payment policy and practice

The Group aims to pay all its creditors promptly. For trade creditors it is the Group's policy to:

- (i) agree the terms of the payment at the start of the business with that supplier;
- (ii) ensure that suppliers are aware of the terms of the payment; and
- (iii) pay in accordance with contractual and other obligations.

Employment policies

The Group is committed to pursuing an equal opportunities employment policy, covering recruitment and selection, training, development, appraisal and promotion. The Group recognises the diversity of its employees, its customers, and the community at large and seeks to use employees' talents to the fullest. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration is given to staff members who become disabled during employment.

Employee communication

The Group is committed to effective communications, which it maintains through regular information releases and staff briefings. Formal communications with employees take place through these channels. With respect to the Group's operations in Russia and the recruitment of Russian employees, announcements, contracts, interviews and advertisements are conducted in the English and Russian languages, as applicable.

Health, safety and the environment

The Group's policy and practice is to comply with health, safety and environmental regulations and requirements of the countries in which it operates, to protect its employees, contractors, assets and the environment.

The Group closely monitors its environmental obligations under the terms of its licence agreements. In particular, portions of the Karpenskiy Licence Area are located in the Saratovskiy Federal Nature Reserve and Tulipannaya Steppe Natural Sanctuary, which are protected by Russian environmental law. In accordance with Russian environmental law, all economic activity within the protected area is approved by the Russian government. The Group has ensured that all its activities minimise the impact on this sensitive environment.

UK Bribery Act

The Company has adopted Anti-Corruption and Anti-Bribery Policies and a framework of adequate procedures for managing the Volga Gas Group's responsibilities in relation to the UK Bribery Act 2010.

Market Abuse Regime ("MAR")

On 1 July 2016 the MAR came into effect. The Company has updated its procedures and records in respect of insider information and dealings by persons discharging managerial responsibilities ("PDMRs"), or their connected persons in compliance with the new regime.

Share capital

The Company has authorised ordinary share capital of 330,720,100 shares of 1p each. Under a special resolution by the shareholders of the Company on 20 May 2019, the Directors have authority to allot shares up to an aggregate nominal value of £1,000,000 of which £150,000 could be issued non pre-emptively, in accordance with Sections 570 and 573 of the Companies Act 2006. This authority will expire the earlier of (i) 15 months from the passing of the Resolution, or (ii) the conclusion of the Annual General Meeting of the Company to be held in 2020. The Company's total issued share capital consists of 81,017,800 ordinary shares of 1p each, each share having equal voting rights. The Company holds 199,348 shares in Treasury therefore the total number of shares with voting rights is 80,818,452.

Capital risk management

The Group's objectives when managing the balance of equity and debt capital are (a) to safeguard the Group's ability to continue as a going concern, (b) provide returns for shareholders and benefits for other stakeholders and (c) to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. To date the Group has been funded primarily by equity capital. It is the Group's policy to fund its capital investments primarily from retained cash and cash generated from operations, although modest levels of debt may continue to be utilised when the Board considers it appropriate.

Corporate Governance

The Company's statement on Corporate Governance can be found in the Corporate Governance Statement on pages 18 and 19 of these financial statements and forms part of this report by reference.

Statement of disclosure of information to auditor

As at the date of this report the serving Directors confirm that;

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The Group's auditor, KPMG LLP, has indicated that it will resign. The Board has reached agreement with PKF Littlejohn LLP to be appointed as the Group's auditor. In accordance with Section 489 of the Companies Act 2006, a resolution concerning the appointment of the new auditor will be proposed at the 2020 Annual General Meeting.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Electronic communications

The maintenance and integrity of the Volga Gas plc website (www.volgagas.com) is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The Company's website is maintained in compliance with Rule 26 of the AIM Rules for Companies.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Caros Consulting Ltd

Company Secretary
4 September 2020

Directors' Remuneration Report

In common with the Board's commitment to compliance with the appropriate aspects of the QCA Corporate Governance Code 2018, the Company has adopted the Principles of Good Governance relating to Directors' remuneration. The Company discloses certain information relating to Directors' remuneration in this report, which is not audited.

Remuneration Committee

The Company established a Remuneration Committee in April 2007, as set out in the Corporate Governance Statement on page 18. The Remuneration Committee advises the Board on Group compensation policy as it relates to Executive Directors and other key members of management, and may obtain advice from independent remuneration consultants appointed by the Company. The Remuneration Committee comprises Stephen Ogden (Chairman), Stewart Dickson and Andrei Yakovlev, who are all independent non-executive Directors. Executive Directors may be invited to attend meetings of the Remuneration Committee but do not vote on their own remuneration or incentives. The Remuneration Committee meets as required.

Remuneration policy

The Company's policy is to maintain levels of compensation for the Group that are comparable and competitive with peer group companies, so as to attract and retain individuals of the highest calibre, by rewarding them as appropriate for their contribution to the Group's performance.

Executive Directors' employment agreement and terms of appointment

The terms of each Executive Director's appointment are set out in their service agreements. Each Executive Director's agreement is based on similar terms, with no fixed duration. Each service agreement sets out details of basic salary and share options as applicable.

All Executive Director employment agreements can be terminated either by the Director concerned or by the Company on giving six months' notice during the first 24 months of service and thereafter by giving three months' notice.

The Executive Directors do not participate in any Group pension scheme and their remuneration is not pensionable. The Executive Directors are eligible for payment of cash bonuses and participation in any share-based incentive plan the Board implements. For the year ended 31 December 2019, the Chief Executive Officer may, on meeting certain specified operational and financial objectives agreed with the Remuneration Committee, be awarded a bonus payment of up to 100% of his basic salary.

Basic salaries

The basic salary of each Executive Director is established by reference to their responsibilities and individual performance.

Non-executive Directors' terms, conditions and fees

The Non-executive Directors have been engaged under the terms of their letters of appointment. These engagements are for two years and can be terminated upon one month's notice by either party. Reappointment is subject to the Company's Articles of Association, which provide that one-third of the Directors shall be required to retire each year.

Fees

The fees paid to Non-executive Directors are determined by the Board and reviewed periodically to reflect current rates and practice commensurate with the size of the Company and their roles.

The remuneration of the Non-executive Directors is a matter for the Chairman of the Board and the Chief Executive Officer. In the event of the appointment of an independent Non-executive Chairman his remuneration would be a matter for the Chairman of the Remuneration Committee and the Chief Executive Officer.

Directors' detailed emoluments

	Salary US\$ 000	Benefits US\$ 000	Bonus US\$ 000	Fees US\$ 000	Aggregate Remuneration for the Year 31 December 2019 US\$ 000	Aggregate Remuneration for the Year 31 December 2018
Executive directors						
A. Zozulya	185	13	198	-	396	356
Non-executive directors						
M. Calvey	-	-	-	-	-	-
R. Freeman	-	-	-	50	50	50
M. Ivanov	-	-	-	120	120	120
A. Kalinin	-	-	-	-	-	-
V. Koshcheev	-	-	-	-	-	-
S. Ogden	-	-	-	50	50	50

Directors' emoluments comprised salaries and benefits of US\$198,000 (2018: US\$194,000), bonuses of US\$197,539 (2018: US\$162,000) and Non-executive Directors' fees of US\$220,000 (2018: US\$220,000). During the year ended 31 December 2019, Mr Zozulya was awarded a performance-related bonus of US\$197,539 (2018: US\$162,000) which was settled by the transfer of 250,652 Ordinary Shares of the Company held in Treasury. The bonus award of 2018 was settled in cash.

Directors' interests in the share capital of the Company

The Directors' interests in the share capital of the Company are disclosed in the Report of the Directors on page 21. There have been no changes in the interest of any Director between 1 January 2020 and the date of this report.

Directors' share options

The Company currently has no share option scheme in operation and there are no share options in issue currently nor were there any in issue during the years ended 31 December 2018 and 2019.

By order of the Board

Caros Consulting Ltd

Company Secretary
4 September 2020

Company registration number: 05886534

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VOLGA GAS PLC

1 Our opinion is qualified

We have audited the financial statements of Volga Gas Plc ("the Company") for the year ended 31 December 2019 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Cash Flow Statement, Company Balance Sheet, Company Cash Flow Statement, Group Statement of Changes in Shareholders' Equity, Company Statement of Changes in Shareholders' Equity, and the related notes, including the accounting policies in note 2.

In our opinion except for the possible effects of the matter described in the basis for qualified opinion section of our report:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

We have been unable to obtain satisfactory audit evidence or explanations in respect of the following matter.

During the course of our audit we noted there were payments made to sales agents to provide consultancy services and act on behalf of the Group in certain transactions with a major customer. These payments totalled an amount of \$1.4m in the period from 2017 - 2019. During 2019 a taxation assessment was undertaken by The Federal Tax Service of Russia ("FTS") for the Group's subsidiary Gazneftservice LLC ("GNS"). Based on their assessment the FTS concluded that these payments were not substantiated and raised queries over why the arrangements were in place. The Audit Committee commissioned an independent investigation led by legal counsel in the UK and Russia to examine the process of appointment of these sales agents, the manner in which these payments were made and to investigate the nature of such payments and the services provided. In our view, the investigation identified breakdowns in the Group's Corporate Governance and in its internal control environment in relation to the engagement and contracting with these sales agents and was limited by a lack of certain information and access to one individual which would be necessary to conclude on the nature of the payments made, and the extent to which these were valid payments for the services provided. In our view, the content and background to the contract and the transactions give rise to the possibility of non-compliance with the legal and regulatory frameworks applicable to the Group, the impact of which could be material to the Group's Financial Statements and Directors' Report.

The Group's view is that the contract and the transactions do not give rise to this possibility and are neither material to the Group's Financial Statements nor disclosure in the Corporate Governance Statement. However, due to the limitations imposed by circumstances of the investigation, we have been unable to obtain sufficient appropriate audit evidence to determine compliance with the legal and regulatory frameworks applicable to the Group nor if any adjustments might have been necessary to the Group's financial information and disclosures as a result of the contracts and the transactions.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities.

We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our qualified opinion.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Management override of controls (Risk v 2018: new)	Effects of irregularities	Our procedures included:
Refer to pages 12 to 15 (Principal risks and uncertainties)	Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have identified additional risks in respect of bribery and corruption due to the Group's operations in Russia	• Policies and procedures assessment: We assessed the appropriateness of the Group's policies over laws and regulations, including anti-bribery and corruption, and procedures including evaluating the tone set by the Board and by senior management, the implementation and oversight thereof across the Group. • Controls design and operation: Assessing the design and operating effectiveness of the

and its transactions with the government owned customer. All gas is sold to Gazprom mezhregiongaz Volgograd.

Transparency International's Corruption Perceptions Index 2019 and our own experience indicates that corruption risks remain significant in Russia.

In addition, companies in the oil and gas sector are inherently at higher risk from bribery and corruption due to the significant level of government regulation and their procurement profile. Significant amounts of expenditure continue to be incurred on the existing and new development projects.

The risk for our audit was whether the control environment maintained by the Board and management was adequate that no instances of breaches of laws and regulations have arisen or could have arisen that had not been identified and could result in material losses to the Group, or potential non-compliance with laws and regulations which might result in possible penalties and material improper payments made to suppliers or employees not being identified or appropriately disclosed.

Group's controls over the selection of third-party suppliers in particular those relating to the major capital expenditure projects and provision of consultancy services.

• **Tests of detail:**

- Selecting a sample of bonus payments for management made or approved during the period to ensure that these payments were appropriately supported, economically justified and approved;
- Selecting a sample of transactions and journals, in particular relating to third party suppliers and using external sources to complete suppliers' checks;
- Selecting a sample of transactions to check the acceptance of services and equipment provided by suppliers;
- Selecting any unusual journals across the Group in particular relating to payments to third party suppliers;
- Making enquiries of senior management about each of the samples selected and validating such explanations given by inspecting related documentation or making further enquiries to investigate the nature of the instance and where relevant evaluate the business rationale for the transactions or events, confirming that appropriate approvals had been in place.
- As a result of the identification of the matter referred to under the "basis for qualified opinion" above, the Audit Committee commissioned an independent investigation. We used KPMG forensic specialists to review the scope and independence of the investigation by independent legal counsel and to assist in our analysis of its findings and conclusions. We also used KPMG Forensic specialists to perform due diligence procedures over the sales agents.

- **Assessing transparency:** To ensure that where necessary for transparency purposes any such instances or payments as applicable have been appropriately disclosed.

Impairment of tangible and intangible assets (Risk v 2018: 0)	Forecast-based estimate	Our procedures included:
Tangible assets: US\$36.2 million (2018: US\$ 45.1 million) Intangible assets: US\$3.3 million (2018: US\$3.3). Refer to page 41	A sustained low oil and gas price environment combined with ongoing changes in the Group's production operations could have a significant impact on the recoverable amount of the Group's tangible and intangible assets. Forecasting the recoverable amount of the Group's cash-	• Impairment triggers analysis: We assessed the directors' judgments in considering if any impairment indicators were present by considering whether the appropriate business developments during the year were incorporated in that analysis. • Historical comparisons: We assessed the

(Summary of significant accounting policies) and pages 52-53 (financial disclosures)	generating units, both of which have had impairment indicators identified, is a highly subjective area due to the inherent uncertainty involved in forecasting and discounting future cash flows, specifically around oil and gas prices, USD/RUB exchange rates, reserve estimates, especially taking into account a significant decrease in gas and gas condensate proved reserves during the period, and future cost estimates. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of US\$ 35.9 million has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 4a) disclose the sensitivity estimated by the Group.	reasonableness of the budgets considering historical accuracy of previous forecasts. • Our sector experience: We challenged whether the Group's key assumptions, such as oil and gas prices, USD/RUB exchange rates and reserve estimates, reflect our knowledge of the business and market, including known or probable changes in the business environment. • Benchmarking assumptions: We challenged, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rate by comparing them to externally derived data, including available sources for comparable companies. • Evaluating reserves estimation: We assessed competence and objectivity of the Group's external experts to satisfy ourselves they were appropriately qualified to carry out estimation of reserves included in the model. We assessed, using our own valuation specialists, the reliability of the data provided to the external expert. • Sensitivity analysis: We performed sensitivity analysis on the key assumptions noted above. • Assessing transparency: We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of tangible and intangible assets.
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Going concern (Risk v 2018: new)	Disclosure quality	Our procedures included:
Refer to page 38 (Summary of significant accounting policies)	Note 2.1 of the financial statements explains how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • significant reduction in the estimated remaining reserves of GNS, one of the two operating companies; • GNS estimated reserves include substantial volumes that are expected to be produced from VM5 and VM6 wells, that have yet to be drilled and management relies on successful drilling; • the management relies on success of new developments of	Our procedures included: • Benchmarking assumptions: We challenged the appropriateness of key assumptions in the cash flow projections (including prices, production costs, foreign exchange, production volumes, committed and other planned capital expenditure) applying our sector knowledge and experience based on historical production information, internal drilling plans and project plans, together with market and other externally available information. • Sensitivity analysis: We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts and taking account of possible downside scenarios that could arise from these risks individually and collectively. • Funding assessment: We considered the ability and requirement for additional funding. • Evaluating directors' intent: We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. • Assessing transparency: We considered the appropriateness of relevant disclosures, including both the going concern disclosure in note 2.1 of the financial statements and also the commentary elsewhere in the annual report on the timing and scope of the future growth projects and the need for financing to progress these.

PGK, the other operating company, for the Group's ability to continue as a going concern in the mid- to long-term. We determined that future developments have a high degree of uncertainty;

- subsequent to year-end, oil prices have fallen to their lowest level since Company's incorporation in 2006. We determined that a sustained low oil price environment could have a significant impact on the Group's ability to continue as a going concern;
- challenges posed by the Covid-19 pandemic, including potential disruption to production operations.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Recoverability of Parent Company's investment in subsidiaries and receivables due from Group companies (Risk v 2018: 0)

Investments in subsidiaries: US\$25.4 million (2018: US\$27.5 million).
Loans due from Group companies: US\$3.6 million (2018: US\$17 million)

Refer to page 40 (Summary of significant accounting policies) and pages 50-51 (financial disclosures)

Low risk, high value

The carrying amounts of the Parent Company's investments in subsidiaries and receivables due from Group companies represent 78% (2018: 99%) of the Company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.

Our procedures included:

- **Tests of detail:** Comparing the carrying amount of all investments and intercompany debtors with the relevant subsidiaries' draft financial statements to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.
- **Subsidiary audits:** The Group engagement team has performed the audit work for the trading subsidiaries of the Group, including the impairment review of tangible and intangible assets as described above, and considered the implication of that work on those subsidiaries' profits and net assets.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at US\$390k (2018: US\$460k), determined with reference to a benchmark of Group revenues, of which it represents 1% (2018: 1%). We consider Group revenues to be the most appropriate benchmark for overall levels of activity within the business are measured in terms of revenue which is also considered one of the more prominent metrics in assessing overall Group performance.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding US\$21k (2018: US\$23k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

For both the current and prior year, the Group audit team performed the audit of the Group (including the Parent Company financial information) as if it was a single aggregated set of financial information.

The Parent Company materiality determined as 5% of the Parent Company net assets exceeded the level of the materiality determined for the Group as the whole and, as such, materiality for the Parent Company financial statements was set at US\$343k (2018: US\$414k) to allow for aggregation risk on consolidation.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5 Other information

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, except for the possible consequential effects of the matter described in the basis for qualified opinion section our report on the related disclosures in the other information, we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- except for the possible consequential effects of the matter described in the basis for qualified opinion section of our report on the related disclosures in the Strategic Report and Directors' Report:
 - we have not identified material misstatements in the strategic report and the directors' report;
 - in our opinion those reports have been prepared in accordance with the Companies Act 2006; and
 - in our opinion the information given in those reports for the financial year is consistent with the financial statements.

6 Matters on which we are required to report by exception

In respect solely of the limitation on the scope of our work described above

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit: and
- we were unable to determine if adequate accounting records have been kept.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 23, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

7 September 2020

Group Income Statement (presented in US\$ 000)

Year ended 31 December	Notes	2019	2018
Continuing Operations			
Revenue	5	45,956	45,875
Cost of sales	6	(36,343)	(29,762)
Gross profit		9,613	16,113
Selling expenses	6(b)	(3,771)	(2,473)
Operating and administrative expenses	6	(4,822)	(4,921)
Write-off of development and producing assets	6	(2,608)	(1,513)
Impairment charge		(8,335)	-
Other operating income	6	-	3,120
Operating (loss)/profit		(9,923)	10,326
Interest income	7	292	425
Interest expense		(18)	-
Other net losses	8	(853)	(192)
(Loss)/profit for the year before tax		(10,502)	10,559
Current income tax	9	(2,224)	(2,254)
Deferred income tax	9	2,709	99
(Loss)/profit for the year before non-controlling interests		(10,017)	8,404
Attributable to:			
The owners of the Parent Company		(10,017)	8,404
Basic and diluted (loss)/profit per share (in US Dollars)	10	(0.1239)	0.1037
Weighted average number of shares outstanding	10	80,823,327	81,017,800

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 to not present the Parent Company income statement. The loss for the Parent Company for the year was US\$1,841,000 (2018: profit of US\$3,158,000).

Group Statement of Comprehensive Income (presented in US\$ 000)

Year ended 31 December	Notes	2019	2018
(Loss)/profit for the year attributable to equity shareholders of the Company		(10,017)	8,404
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Currency translation differences		6,094	(11,786)
Reversal of share grant reserve		-	-
Total comprehensive income for the year		(3,923)	(3,382)
Attributable to:			
The owners of the Parent Company		(3,923)	(3,382)

The accompanying notes on pages 38 to 59 are an integral part of these financial statements.

Group Balance Sheet (presented in US\$ 000)

At 31 December	Notes	2019	2018
ASSETS			
Non-current assets			
Intangible assets	11	3,374	3,304
Property, plant and equipment	12	33,957	45,109
Deferred tax assets	9	1,459	804
Total non-current assets		38,790	49,217
Current assets			
Cash and cash equivalents	13	14,116	15,186
Inventories	14	594	938
Trade and other receivables	15	1,752	2,381
Total current assets		16,462	18,505
Total assets		55,252	67,722
EQUITY AND LIABILITIES			
Equity			
Share capital	16	1,485	1,485
Other reserves	17	(83,095)	(89,189)
Accumulated profits	18	129,917	145,330
Equity attributable to the shareholders of the Parent Company		48,307	57,626
Non-current liabilities			
Asset retirement obligation		315	361
Deferred tax liabilities	9	-	2,028
Total non-current liabilities		315	2,389
Current liabilities			
Trade and other payables	19	6,630	6,047
Current portion of bank loans	20	-	1,660
Total current liabilities		6,630	7,707
Total equity and liabilities		55,252	67,722

Approved by the Board of Directors of Volga Gas plc, registration number: 05886534, on 4 September 2020 and signed on its behalf by

Andrey Zozulya
Chief Executive Officer

The accompanying notes on pages 38 to 59 are an integral part of these financial statements.

Group Cash Flow Statement (presented in US\$ 000)

Year ended 31 December	Notes	2019	2018
(Loss)/profit for the year before tax		(10,502)	10,559
Adjustments to loss before tax:			
Depreciation	12	14,833	8,324
Write off of development and producing assets	8	2,608	1,574
Impairment charge		8,335	-
Provision for obsolete inventory		16	391
Other non-cash operating (gains)/losses	6(c)	456	(251)
Foreign exchange differences	8	575	133
		16,321	20,730
Operating cash flow prior to working capital			
Working capital changes			
Decrease/(increase) in trade and other receivables		768	(417)
(Decrease)/increase in payables		(78)	(138)
Decrease/(increase) in inventory		439	(112)
		17,450	20,063
Cash flow from operations			
Income tax paid		(2,444)	(1,811)
Government subsidies refunded		(37)	-
Net cash flow generated from operating activities		14,969	18,252
Cash flows from investing activities			
Expenditure on exploration and evaluation	11	(399)	(211)
Purchase of property, plant and equipment	12	(9,190)	(2,059)
Net cash used in investing activities		(9,589)	(2,270)
Cash flows from financing activities			
Equity dividends paid		(5,237)	(4,861)
Purchase of treasury shares		(159)	
Bank loans drawn/(repaid)		(1,799)	(1,839)
Net cash provided by financing activities		(7,195)	(6,700)
Effect of exchange rate changes on cash and cash equivalents		745	(2,713)
Net (decrease)/increase in cash and cash equivalents		(1,070)	6,569
Cash and cash equivalents at beginning of the year	13	15,186	8,617
Cash and cash equivalents at end of the year	13	14,116	15,186

The accompanying notes on pages 38 to 59 are an integral part of these financial statements.

Company Balance Sheet (presented in US\$ 000)

Company registration number: 05886534

At 31 December	Notes	2019	2018
ASSETS			
Non-current assets			
Investments	21	25,421	27,473
Intercompany loans receivable	23	3,030	15,514
Total non-current assets		28,451	42,987
Current assets			
Cash and cash equivalents	13	8,960	337
Intercompany receivables	23	143	1,465
Trade and other receivables	15	60	69
Total current assets		9,163	1,871
Total assets		37,614	44,858
EQUITY AND LIABILITIES			
Equity			
Share capital	16	1,485	1,485
Accumulated profit	18	36,121	43,358
Total equity		37,606	44,843
Current liabilities			
Trade and other payables	19	8	15
Total current liabilities		8	15
Total equity and liabilities		37,614	44,858

Approved by the Board of Directors on 4 September 2020 and signed on its behalf by

Andrey Zozulya
Chief Executive Officer

The accompanying notes on pages 38 to 59 are an integral part of these financial statements.

Company Cash Flow Statement (presented in US\$ 000)

Year ended 31 December	2019	2018
Loss for the period before tax	(1,841)	(3,158)
Adjustments to loss before tax:		
Interest income accrued	(535)	(1,646)
Write off of investment in subsidiary	2,052	-
Other non-cash income	-	(264)
Foreign exchange differences	(1,002)	4,010
Operating cash flow prior to working capital	(1,326)	(1,058)
Working capital changes		
Decrease in intercompany receivables	1,349	-
(Increase)/decrease in other receivables	-	(25)
Increase/(decrease) in payables	(9)	(102)
Cash flow from operations	14	(1,175)
Income tax paid	-	-
Net cash flow generated from operating activities	14	(1,175)
Cash flows from investing activities		
Decrease/(increase) in intercompany loan receivables	14,005	5,695
Net cash from investing activities	14,005	5,695
Cash flows from financing activities		
Equity dividends paid	(5,237)	(4,861)
Purchase of treasury shares	(159)	-
Cash flows from financing activities	(5,396)	(4,861)
Effect of exchange rate changes on cash and cash equivalents	-	-
Net decrease in cash and cash equivalents	8,623	(341)
Cash and cash equivalents at the beginning of the year	13 337	678
Cash and cash equivalents at end of the year	13 8,960	337

The accompanying notes on pages 38 to 59 are an integral part of these financial statements.

Group Statement of Changes in Shareholders' Equity (presented in US\$ 000)

	Notes	Share Capital	Currency Translation Reserves	Accumulated Profit/(Loss)	Total Equity
Opening equity at 1 January 2019		1,485	(89,189)	145,330	57,626
Profit for the year		-	-	(10,017)	(10,017)
Currency translation differences		-	6,094	-	6,094
Total comprehensive income		-	6,094	(10,017)	(3,923)
Transactions with owners					
Equity dividends paid				(5,237)	(5,237)
Purchase of treasury shares				(159)	(159)
Total transactions with owners		-	-	(5,396)	(5,396)
Closing equity at 31 December 2019		1,485	(83,095)	129,917	48,307
Opening equity at 1 January 2018		1,485	(77,403)	141,787	65,869
Profit for the year		-	-	8,404	8,404
Currency translation differences		-	(11,786)	-	(11,786)
Total comprehensive income		-	(11,786)	8,404	(3,382)
Transactions with owners					
Equity dividends paid		-	-	(4,861)	(4,861)
Total transactions with owners		-	-	(4,861)	(4,861)
Closing equity at 31 December 2018		1,485	(89,189)	145,330	57,626

Company Statement of Changes in Shareholders' Equity (presented in US\$ 000)

	Notes	Share Capital	Currency Translation Reserves	Accumulated Profit/(loss)	Total Equity
Opening equity at 1 January 2019		1,485	-	43,358	44,843
Loss for the year		-	-	(1,841)	(1,841)
Equity dividends paid		-	-	(5,237)	(5,237)
Purchase of treasury shares		-	-	(159)	(159)
Closing equity at 31 December 2019		1,485	-	36,121	37,606
Opening equity at 1 January 2018		1,485	-	51,377	52,862
Loss for the year		-	-	(3,158)	(3,158)
Equity dividends paid		-	-	(4,861)	(4,861)
Closing equity at 31 December 2018		1,485	-	43,358	44,843

The accompanying notes on pages 38 to 59 are an integral part of these financial statements.

Volga Gas plc
Annual Report and Accounts 2019
Notes to the IFRS Consolidated Financial Statements

For the year ended 31 December 2019

(presented in US\$ 000)

1. General information

Volga Gas plc (the "Company" or "Volga") is a public limited company registered in England and Wales with registered number 5886534. The Company was incorporated on 25 July 2006. The principal activities of the Company and its subsidiaries (the "Group") are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Volga Region of the Russian Federation. Its registered office is 6th floor, 65 Gresham Street, London EC2V 7NQ. The Company's shares are admitted to trading on the AIM market of the London Stock Exchange.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 6 April 2020.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

Both the Parent Company financial statements and the Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the European Union ("EU"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

No income statement is presented for Volga Gas plc as permitted by Section 408 of the Companies Act 2006.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 15; the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 9 and 10. In addition, the Group's objectives, policies and processes for measuring capital, financial risk management objectives, details of financial instruments and exposure to credit and liquidity risks are described in Note 3.

Going Concern

Having reviewed the future cash flow forecasts of the Group in the light of the reductions in oil and gas reserves, the recent developments in the international oil prices and markets, and in consideration of the current financial condition of the Group, the Directors have concluded that the Group will continue to have sufficient funds in order to meet its obligations as they fall due for at least the 12 months from the approval of the financial statements and thus continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In reaching this conclusion, the Directors have reviewed cash flow projections using actual realised values from 1 January to 31 July 2020, current spot and futures oil prices in the period 2020-2022 and operational assumptions on production, operating and capital costs in line with those used for impairment testing (see Note 4). The Directors have also considered the sensitivity of cash flow forecasts under a variety of scenarios that have arisen and may arise as a result of the Covid-19 pandemic and the economic impact of government measures taken to deal with the outbreak in various countries in addition to risk factors that are specific to the Group's operations. Included in these are:

- Extended oil price weakness with the Urals oil price US\$20 per barrel for the months of August to December inclusive in 2020 and US\$30 per barrel in 2021;
- Disruption arising from Covid-19 that leads to a period of shut-in for the Group's entire production of varying durations, up to 2 months, combined with the above mentioned lower oil prices;
- Unsuccessful outcomes from the drilling of the VM5 and VM6 wells;
- A lower case outturn for slim hole development drilling on the Uzen field.

The Directors recognise that the long term viability of the Group depends on successful development of oil reserves in the Uzen field and on the discovery of new oil and gas reserves to replace those that will be produced in the short and medium term. If these activities are unsuccessful for a sustained period, it may be necessary to reduce the ongoing overheads of the Group and may reduce the Group's future ability to continue as going concern.

On 7 April 2020, the Company announced that its board of directors (the "Board") had decided to conduct a formal review of the various strategic options available to the Company to maximise value for shareholders, including the potential sale of the Company through a formal sale process or the farm-out or sale of one or more of the Company's assets. This process is continuing and to date, no formal offers have been received.

2.2 Financial instruments

i. Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable without a significant financing component) or a financial liability is initially measured at fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, any directly attributable transaction costs incurred at the acquisition or issuance of the financial instrument. A trade receivable that does not contain a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

• *Financial Assets*

Financial assets are classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), as appropriate.

The Company determines the classification of financial assets at initial recognition and they are not subsequently reclassified unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

In 2019 all Company's financial assets were measured at amortised cost.

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss.

Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. Interest income and foreign exchange gains and losses are recognised in profit or loss.

• *Financial liabilities*

All the Company's financial liabilities at initial recognition are recognised at amortised cost. Subsequent to initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

• *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

• *Amortised cost of financial instruments*

Amortised cost is computed using the effective interest method. This method uses the effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

• *Derecognition of financial instruments*

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Company has transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss, except for equity investments at fair value through other comprehensive income where the gain or loss are recognised in other comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss. In the case of waiver of debt from owners, the gain is recognised in equity as capital reserve.

• *Impairment*

The Company recognises loss allowances for expected credit losses on financial assets measured at amortised cost and contract assets. The Company measures loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, other debt securities for which credit risk has not increased significantly since initial recognition and finance lease receivables, which are measured as 12-month expected credit loss.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Company is exposed to credit risk.

2.4 Adoption of new and revised pronouncements

As of 1 January 2019, the Company adopted the following pronouncements that have been issued by the International Accounting Standards Board (IASB) and are applicable as listed below:

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IFRS 16 Leases The principal changes in accounting policies and their effects are set out below:

IFRS 16 Leases

On transition to IFRS 16, the Company reassessed all contracts to determine whether the contracts are, or contain a lease at the date of initial application.

Where the Company are a lessee, the Company applied the requirements of IFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings at 1 January 2019. At 1 January 2019, for leases that were classified as operating lease under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at 1 January 2019.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating lease under IAS 117:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019;
- applied the exemption not to recognise low value assets. Company defines the threshold for low assets as USD5,000 or less;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease; and
- adjusted the right-of-use assets by the amount of provision for onerous contract under IAS 37 immediately before the date of initial application, as an alternative to an impairment review.

The initial application of the above mentioned pronouncement does not have any material impact to the financial statements of the Company.

2.5 Adopted IFRS not yet applied

The following standards pronouncements that have been issued by the IASB will become effective in future financial reporting periods and have not been adopted by the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2020

- *Amendments to IAS 1 Presentation of Financial Statements (Definition of Material)*
- *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*
- *Amendments to References to the Conceptual Framework in IFRS Standards*
- *Amendment to IFRS 3 Business Combinations (Definition of business)*
- *Amendments to IFRS 7, IFRS 9 and IAS 39 (Addressing issues affecting financial reporting in the period leading up to IBOR reform)*

The Company is expected to apply the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements is not expected to have any material impact to the financial statements of the Company.

2.6 Consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

The Company and its subsidiaries outside the Russian Federation maintain their financial statements in accordance with IFRSs as adopted by the EU. The Russian subsidiaries of the Group maintain their statutory accounting records in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The consolidated financial statements are based on these statutory accounting records, appropriately adjusted and reclassified for fair presentation in accordance with International Financial Reporting Standards as adopted by the EU.

A list of the Company's subsidiaries is provided in Note 21.

2.7 Segment reporting

Segmental reporting follows the Group's internal reporting structure.

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

provided.

The CODM receives monthly IFRS-based financial information for the Group and its development and production entities. There were two development and production entities during both 2018 and 2019. These entities both engage in upstream production, gathering and sale of hydrocarbons, with common operational management and control. Management has determined that the operations of these production and development entities are sufficiently homogenous (all are concerned with upstream oil and gas development and production activities) for these to be aggregated for the purpose of IFRS 8, "Operating Segments". Common economic drivers for the operations are international oil prices, export and Mineral Extraction Taxes and the costs of drilling, completing and operating wells and production facilities. The Group has other entities that engage as either head office or in a corporate capacity or as holding companies. Management has concluded that due to application of the aggregation criteria that separate financial information for segments is not required.

No geographic segmental information is presented as all of the Group's operating activities are based within a localised area of the Russian Federation.

Management has determined, therefore, that the operations of the Group comprise one class of business, being oil and gas exploration, development and production and the Group operates in only one geographic area – the Volga region of the Russian Federation.

The Group's gas sales, representing a substantial proportion of revenues, are made to a single customer. Details are provided in Note 3.1 (b).

2.8 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US Dollars, which is the Company's functional and the Group's presentation currency.

The functional currency of the Group's subsidiaries that are incorporated in the Russian Federation is the Russian Rouble ("RUR"). It is management's view that the RUR best reflects the financial results of its Cyprus subsidiaries because they are dependent on entities based in Russia that operate in an RUR environment in order to recover their investments. As a result, the functional currency of the subsidiaries continues to be the RUR.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to cash and cash equivalents, borrowings and other foreign exchange gains and losses are presented in the income statement within "Other gains and losses".

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet item presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

The major exchange rates used for the revaluation of the closing balance sheet at 31 December 2019 were:

- GBP 1: US\$1.3108 (2018: 1.2708)
- EUR 1: US\$1.2101 (2018: 1.1438)
- US\$ 1: RUR61.9057 (2018: 69.4706)

2.9 Oil and gas assets

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

Capital expenditure is recognised as property, plant and equipment or intangible assets in the financial statements according to the nature of the expenditure and the stage of development of the associated field, i.e. exploration, development, production.

(a) Exploration and evaluation assets

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

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development assets. No depreciation or amortisation is charged during the exploration and evaluation phase.

(b) Development assets

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

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(c) Oil and gas production assets

Production assets are accumulated generally on a field by field basis and represent the cost of developing the commercial reserves discovered and bringing them into production together with E&E expenditures incurred in finding commercial reserves and transferred from the intangible E&E assets as described above.

The cost of 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.

Where major and identifiable parts of the production assets have different useful lives, they are accounted for as separate items of property, plant and equipment. Costs of minor repairs and maintenance are expensed as incurred.

(d) Depreciation/amortisation

Oil and gas properties are depreciated or amortised using the unit-of-production method. Unit-of-production rates are based on proved reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

(e) Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment prior to reclassification to development tangible assets, or whenever facts and circumstances indicate that an impairment condition may exist. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

(f) Impairment – proved oil and gas production properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. 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, for instance where surface infrastructure is used by one or more field in order to process production for sale.

(g) Decommissioning

Provision is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability (the discount rate used currently being at 10% per annum) for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding item of property, plant and equipment is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure attributable to changes in the estimates of the cash flow or the current estimate of the discount rate used are reflected as an adjustment to the provision and the property, plant and equipment. The unwinding of the discount is recognised as a finance cost.

2.10 Other business and corporate assets

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 when circumstances dictate.

Land is not depreciated. Depreciation of other assets is calculated on a straight line basis as follows:

Machinery and equipment	6–10 years
Office equipment in excess of US\$5,000	3–4 years
Vehicles and other	2–7 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

2.11 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.12 Current and deferred income tax

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

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

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

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

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

2.13 Employee benefits

(a) Share-based compensation

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The option plan currently in place for certain of the Directors is an equity-settled share option plan.

The Company measures the equity instruments granted to employees at the fair value at grant date. The fair value of fully vested shares is expensed immediately. The fair value of shares with vesting requirements is estimated using the Black-Scholes option pricing model. This value is recognised as an expense over the vesting period on a straight-line basis. The estimate is revised, as necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates.

(b) Social obligations

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

2.14 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset. Details of the revenue recognition policies are disclosed in Note 5.

2.15 Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

2.16 Provisions

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

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

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

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the RUR. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

At 31 December 2019, if the US Dollar had weakened/strengthened by 5% against the RUR with all other variables held constant, post-tax profit for the year would have been US\$57,797 (2018: US\$49,885) higher/lower, mainly as a result of foreign exchange gains/losses on translation of RUR-denominated trade payables and financial assets. At 31 December 2019, if the US Dollar had weakened/strengthened by 5% against the Euro ("EUR") with all other variables held constant, post-tax profit for the year would have been US\$30,658 (2018: nil) higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR denominated interest charges and financial liabilities. At 31 December 2019, if the US Dollar had weakened/strengthened by 5% against the Pound Sterling ("GBP") with all other variables held constant, post-tax profit for the year would have been US\$3,150 (2018: US\$13,303) higher/lower, mainly as a result of foreign exchange gains/losses on translation of GBP-denominated trade payables and financial assets.

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If the US Dollar had weakened/strengthened by 5% against the RUR with all other variables held constant, shareholders' equity would have been US\$2.2 million (2018: US\$2.5 million) higher/lower, as a result of translation of RUR-denominated assets. The sensitivity of shareholders' equity to changes in the exchange rates between US Dollar against GBP or EUR is immaterial.

The following table shows the currency structure of financial assets and liabilities:

At 31 December 2019	Rubles	US Dollars	Sterling	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Financial assets				
Cash and cash equivalents	4,486	9,535	95	14,116
Trade and other financial receivables	1,471			1,471
Total financial assets	5,957	9,535	95	15,587
Financial liabilities (before provision for UK taxes)	4,222	-	-	4,222

At 31 December 2018	Rubles	US Dollars	Sterling	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Financial assets				
Cash and cash equivalents	5,737	9,231	218	15,186
Trade and other financial receivables	1,823	-	-	1,823
Total financial assets	7,560	9,231	218	17,009
Financial liabilities (before provision for UK taxes)	5,523	-	-	5,523

(ii) Price risk

The Group is not exposed to price risk as it does not hold financial instruments of which the fair values or future cash flows will be affected by changes in market prices. The Group is not directly exposed to the levels of international market prices of crude oil or oil products, although these clearly influence the prices at which it sells its oil and condensate. Mineral Extraction Taxes ("MET") are calculated by reference to Urals oil prices and are therefore directly influenced by this. Taking into account the marginal rates of export taxes and MET, management estimates that if international oil prices had been US\$5 per barrel higher or lower and all other variables been unchanged, the Group's profit before tax would have been US\$1.2 million higher or lower (2018: \$1.6 million).

(iii) Cash flow and fair value interest rate risk

As the Group currently has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

The Group's maximum credit risk exposure is the fair value of each class of assets, presented in Note 3.1(a)(i) of US\$15,587,000 and US\$ US\$17,009,000 at 31 December 2019 and 2018 respectively.

The Group's principal financial assets are cash and trade receivables. Trade receivables relate to one customer Gazprom Mezhdregiongas Volgograd. This customer has been transacting with the Group since 2017. To date this customer's balance has not been ever written off and is not deemed credit-impaired at the reporting date. The probability of default of Gazprom Mezhdregiongas Volgograd was assessed as low risk. Payments are made within 30 days and there is no history of defaults. All trade receivables at the reporting date were classified as current (less than 30 days) and therefore no impairment was deemed required.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. It is the Group's policy to monitor the financial standing of these assets on an ongoing basis. Bank balances are held with reputable and established financial institutions. Any impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Rating of financial institution (Fitch)		31 December	31 December
		2019	2018
		US\$ 000	US\$ 000
Barclays Bank	A	9,299	1,412
ZAO Raiffeisenbank	BBB-	4,784	13,769
Other		33	5
Total bank balance		14,116	15,186

The Group's oil, condensate and LPG sales are normally undertaken on a prepaid basis and accordingly the Group has no trade receivables and consequently no credit risk associated with the related trade receivables.

(c) Interest rate risk

The Group's sole interest rate exposure has been related to its bank loan which as of 1 February 2019 was repaid in full.

(d) Liquidity risk

The remaining contractual maturities as at 31 December 2019 and 31 December 2018 are as follows:

Maturity period at 31 December 2019	0 to 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	4,222	-	-	4,222
Total	4,222	-	-	4,222

Maturity period at 31 December 2018	0 to 3 months	3 to 12 months	Over 1 year	Total
Trade and other payables	3,863	-	-	3,863
Bank loan	1,660	-	-	1,660
Total	5,523	-	-	5,523

Cash flow forecasting is performed by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. The Group believes it has sufficient liquidity headroom to fund its currently planned exploration and development activities.

The Group expects to fund its capital investments, as well as its administrative and operating expenses, through 2020 using a combination of cash generated from its oil and gas production activities, existing working capital and, when appropriate, medium-term bank borrowings. If the Group is unsuccessful in generating enough liquidity to fund its expenditures, the Group's ability to execute its long-term growth strategy could be significantly affected. The Group may need to raise additional equity or debt finance as appropriate to fund investments beyond its current commitments.

(e) Capital risk management

The Group manages capital to ensure that it is able to continue as a going concern whilst maximising the return to shareholders. The Group is not subject to any externally imposed capital requirements. The Board regularly monitors the future capital requirements of the Group, particularly in respect of its ongoing development programme. Management expects that the cash generated by the operating fields will be sufficient to sustain the Group's operations and future capital investment for the foreseeable future. During December 2016, one of the Group's operating subsidiaries entered into a loan agreement of RUR 240 million to fund its LPG project (see Note 20). This loan, which has a three-year amortising term, was repaid in full on 1 February 2019. Further short-term debt facilities may be arranged to provide financial headroom for future development activities.

(f) Fair value measurement

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, and trade and other payables.

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

3.2 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group has no financial assets and liabilities that are required to be measured at fair value.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Carrying value of fixed assets, intangible assets and impairment

Fixed assets and intangible assets are assessed for impairment when events and circumstances indicate that an impairment condition may exist. The carrying value of fixed assets and intangible assets are evaluated by reference to their value in use and primarily looks to the present value of management's best estimate of the cash flows expected to be generated from the asset. In identifying cash flows, management firstly determines the cash-generating unit or group of assets that give rise to the cash flows. The cash-generating unit ("CGU") is the lowest level of asset at which independent cash flows can be generated. For this purpose, the Directors consider the Group to have two CGUs: the VM and Dobrinskoye fields with the Dobrinskoye gas processing plant are treated as a single CGU, known as "GNS" and the Uzen oil field is a separate CGU, known as "PGK".

The estimation of forecast cash flows involves the application of a number of significant estimates to a number of variables including production volumes, commodity prices, operating costs, capital investment, hydrocarbon reserves estimates and discount rates. Key assumptions and estimates in the impairment models relate to:

- International oil prices: flat real prices reflecting the average levels pertaining during the period 1 December 2019 to 31 January 2020, a Urals oil price of US\$63 per barrel. No forward price escalation is assumed.
- Selling prices for oil, condensate and LPG that reflect international oil prices, less export taxes at the applicable official rates and a price differential of \$5 per barrel. Russian export taxes are being phased out over a five-year period starting in 2019 – with the same levy being added to the Mineral Extraction tax formula. It is assumed that domestic prices will continue to track the netback pricing. Based on actual commercial experience since May 2018, when production commenced LPG sales

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prices have on average been similar to those for condensate. The models assume the LNG sales price is 10% lower per tonne than condensate.

- Gas sales price of RUR 4,289 per mcm excluding VAT and net of transportation costs.
- Production profiles based on remaining reserves in the proved category and approved field development plans. For the purposes of impairment testing, the level of reserves used are those established by the independent consultancy Panterra as at 31 December 2019, in relation to the VM and Dobrinskoye fields. In respect of the Uzen field, the reserves were estimated by management and supported by an independent geological review of the impact of the results of wells drilled during 2019 that was produced in March 2020. A further evaluation of reserves in Uzen will be conducted during 2020, to include incremental reserves discovered in the course of 2019 during development drilling as detailed in the Operations Report on pages 7 and 8. Meanwhile, management considers that the after adjusting for subsequent production, the Uzen reserves estimates remain in line with internal estimates.
- Capital expenditures required to deliver the above production profiles and to maintain the production assets throughout the field life. Total development capital expenditure assumed for the period 2020-2024 is approximately US\$14.2 million, primarily on drilling of development wells, with future capital expenditure beyond that time of up to US\$0.2-1.0 million per annum. The calculation in use excludes and positive contribution from successful exploratory drilling or other improvements to the assets.
- Cost assumptions are based on current experience and expectations and are broadly in line with unit costs experienced in the year ended 31 December 2019. The costs included in the analysis include all field operating and production costs and allocated overheads of the operating entities.
- Total overheads of RUR 220m are assumed, in line with the 2020 budget for the operating entities. This has been allocated between GNS and PGK in approximate proportion to their revenues. The same level of G&A is carried through to 2022. For 2023 and beyond, it is assumed that with the presumed closure of GNS, the overall G&A would reduce commensurately. For the remainder of field life of Uzen it is assumed that reductions in G&A would match eventual declines in field production
- Export and mineral extraction taxes reflect rates set by current legislation, including the phased transfer of export taxes (levied on oil exports) to Mineral Extraction Tax (levied on all oil and condensate production).
- The model reflects real terms cash flows with no inflationary escalation of revenues or costs.
- A real discount rate of 10% per annum is utilised in the models.
- An exchange rate reflecting the average levels pertaining during the period 1 December 2019 to 31 January 2020 of RUR62 to US\$1.00 is assumed.

In addition to the base case, a number of sensitivity cases have been carried out:

- Varying gas prices by 10%,
- Varying operating expenditure by 10%,
- varying administrative expenditure by 10%,
- varying the RUR/US\$ assumed exchange rate by 10%,
- Varying capital expenditure by 20%,
- Varying reserves by 20% and
- Using a 12% real discount rate.
- A lower oil price scenario using flat Urals prices of US\$25.00 per barrel for 2020, US\$35.00 for 2021 and US\$50.00 for 2022 onwards was conducted.
- As an further sensitivity scenario relating to the VM field a further set of cases were conducted on the GNS CGU on the basis that the two new wells on the field, VM#5 and VM#6 were unsuccessful.

The calculated values in use of the CGUs have been compared to the net book values of the PP&E associated with the CGUs. The table below summarises the results of this analysis, indicating the level of impairment reflected in the Base Case and the potential additional impairments that may arise from each of the sensitivity cases described above:

Cash generating unit	GNS (US\$000)	PGK (US\$000)
Net book value as at 31 December 2019 (prior to impairment)	28,786	14,797
<i>Comprising:</i>		
- Property, plant and equipment	28,786	14,797
- Intangible assets	-	-
Value in use	20,451	15,439
Calculated impairment from value in use	8,335	-
<i>Additional impairment (US\$ million) if:</i>		
Reserves -20%	7,531	8,184
VM 5,6 unsuccessful	11,528	-
Low oil price	17,399	8,891

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Gas price -10%	873	-
Opex +10%	817	531
Administrative expenses +10%	423	97
Capex +20%	791	2,706
RUR exchange rate -10%	3,035	4,086
NPV 12%	373	947

Based on the above analysis, the book value of the GNS assets is clearly impaired. Given the relatively short remaining field life and the fact that the operating and capital costs are not especially high, the cost sensitivities are not major, while the oil price sensitivities are significantly more material. The value in use, additionally, is significantly dependent on the reserve sensitivities – especially in relation to the recognised risk attached to the outcomes of VM#5 and VM#6. However, while recognising the sensitivity to this risk factor, management does not believe that there is a basis for expecting the new wells to be unsuccessful.

Therefore, the Directors believe an impairment of RUR 516 million or approximately US\$8.3 million is indicated and have decided to include a charge of this amount in the financial statements for the year ended 31 December 2019.

For the PGK assets, the value in use, under the base case scenarios show a moderate level of headroom above the carrying value of the assets. However, the analysis indicates that a very small reduction in the Uzen field reserves could lead to asset impairment. The 20% reserve downside case suggests a significant reduction in value in use. However, management considers that in event of lower than expected success with development wells, a modification to development plans involving a reduction in future capital expenditure would be implemented. This may mitigate the impact suggested by the single variable sensitivity analysis. Therefore the directors consider that while there is risk of substantial future impairment, no impairment is currently indicated for the PGK assets.

Should there be material adverse changes to the assumptions used in future impairment tests, or should there be further reductions in reserve estimates, there may be impairment of one or both of the CGUs.

(b) Estimation of oil and gas reserves

Estimates of oil and gas reserves are inherently subjective and subject to periodic revision. In addition, the results of drilling and other exploration or development or production activity will often provide additional information regarding the Group's reserve base that may result in increases or decreases to reserve volumes. Such revisions to reserves can be significant and are not predictable with any degree of certainty. Management considers the estimation of reserves to represent a significant estimate in the context of the financial statements as reserve volumes are used as the basis for assessing the useful life of oil and gas assets, applying depreciation to oil and gas assets and in assessing the carrying value of oil and gas assets. Decreases in reserve estimates can lead to significant impairment of oil and gas assets where revisions (positive or negative) can have a significant effect on depreciation rates from period to period. Variation of 20% from the base level of reserves is among the sensitivity tests carried out in impairment testing as described in Note 4(a) above.

An independent assessment of the reserves and net present value of future net revenues ("NPV") attributable to the Group's Dobrinskoye and Vostochny Makarovskoye fields as at 31 December 2019, was prepared in accordance with reserve definitions set by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE"). The catalyst for this revision was the indication of a significantly higher than anticipated level of gas:water contact in the main reservoir of the VM field. Management considered these revised estimates to be reasonable and adopted them as the Group's reserves. The revisions to reserves are presented in detail at the end of the Operational Review on page 8.

Independent reserves estimates of the Sobolevskoye and Uzenskoye, as at 31 December 2017, were prepared in accordance with reserve definitions set by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers ("SPE"). The reserve estimate as at 31 December 2019 is accordingly only adjusted for the volumes produced in the two years to 31 December 2019. An independent geological review by Panterra Group, based on the updated data provided from 2019 drilling activity on the Uzen field, supports management's current estimates.

5. Revenue from contracts with customers

(i) Revenue streams

The Group generates revenue primarily from sales of oil, gas, gas condensate and LPG. Initial application of IFRS 15 Revenue from Contracts with Customers does not have material impact on the Company. The Group has following main revenue streams:

- Oil and condensate - The customers for oil and condensate are independent oil traders purchasing supplies which ultimately are delivered to oil refineries either in the Russian Federation or in neighbouring states in Europe.
- Gas - The Group's gas sales are to OOO Gazprom Mezhrregiongaz Volgograd, the regional subsidiary of the Russian gas major, which uses the gas for onward sale to consumers.
- LPG - The customers for oil and condensate are independent traders purchasing supplies which ultimately are marketed to retail, commercial and industrial consumers in the Russian Federation

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises the revenue at a time when it transfers the title to the products to a customer. This revenue recognition criterion applies to all revenue streams of the Group. Control over a product or service is passed to a customer according to the contract terms:

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Revenue stream	Timing of recognition or method used to recognise revenue	Significant payment terms
Oil, condensate and LPG	Title to the products is transferred to a customer at the point of sale. For the majority of domestic sales this is the Uzen field facility (in the case of oil) or the Dobrinskoye gas plant (in the case of condensate or LPG), in which case title passes to the purchaser when the product is loaded into the purchaser's tanker truck. For export sales and occasionally certain domestic sales title transfers at an agreed cross-border railway station, or when the product arrives at the export terminal (according to terms of each purchase order).	The Group receives full payment in advance of collection of the product or delivery at an external point as applicable.
Gas	The Group's sales of natural gas are all made via Gazprom. Delivery of the gas is based on the fiscal metering point at an interface between the gas plant and the Gazprom pipeline system located within the plant site. Gas is delivered evenly to the customer through the pipeline connected with the Client gas production facilities. This means that the customer simultaneously receives and consumes the benefits provided by the entity.	Payment is to be received no later than the 27th day of the month following each contract month.

There are no variable elements in consideration, obligation for returns or refunds nor warranty in the provision of goods and services by the Group.

Year ended 31 December	2019	2018
		US\$ 000
Revenue from contract with customers	45,956	45,875
Total revenues	45,956	45,875

(ii) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition.

Year ended 31 December	2019	2018
Major products lines	US\$ 000	US\$ 000
Oil	7,023	10,473
Condensate	25,070	19,681
LPG	2,635	2,841
Gas	11,228	12,880
Total revenues	45,956	45,875

Year ended 31 December	2019	2018
Primary geographical markets	US\$ 000	US\$ 000
<i>Russia</i>	34,726	42,281
<i>Europe</i>	11,230	3,594
Total revenues	45,956	45,875

Year ended 31 December	2019	2018
Timing of transfer of goods or services	US\$ 000	US\$ 000
Products and services transferred at a point in time	34,728	32,995
Products and services transferred over time	11,228	12,880
Total revenues	45,956	45,875

(iii) Contract balances

The following table provides information about opening and closing receivables and contract liabilities from contracts with customers.

As at 31 December	<i>Note</i>	2019 US\$000	2018 US\$000
Receivables	15	875	1,411
Contract liabilities	19	1,538	1,577

The contract liabilities primarily relate to the advance consideration received from customers for oil, condensate and (in 2018 only) LPG. Receivables relate primarily to gas sales.

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6. Cost of sales and administrative expenses - Group

Cost of sales and administrative expenses are as follows:

Year ended 31 December	2019	2018
	US\$ 000	US\$ 000
Production expenses	7,230	8,348
Mineral Extraction Taxes	14,257	13,194
Depletion, depreciation and amortisation (a)	14,856	8,220
Cost of Sales	36,343	29,762

Total expenses are analysed as follows:

Year ended 31 December	2019	2018
	US\$ 000	US\$ 000
Sales related expenses (b)	3,771	2,473
Field operating expenses (c)	5,026	5,865
Mineral extraction tax	14,257	13,194
Depreciation & amortization (a)	14,865	8,237
Write off of development and producing assets (g)	2,608	1,513
Impairment charge	8,335	-
Inventory write off	16	391
Salaries & staff benefits (d)	4,671	4,632
Directors' emoluments and other benefits (e)	616	677
Audit fees (f)	240	281
Taxes other than payroll and mineral extraction	658	716
Legal & consulting	651	586
Other	165	104
Total	55,879	38,669

- (a) *Depreciation:* Substantially all depreciation relates to oil and gas assets and is included within cost of sales.
- (b) *Selling expenses:* Comprise pipeline transit costs and fees related to gas sales as well as export taxes and costs associated with delivering gas condensate sales to export customers.
- (c) *Field operating expenses:* Field operating expenses include certain non-cash items. In the year ended 31 December 2018, provisions for the cost of waste removal were reversed, partly offset by other accrued expenses. The resulting net non-cash operating gain in the year ended 31 December 2018 was US\$251,000. In the year ended 31 December 2019 there were no such reversals.
- (d) *Staff and salaries:* The average monthly number of employees (including Executive Directors) employed by the Group was:

Year ended 31 December	2019	2018
Exploration and production	146	161
Administration and support	55	59
Total	201	220

Their aggregate remuneration (excluding executive directors) comprised:

	2019	2018
	US\$ 000	US\$ 000
Wages and salaries	3,664	3,568
Payroll taxes and social contribution	956	992
Staff benefits	51	72
Total	4,671	4,632

The average monthly number of employees employed by the Company was:

Year ended 31 December	2019	2018
Chief Executive	1	1
Non-executive Directors	6	6
Total	7	7

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Only Directors are employed by the Company.

(e) *Directors' emoluments and other benefits:*

	Salary US\$ 000	Benefits US\$ 000	Bonus US\$ 000	Fees US\$ 000	Aggregate Remuneration for the Year 31 December 2019 US\$ 000	Aggregate Remuneration for the Year 31 December 2018
Executive Directors						
A. Zozulya	185	13	198	-	396	356
Non-executive Directors						
M. Calvey	-	-	-	-	-	-
R. Freeman	-	-	-	50	50	50
M. Ivanov	-	-	-	120	120	120
A. Kalinin	-	-	-	-	-	-
V. Koshcheev	-	-	-	-	-	-
S. Ogden	-	-	-	50	50	50
Chief Financial Officer (non-Board)						
V. Son	72	11	30	-	113	101

(f) *Audit fees – Group and Company:* Disclosure of the fees paid to the Company's auditor and its associates is given in note 22.

(g) *Write-off of development and producing assets* – During the year ended 31 December 2019, the Group wrote off assets of US\$2,608,000 (2018: US\$1,513,000) of capitalised costs, primarily relating to unsuccessful drilling operations on two development wells. The write off in 2018 related to the subject of a legal dispute with a drilling contractor in which the Group received a court settlement totalling US\$3,120,000. This settlement was recognised as other operating income in 2018.

7. Finance income – Group

Finance income comprises interest earned during the period on cash balances with different banks (Note 13).

8. Other gains and losses - Group

Year ended 31 December

	2019 US\$ 000	2018 US\$ 000
Foreign exchange loss	(575)	(133)
Other losses	(278)	(59)
Total other gains and losses	(853)	(192)

9. Current and deferred income tax - Group

Year ended 31 December

	2019 US\$ 000	2018 US\$ 000
<i>Current tax:</i>		
Current income tax	(2,052)	(2,172)
Adjustments to tax charge in respect of prior periods	(172)	(82)
Total current tax	(2,224)	(2,254)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	2,709	99
Total deferred tax	2,709	99
Total tax credit/(charge)	485	(2,155)

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The tax charge in the Group income statement differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Year ended 31 December	2019 US\$ 000	2018 US\$ 000
(Loss)/profit before income tax and minority interest	(10,502)	10,559
Tax calculated at domestic tax rates applicable to (profits)/losses in the respective countries	2,100	(2,131)
<i>Tax effect of items which are not deductible or assessable for taxation purposes:</i>		
Non-deductible expenses	(54)	(44)
Tax losses for which no deferred tax asset was recognised	(916)	(25)
Recognition of tax effect of previously unrecognised tax losses	-	154
Other tax adjustments	(645)	(109)
Income tax charge	485	(2,155)

The weighted average applicable tax rate was 21.0% (2018: 21.0%).

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The tax effects of temporary differences that give rise to deferred taxation are presented below:

	31 December 2019	Differences recognised in profit or loss	31 December 2018	Differences recognised in profit or loss	31 December 2017
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
<i>Tax effect of taxable temporary differences:</i>					
Property, plant & equipment	(645)	2,658	(3,303)	1,593	(4,896)
Total	(645)	2,658	(3,303)	1,593	(4,896)
<i>Tax effect of deductible temporary differences:</i>					
Tax losses carry forward	1,942	442	1,500	(746)	2,246
Provisions	162	(417)	579	(487)	1,066
Total	2,104	25	2,079	(1,233)	3,312
Net tax effect of temporary differences	1,459	2,683	(1,224)	360	(1,584)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2019, deferred tax assets of US\$1,459,000 (2018: US\$804,000) and deferred tax liabilities of nil (2018: US\$2,028,000) have been recognised. Tax losses in respect of Cyprus and the UK do not expire.

10. Basic and diluted profit per share - Group

Profit per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary and diluted shares in issue during the year.

Year ended 31 December	2019	2018
Net (loss)/profit per share attributable to equity shareholders	(0.1239)	0.1037
Diluted net (loss)/profit per share attributable to equity shareholders	(0.1239)	0.1037
Net profit attributable to equity shareholders	(10,017)	8,404
Basic weighted average number of shares	80,823,327	81,017,800
Dilutive share options in issue	-	-
Diluted number of shares	80,823,327	81,017,800

Since 1 January 2018 there have been no options outstanding. On 17 April 2019, the Company purchased 450,000 of its own Ordinary shares, which were held in treasury. On 4 July 2019, 250,652 treasury shares were transferred to Andrey Zozulya in settlement of his bonus award. The number of treasury shares was therefore reduced to 199,348. For the year ended 31 December 2019, the weighted average number of shares in issue, less treasury shares, was 80,823,327 (2018: 81,017,800). As at 31 December 2019, the total voting rights, being the number of shares in issue less treasury shares was 80,818,452 (2018: 81,017,800).

11. Intangible assets – Group

Intangible assets represent exploration and evaluation assets such as licences, studies and exploratory drilling, which are stated at historical cost, less any impairment charges or write-offs.

	Work in progress: exploration and evaluation	Exploration and evaluation	Total
At 1 January 2019	122	3,182	3,304
Additions	-	451	451
Write offs	-	(32)	(32)
Transfers	-	(738)	(738)
At 31 December 2019	122	2,863	2,985
Exchange adjustments	15	374	389
At 31 December 2019	137	3,237	3,374

	Work in progress: exploration and evaluation	Exploration and evaluation	Total
At 1 January 2018	147	3,609	3,756
Additions	-	211	211
Write-offs and impairments	-	-	-
At 31 December 2018	147	3,820	3,967
Exchange adjustments	(25)	(638)	(663)
At 31 December 2018	122	3,182	3,304

12. Property, plant and equipment - Group

Movements in property, plant and equipment for the year ended 31 December 2019 are as follows:

Cost	Development assets US\$ 000	Land & buildings US\$ 000	Producing assets US\$ 000	Other US\$ 000	Total US\$ 000
At 1 January 2019	1,038	718	72,295	722	74,773
Additions	8,966	-	-	-	8,966
Write-offs	(2,067)	(255)	(720)	(145)	(3,187)
Transfers	(4,653)	311	4,786	294	738
Exchange adjustments	229	91	9,021	96	9,437
At 31 December 2019	3,513	865	85,382	967	90,727

Accumulated depreciation					
At 1 January 2019	-	(61)	(28,929)	(674)	(29,664)
Depreciation	-	(25)	(14,689)	(119)	(14,833)
Adjustment for assets written off	-	-	239	111	350
Impairments	(123)	(92)	(8,084)	(36)	(8,335)
Exchange adjustments	-	(9)	(4,196)	(83)	(4,288)
At 31 December 2019	(123)	(187)	(55,659)	(801)	(56,770)

Net book value at 31 December 2019	3,390	678	29,723	166	33,957
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Movements in property, plant and equipment for the year ended 31 December 2018 are as follows:

Cost	Development assets	Land and buildings	Producing assets	Other	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
At 1 January 2018	6,483	820	80,993	747	89,043
Additions	2,390	-	231	-	2,621
Write-offs	(1,574)	-	-	-	(1,574)
Transfers	(5,621)	42	5,465	114	-
Exchange adjustments	(640)	(144)	(14,394)	(139)	(15,317)
At 31 December 2018	1,038	718	72,295	722	74,773
Accumulated depreciation					
At 1 January 2018	-	(42)	(25,934)	(738)	(26,714)
Depreciation	-	(29)	(8,227)	(68)	(8,324)
Exchange adjustments	-	10	5,232	132	5,374
At 31 December 2018	-	(61)	(28,929)	(674)	(29,664)
Net book value					
At 31 December 2018	1,038	657	43,366	48	45,109

13. Cash and cash equivalents – Group and Company

At 31 December	Group		Company	
	2019	2018	2019	2018
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Cash at bank and on hand	14,116	15,186	8,960	337
Total cash and cash equivalents	14,116	15,186	8,960	337

An analysis of Group cash and cash equivalents by bank and currency is presented in the table below:

At 31 December	Bank	Currency	Group		Company	
			2019	2018	2019	2018
			US\$ 000	US\$ 000	US\$ 000	US\$ 000
<i>United Kingdom</i>						
Barclays Bank PLC	USD		9,204	1,193	8,865	119
Barclays Bank PLC	GBP		95	218	95	218
<i>Russian Federation</i>						
ZAO Raiffeisenbank	RUR		4,453	5,731	-	-
ZAO Raiffeisenbank	USD		331	8,038	-	-
Other banks and cash on hand	RUR		33	6	-	-
Total cash and cash equivalents			14,116	15,186	8,960	337

14. Inventories – Group

At 31 December	2019	2018
	US\$ 000	US\$ 000
Production consumables and spare parts	441	603
Crude oil inventory	153	335
Total inventories	594	938

Inventory recognised as cost of sales in the year amounted to US\$2,526,000 (2018: US\$2,474,000). In the year to 31 December 2019 there was a US\$65,000 reversal of previous write-down of inventories to net realisable value (2018: write down of US\$378,000). This is included in operating and administrative expenses.

15. Trade and other receivables – Group and Company

At 31 December	Group		Company	
	2019	2018	2019	2018
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Taxes recoverable	430	399	42	53
Prepayments	280	558	18	-
Trade receivables	875	1,411	-	16
Other accounts receivable	167	13	-	-
Total other receivables	1,752	2,381	60	69

Prepayments are to contractors and relate to initial advances made in respect of drilling, construction and other projects. Trade receivables relate to sales of gas and condensate. The receivables were settled on schedule subsequent to the balance sheet date.

16. Share capital and share premium – Group

The following summarises the movement in the share capital and share premium of the Company for the years ended 2019 and 2018.

	Number of shares	Share capital US\$ 000	Total voting rights
At 1 January 2019	81,017,800	1,485	81,017,800
Issues of shares	-	-	-
Shares held in treasury	-	-	199,348
At 31 December 2019	81,017,800	1,485	80,818,452
At 1 January 2018	81,017,800	1,485	81,017,800
Issues of shares	-	-	-
Shares held in treasury	-	-	-
At 31 December 2018	81,017,800	1,485	81,017,800

The total number of authorised ordinary shares is 330,720,100 (2018: 330,720,100) with a par value of £0.01 per share (2018: £0.01 per share). Subject to the terms of the Company's Articles of Association, each ordinary share has the right of one vote at a General Meeting of the Company and to receive dividends declared by the directors. As at 31 December 2019, the Company held 199,348 of its own Ordinary shares in treasury (2019: nil). The number of total voting rights is adjusted accordingly. See Note 10. There are no other classes of shares in the Company either issued or authorised.

17. Other reserves – Group

At 31 December	2019	2018
	US\$ 000	US\$ 000
Currency translation reserves	(83,095)	(89,189)
Total other reserves	(83,095)	(89,189)

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations to the presentation currency.

18. Accumulated profit – Group and Company

At 31 December	Group		Company	
	2019	2018	2019	2018
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Retained profits	145,330	141,787	43,358	51,377
(Loss)/profit for the year	(10,017)	8,404	(1,841)	(3,158)
Equity dividends paid	(5,237)	(4,861)	(5,237)	(4,861)
Purchase of own shares	(159)	-	(159)	-
Accumulated profit	129,917	145,330	36,121	43,358

Dividends

In November 2018, the Company paid an interim dividend of \$0.06 per ordinary share. In May 2019, the Company paid a final dividend of US\$0.065 per share. No dividends are proposed in respect of the year ended 31 December 2019. Dividends are not recognised as liabilities and there are no tax consequences.

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19. Trade and other payables

At 31 December	Group		Company	
	2019 US\$ 000	2018 US\$ 000	2019 US\$ 000	2018 US\$ 000
Trade payables	993	1,085	8	-
Taxes other than profit tax	3,140	2,740	-	-
Customer advances	1,538	1,577	-	-
Other payables	959	645	-	15
Total	6,630	6,047	8	15

The maturity of the Group's and the Company's financial liabilities are all between zero to three months. Customer advances are prepayments for oil and condensate sales, normally one month in advance of delivery.

20. Bank loan

At 31 December	2019 US\$ 000	2018 US\$ 000
Current liabilities		
Secured bank loan	-	1,660
Total Bank Loan	-	1,660

In December 2016, one of the Group's operating subsidiaries received bank loan of a total amount of RUR 240 million (US\$3.96 million). The loan was repaid in full on 1 February 2019. Interest had been charged at a fixed rate of 11.45% per annum. The bank loan as at 31 December 2018 was secured by charges over the shares of the Group's Russian operating subsidiaries as detailed in Note 21 below.

Changes in liabilities from financing activities

	Bank loans	
	US\$ 000 2019	US\$ 000 2018
Balance at 1 January	1,660	4,004
<i>Changes from financing cash flows</i>		
Repayment of borrowings	(1,780)	(1,839)
Total changes from financing cash flows	(1,780)	(1,839)
 The effect of changes in foreign exchange rates	 120	 (505)
<i>Other changes:</i>		
Capitalised borrowing costs	-	186
Interest expense	19	137
Interest paid	(19)	(323)
Total other changes	-	-
Balance at 31 December	-	1,660

21. Investments – Company

Investments in subsidiaries, comprising ordinary share capital, are accounted for at cost. The Company's subsidiaries are as follows:

Name	Jurisdiction	Nature of operations	% Owned	From
Woodhurst Holdings Ltd	Cyprus	Intermediate holding company	100%	October 2005
Pre-Caspian Gas Company	Russia	Oil and gas exploration and production	100%	May 2006
Gaznefteservice	Russia	Oil and gas exploration and production	100%	September 2006
Shropak Investments Ltd	Cyprus	Dormant	100%	June 2007
Volga Gas (Cyprus) Ltd	Cyprus	Intermediate holding company	100%	August 2007
Geopotential	Russia	Special purpose entity	100%	October 2008
Volga Gas Finance Ltd*	UK	Intermediate holding company	100%	March 2010

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The registered office addresses of the subsidiaries are as follows:

Name	Registered office address
Woodhurst Holdings Ltd Shropak Investments Ltd Volga Gas (Cyprus) Ltd	all at: Archbishop Makarios Avenue, Capital Centre, 9th Floor, 1505 Nicosia, Cyprus
Pre-Caspian Gas Company Geopotential	both at: 65, Ulitsa Kiseleva, Saratov, 410012, Russia
Gaznefteservice	24. Ulista Pushkina, Zhirnovsk, Volgograd Region, 403790, Russia
Volga Gas Finance Ltd*	6 th floor, 65 Gresham Street, London EC2V 7NQ, UK

* On 28 May 2019, application was made to Companies House for Volga Gas Finance Ltd to be struck off. On 3 September 2019 it was dissolved.

Company	31 December 2018 US\$ 000	Additions US\$ 000	Write off US\$ 000	31 December 2019 US\$ 000
Investments in Woodhurst Holdings	25,421	-	-	25,421
Investments in Volga Gas (Cyprus)	2,052	-	(2,052)	-
Total investments	27,473	-	(2,052)	25,421

The Company funds its activities in the Russian Federation via Woodhurst Holdings ("Woodhurst"), the Company's Cyprus registered subsidiary. As at 31 December 2019 no impairment was considered necessary as carrying amount of the investment and intercompany loan receivables is lower than combined value in use of production assets, as described in Note 4. As at 31 December 2019 the balance of the Company's investment in Volga Gas (Cyprus) was written off.

22. Audit fees – Group and Company

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and associates:

Year ended 31 December	2019 US\$ 000	2018 US\$ 000
Fees payable to Company's auditor for the audit of Parent Company and consolidated financial statements	234	234
Fees payable to Company's auditor for the audit of Parent Company and its associated firms for other services	4	10
Audit of the Company's subsidiaries pursuant to legislation	6	47
Other services pursuant to legislation	14	13
Total	258	304

23. Related party transactions – Group and Company

The Group is controlled by Baring Vostok Private Equity Funds III and IV (registered office address for both companies: 1 Royal Plaza, Royal Avenue, St Peter Port, Guernsey GY1 2HL), which respectively own 48.9% and 9.76% (in aggregate 58.66%) of the Company's shares. The Baring Vostok Private Equity Funds exercise their control through a number of nominee holding companies. The remaining 41.34% of the shares are widely held.

There were no transactions carried out by the Group with related third party entities during either of the years ended 31 December 2019 or 31 December 2018, nor were there any outstanding balances from transactions carried out in previous years.

The following transactions were carried out between the Company and its wholly-owned subsidiaries:

Group company	Relationship	Nature of transactions	Year ended 31 December	
			2019 US\$ 000	2018 US\$ 000
Woodhurst Holdings Limited	100% directly owned subsidiary	Reduction of receivables due	-	(953)
		Reduction of payables due (offset against receivables)	-	953
		Increase in receivables from Share premium reduction.	-	950
		Payment received from Woodhurst to settle receivables	(950)	
		Reduction of payables offset against	-	403

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		Share premium reduction	
Volga Gas (Cyprus) Limited	100% directly owned subsidiary	Offset of receivables due from Volga Gas (Cyprus) against unpaid share premium by Volga Gas plc.	- (501)
		Increase in receivables for management fees invoiced by Volga Gas plc	129 129
		Payment received from Volga Gas (Cyprus) for management fee.	(64)
		Investment written off	(2,052)
		Provision for unrecoverable receivables	(435)
Volga Gas Finance Limited	100% directly owned subsidiary	Payment of income tax for the year ended 31 December 2017 by Volga Gas plc on behalf of Volga Gas Finance Ltd.	- (79)
		Write-off of receivables due for income tax paid by Volga Gas plc.	- 79
Pre-Caspian Gas Company	100% indirectly owned subsidiary	Repayment of loans and accrued interest	2,718 408
		New loan granted by the Company	(3,000)
		Interest accrued	209 220
Gaznefteservice	100% indirectly owned subsidiary	Repayment of loans and accrued interest	14,286 5,287
		Interest accrued	326 1,426
Shropak Investments Ltd	100% indirectly owned subsidiary	Write off receivables from Shropak	(14)
		Offset receivables against payables	(3)
		Offset payables against receivables	3

On 2 November 2018, by resolution, Woodhurst Holdings undertook a reduction of its share premium by a cash payment of US\$ 950,000, which was paid in January 2019, and by offsetting a receivable from Volga Gas plc of the amount of US\$402,900.76.

For the year ended 31 December 2017, Volga Gas Finance was assessed for income tax of US\$79,000. This liability was covered by an advance from Volga Gas plc which was simultaneously expensed by the Company. On 28 May 2019, application was made to Companies House for Volga Gas Finance Ltd to be struck off. On 3 September 2019, it was dissolved.

Year-end balances arising from transactions with subsidiaries

	31 December 2019 US\$ 000	31 December 2018 US\$ 000
Accounts receivable from subsidiaries		
Woodhurst Holdings Limited	-	950
Volga Gas (Cyprus) Ltd.	143	497
Shropak Investments Ltd	-	18
Loans receivable from subsidiaries		
Pre-Caspian Gas Company	3,000	2,287
Gaznefteservice	-	12,878
Interest receivable from subsidiaries		
Pre-Caspian Gas Company	30	53
Gaznefteservice	-	296

Accounts payable to subsidiaries

Woodhurst Holdings Limited	1	1
Volga Gas (Cyprus) Ltd	-	3

Key management

Key management of the Company is considered to comprise the Directors and the Chief Financial Officer, who is not a Director. Details of key management compensation are summarised below.

Year ended 31 December	2019	2018
	US\$ 000	US\$ 000
Salaries and short-term benefits	509	457
Fees paid to Non-executive Directors	220	220
Total key management compensation	729	677

24. Contingencies and Commitments

24.1 Capital commitments

As of the balance sheet date all material licence work obligations have been met and all of the Group's capital expenditures and work programmes are discretionary. As of the balance sheet date, the Board had approved a work programme for 2019 with a total capital expenditure budget of US\$8.3 million, of which US\$0.6 million had been contracted. The remainder is expected to be incurred but had not been committed to or contracted as at the balance sheet date.

24.2 Operating leases

The Group has no non-cancellable lease rental obligations.

24.3 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.

At 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

24.4 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 obligations related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material.

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

24.5 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 corresponds 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 would be resolved through negotiations or corrective actions without any materially adverse effect on the financial position or the operating results of the Group.

The principal licences of the Group and their expiry dates are:

Field	Licence holder	Licence expiry date
Karpenskiy	OOO Pre-Caspian Gas Company	2031
Urozhaivoye-2	OOO Pre-Caspian Gas Company	2032
Muradymosky	OOO Pre-Caspian Gas Company	2023
Vostochny-Makarovskoye	OOO Gaznefteservice	2026
Dobrynskiy	OOO Gaznefteservice	2026

25. Post balance sheet events

COVID-19 is a non-adjusting post balance sheet event for the Group. The Group has considered the impact of COVID-19 as at the date of signing these financial statements. As noted below, the key area of impact is in regards to Impairment.

Between 1 January 2020 and the date of signing of these accounts, the Urals oil price ranged between US\$62 and \$16 per barrel and averaged approximately US\$40 per barrel. In response to this volatility, the Board suspended capital expenditure on the VM field and focused investment on the slim hole drilling in the Uzen field. Consequently management estimates capital expenditure for the year ended 31 December 2020 to total US\$6.4 million, compared to the original budget of US\$8.3 million.

Based on the sensitivity analysis outlined in Note 4a, the directors expect there will be additional impairments to the carrying value of fixed assets. The directors have yet to quantify all of the impairment and effects resulting from the Covid-19 pandemic, however there is no impact on going concern assumption.

Notice of Meeting

Notice is hereby given that the Annual General Meeting (the "AGM") of Volga Gas plc (the "Company") will be held at the offices of Akin Gump, Ten Bishops Square, London E1 6EG on 30 September 2020 at 10.00 a.m. Should the office remain closed as a result of the Covid-19 measures, the meeting will be held in the open area at the front of the building. In present circumstances, members of the Company should not attend in person but vote by Proxy. The Company will ensure that a quorum will be present at the meeting. Members who wish to participate will have the opportunity to do so via a Microsoft Teams meeting that will be created for this purpose. Members wishing to do so should send an email to pgk@volgagas.com to request an invitation to attend online.

Introduction

Volga Gas is not sending out a Form of Proxy with this Notice of Meeting, instead Shareholders are being encouraged to vote online by logging on to www.signalshares.com and following the instructions given. If you have not previously registered for this service, you will require your Investor Code (IVC), which can be found on your certificate.

Annual General Meeting

The AGM is being held to consider the following resolutions:

Ordinary resolutions

1. To receive and adopt the Company's accounts for the year ended 31 December 2019 and the Directors' Report.
2. To reappoint Aleksey Kalinin, who retires by rotation, as a Director.
3. To reappoint Stewart Dickson, who retires in accordance with Article 21.7 of the Company's Articles of Association, as a Director.
4. To reappoint Andrei Yakovlev, who retires in accordance with Article 21.7 of the Company's Articles of Association, as a Director.
5. To appoint PKF Littlejohn LLP as auditor of the Company until the conclusion of the next general meeting at which accounts are laid before the members of the Company.
6. To authorise the Directors to determine the remuneration of the auditor of the Company.

Special resolutions

7. That the Company be generally and unconditionally authorised for the purposes of Section 701 of the Act to make market purchases (within the meaning of section 693 of the Act) of fully paid ordinary shares of 1p each ("Shares") on such terms and in such manner as the Directors of the Company may decide provided that:

- (i) the maximum number of Shares that may be purchased by the Company pursuant to this authority is 12,144,000 (representing approximately 14.99% of the Company's issued ordinary share capital at the date of this Notice;
- (ii) the minimum price (exclusive of expenses) which may be paid for any such Shares shall not be less than the nominal value of that Share at the time of purchase;
- (iii) the maximum price (exclusive of expenses) which may be paid for any Shares purchased pursuant to this authority is an amount equal to the higher of (a) an amount equal to 105% of the average of the middle market prices shown in the quotations for the Company's Shares in the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Share is contracted to be purchased; and (b) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange; and
- (iv) unless previously varied, revoked or renewed, the authority conferred by this resolution shall expire on the earlier of 30 June 2021 or at the end of the next Annual General Meeting of the Company to be held in 2021, but the Company may make a contract to purchase Shares under this authority before its expiry which will or may be completed wholly or partly after the expiry of this authority, and may complete such a purchase as if this authority had not expired.

Registered office:
6th Floor, 65 Gresham Street
London
EC2V 7NQ

BY ORDER OF THE BOARD
Caros Consulting Ltd
Company Secretary
4 September 2020

Notes:

1. Resolutions 1-6 are ordinary resolutions. For these resolutions to be passed, a simple majority of the votes cast at the Company's AGM must be in favour of the resolutions. Resolutions 8 and 9 are special resolutions. For these resolutions to be passed, at least three-quarters of the votes cast at the AGM must be in favour of the resolution.
2. Share buy-back (Resolution 7). The purpose of Resolution 7 is to permit the Company to purchase its own shares in the market under the terms described therein. Shares so purchased would be cancelled and the issued share capital of the Company accordingly reduced. However, some Shares so purchased may alternatively be held in Treasury, inter alia for the settlement of management bonuses.
3. Only those members entered on the register of members of the Company at close of business on 28 September 2020 or, in the event that this meeting is adjourned, in the register of members as at close of business on the day two days before the date of any adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the register of members after close of business on 28 September 2020 or, in the event that this meeting is adjourned, in the register of members after close of business on the day two days before the date of the adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. A member entitled to attend, speak and vote at the meeting convened by the Notice set out above is entitled to appoint a proxy to attend, speak and, on a poll, to vote in his place. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given.
5. You can vote either:
 - by logging on to www.signalshares.com and following the instructions;
 - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

If you need help with voting online, or require a hard-copy form of proxy, please contact our Registrars, Link Asset Services, on 0871 664 0391 from the UK (Calls cost 12p per minute plus network extras) or +44 371 664 0301 from outside the UK (calls chargeable at the applicable international rate) or email Link at enquiries@linkgroup.co.uk

To be effective, the proxy instruction must be received by one of the above methods so as to be received not later than 48 hours before the time appointment for holding the AGM. If used, a hard-copy form of proxy must be deposited at the office of the Company's registrars (Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU). Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.

6. To change your proxy instructions simply submit a new proxy appointment using the methods set out in Note 5 above. Note that the cut-off time (in Note 3 above) for receipt of proxy appointments also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using a hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrars. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
7. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:
 - (a) by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment, to the Company's registered office address. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or duly a certificated copy of such power of authority) must be included with the revocation notice; or
 - (b) by sending an email to info@volgagas.com

In either case, the revocation notice must be received by the Company's registrars no later than the cut-off time set out in Note 3 above.

8. The register of interests of the Directors and their families in the share capital of the Company and copies of contracts of service of Directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.
9. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent (ID: RA10) no later than 48 hours before the meeting date. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's registrars no later than 48 hours before the meeting date.

10. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided they do not do so in relation to the same shares.

11. Under Section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Members who have any queries about the Annual General Meeting should contact the Company Secretary by email on info@volgagas.com. Members may not use any electronic address or fax number provided in this Notice or in any related documents (including the Form of Proxy) to communicate with the Company for any purpose other than those expressly stated.

12. Information regarding the Annual General Meeting, including information required by section 311A of the 2006 Act, and a copy of this Notice of Annual General Meeting is available from www.volgagas.com.

Glossary of Technical Terms

Abandonment	application of a cement plug to close a well and welding of a steel plate to the top of the well; the well is then plugged and abandoned.
bbl	the standard barrel of crude oil or other petroleum product is 42 US gallons (approximately 159 litres).
bcf	billion cubic feet.
bcm	billion cubic metres.
best estimate	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.
boe	barrels of oil equivalent, being for natural gas the energy equivalent of one barrel of oil. The usual ratio is to equate 6,000 cubic feet to one barrel of oil equivalent.
condensate	liquid hydrocarbons associated with the production from a primarily natural gas reservoir.
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	A plant comprising one or more units such that after conditioning the gas will be of pipeline quality, as specified by Gazprom. Such units 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.
hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms.
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.
mcm	Thousand cubic metres.
mmbbls	Million barrels.
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.
petroleum	Naturally occurring liquids and gases which predominantly comprise hydrocarbon compounds.
possible reserves	Those unproven reserves that, on the available evidence and taking into account technical and economic factors, have a 10% chance of being produced.
probable reserves	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% chance of being produced
prospective resources	are those quantities of hydrocarbons which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.
proved plus probable reserves	Sum of the proved reserves and the probable reserves calculated in accordance with SPE standards.
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% chance of being produced
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 2007 by the Society of Petroleum Engineers and the World Petroleum Congresses.

Corporate Directory

Registered office

6th floor, 65 Gresham Street
London EC2V 7NQ
United Kingdom

Company Secretary

Caros Consulting Ltd
15 Lebanon Park
Twickenham TW1 3DF
United Kingdom

Nominated adviser and broker

S.P. Angel Corporate Finance LLP
Prince Frederick House
35-39 Maddox Street
London W1S 2PP
United Kingdom

Auditor

KPMG LLP
15 Canada Square
London E14 5GL
United Kingdom

Lawyers and solicitors to the Company as to English and Russian law

As to English law:
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8th Floor, Ten Bishops Square
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As to Russian law:
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Moscow 107031
Russian Federation

Registrar

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