Zoltav Resources Inc.

Annual Report and Audited Consolidated Financial Statements
For the year ended 31 December 2013

Zoltav Resources Inc.

Corporate information

Board of Directors
Symon Drake-Brockman - Executive Chairman
Oliver Donagher - Non Executive Director (appointed 7 June 2013 resigned 19 June 2014)
John Grimshaw - Non Executive Director (appointed 19 March 2013 resigned 19 June 2014)
Michael Lombardi - Non Executive Director (appointed 19 March 2013)
Stephen Lowden - Non Executive Director
David Francis - Non Executive Director (resigned 7 June 2013)
Alastair Muir Ferguson (appointed 19 June 2014)
Marcus James Rhodes (appointed 19 June 2014)

Audit Committee
Marcus Rhodes (Chairman), Michael Lombardi and Stephen Lowden

Remuneration and Nomination Committee
Stephen Lowden (Chairman), Michael Lombardi and Alastair Ferguson

Company Secretary
Ogier Corporate Services (Jersey) Limited
Ogier House, The Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands

Corporate Administrator
Ogier Corporate Services (Jersey) Limited
Ogier House, The Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands

Bankers
Barclays Private Clients International Limited
39-41 Broad Street, St Helier, Jersey, JE4 8PU, Channel Islands

Deutsche Bank International Limited
St Paul’s Gate, New Street, St Helier, Jersey, JE4 8ZB, Channel Islands

Nominated Adviser
Shore Capital & Corporate Limited
Bond Street House,14 Clifford Street, London, W1S 4JU, United Kingdom

Broker
Shore Capital Stockbrokers Limited
Bond Street House, 14 Clifford Street, London, W1S 4JU, United Kingdom

Solicitors
Pinsent Mason
30 Crown Place, Earl Street, London, EC2A 4ES, United Kingdom

Independent Auditor
PricewaterhouseCoopers LLP
1 Embankment Place, London WC2N 6RH

Registrar
Computershare Investor Services (Cayman) Limited
R&H Trust Co. Ltd, Windward 1, Regatta Office Park, West Bay Road, Grand Cayman KY1-1103, Cayman Islands

Registered Office
89 Nexus Way, Camana Bay, Grand Cayman KY1-9007, Cayman Islands

Zoltav Resources Inc.

Chairman's report for the year ended 31 December 2013

2013 was a transformational year for the Company. The acquisition of CenGeo Holdings ("CenGeo") on 4 July 2013 and, with it, a 100 percent. interest in the Koltogor Licence in Western Siberia, marked the Company's transition from an investing company to an operating oil and gas company.

The Company has stated its commitment to continued growth through the acquisition of value-enhancing assets and, shortly before year-end, on 13 December 2013, the Company announced its second major transaction: the proposed acquisition of Royal Atlantic Energy (Cyprus) Limited ("RAECL") which, through a wholly-owned subsidiary, holds the Bortovoy Licence, a 3,215 square kilometre area in the Saratov Oblast (European Russia) containing a number of gas fields, a processing plant and significant exploration prospectivity. The Company expects to complete this acquisition by the end of the second quarter of 2014.

The Company is highly selective over the assets it considers for acquisition. The Company looks for assets which are strategically located and which the Company believes, by leveraging its technical capabilities and in-country knowledge, it can add considerable value to.

The Koltogor Licence is located in the Khantiy-Mansisk Autonomous Okrug, one of Russia's most prolific oil producing regions, responsible for approximately half of the country's annual oil production. It contains an undeveloped oil discovery and is located in close proximity to production-associated infrastructure, making its development highly compelling. The field is surrounded by a number of producing oil fields.

The Bortovoy Licence, located in European Russia, is already producing gas, condensate and oil. The Karpenskoye field in the western part of the licence produced 392.6 million cubic metres (approximately 13.9 billion cubic feet) of gas and 0.3 million barrels of condensate and oil in 2013 (an aggregate 2.8 million barrels of oil equivalent). The Company believes it can generate considerable upside from a large number of undeveloped prospects on the Bortovoy Licence.

Operational developments

Prior to completion of the acquisition of CenGeo in July, the Company commissioned an independent review of the estimated reserves and resources contained within the areas covered by the Koltogor Licence to be carried out by DeGolyer and MacNaughton, a leading international petroleum industry consulting firm. The report attributed Proved plus Probable oil reserves of over 75 million barrels to the area. The full report and analysis of the Company's reserves and resources is available through the Company's website (www.zoltav.com).

Shortly after CenGeo's acquisition, the Company engaged Russia's largest geophysical company, GEOTECH Holding ("GEOTECH"), to acquire 466 square kilometres of 3D seismic and 71 kilometres of 2D seismic data across the Koltogor Licence. This was a substantial undertaking which, in Western Siberia can only be carried out during the winter months when the ground is firm. The programme began in November 2013 and ended on 21 April 2014.

The objective of the seismic acquisition programme was to better understand the characteristics of the Koltogor field. Put simply, the programme will help the Company identify the 'sweet spots' for the drilling of appraisal wells (which may become production wells) in the 2015/16 drilling season.

The data is now being processed and interpreted by LARGEO (a Moscow-based independent geoscience company) before being analysed by the Company's geological team under the leadership of Alexander Sokolov (Director Exploration), whose knowledge of Koltogor dates back well over a decade.

In addition to the 3D seismic survey, the Company completed limited testing of Well 141 in the southernmost part of the licence area. The testing of the Upper Jurassic Ju1-1 horizon was undertaken over a period of six days. Once the well had been cleaned-up, it was tested on a 10 millimetre choke and flowed 32 cubic metres per day of liquids of which 16 cubic metres per day (approximately 101 barrels) was a crude oil of 43 degrees API. While the 3D seisimic programme is expected to help the Company identify more optimal well locations for future production, the Well 141 test has established a base level of well productivity which further confirms the commerciality of the field and corroborates previous testing data.

The Koltogor Licence (with Exploration and Production status) covers a contiguous area of 528 square kilometres within the original footprint of the legacy Exploration Licences. On 31 December 2013 The Group relinquished all but one of the remaining legacy Exploration Licence areas which surrounded the Koltogor Licence and had expired but sought to retain Koltogor Exploration Licence 10 ("Koltogor 10") which the Company considers to be prospective. The Company was able to negotiate a zero cost extension to Koltogor 10, a 167 square kilometer area immediately to the west of the Koltogor Licence, through to 31 December 2015.

Following completion of testing operations on Well 141 the work-over rig was moved to Koltogor 10 where it re-opened Well 103 with an objective to test both the Upper Jurassic Ju1-1 horizon and the Bazhenov shale formation. The well flowed 3.4 cubic metres of oil per day (approximately 21 barrels) from the Upper Jurassic formation without stimulation. This discovery was made in the same formation as the neighbouring Koltogor Exploration and Production Licence, however management believes the two fields are separated by a fault. The Company will apply to the State Reserve Commission ("GKZ") to register the discovery.

The Company also tested an interval of 2,670-2,700 metres deep in the Bazhenov shale formation and successfully recovered oil (calculated flow of 1.34 cubic metres of oil per day (approximately 8 barrels)) with the application of the instant depression method. This demonstrated the potential of the Bazhenov shale.

The Company is evaluating the best methods of testing and producing from the Bazhenov shale formation with companies with applicable experience of developing unconventional oil plays.

Financial developments

The CenGeo acquisition received the support of the Company's largest shareholder, ARA Capital (44.9 per cent.), which agreed to invest US$20 million by way of a staged subscription (the "Subscription") for Zoltav ordinary shares, thus providing the Company with the financial resources to progress the work programme described above. The first and second tranches of the Subscription, totalling US$15 million, were received by the Company during the period with the remaining US$5 million received on 1 April 2014.

The convertible loan note provided to the Company by ARA Capital during 2012, totalling £500,000, was converted (together with accrued interest) into Zoltav shares on 7 June 2013.

In order to facilitate additional working capital required by the Company to complete the acquisition of CenGeo, ARA Capital provided the Company with an unsecured loan of £250,000 on 9 April 2013. This was repaid fully (together with interest) following completion of the acquisition three months later.

The Company was still operating as an investing company throughout the first half of 2013 and its principal activities were those associated with the acquisition of CenGeo, the proposed acquisition of RAECL and execution of the work programme on the Koltogor Licence. Consequently, the Company continued to make an operating loss. The loss for the period is set out in the consolidated condensed statement of comprehensive income which follows in this report. The directors do not recommend a dividend for the period ended 31 December 2013 (period ended 31 December 2012: Nil). The directors confirm that this set of financial statements has been prepared in accordance International Financial Reporting Standards (IFRS) as adopted by the European Union.

RAECL Transaction

Shortly before the end of the period, on 13 December 2013, the Company signed a Sale and Purchase Agreement with Bandbear Limited (the "Vendor"), currently a 29.1 per cent. shareholder in the Company, to acquire RAECL (and with it the Bortovoy Licence described above) for US$180 million. The proposed acquisition (which is expected to be completed by the end of the second quarter of 2014) will be satisfied through the issue of 38,263,095 new Ordinary Shares at an effective price of US$1.60 (100 pence) per share (equivalent to US$61.22 million); the payment of US$58.94 million in cash (and the assumption of US$60.9 million of bank debt.

Corporate and managerial developments

The Board is committed to ensuring the Company adheres to the highest standards of corporate governance. As such the Company strengthened its Board with the appointments, in the first half of 2013, of Michael Lombardi, John Grimshaw and Oliver Donagher as non-executive directors. Each of them brought relevant expertise to the Board. Following the agreement to acquire RAECL the Company sought to add additional industry and Russian experience to the board which it did through the appointment of Alastair Ferguson and Marcus Rhodes.

David Francis stepped down from the Board as a non-executive director on 7 June 2013 and Oliver Donnagher and John Grimshaw stepped down on 19 May 2014. The Board is grateful for the extensive contribution made by Messrs Francis, Donnagher and Grimshaw in the development of the Company.

I am delighted that the Company's senior management team includes Dr Alexander Sokolov (Director Exploration) and Dmitry Kamyshev (Director Russia) on the operational and geological side; together with Alistair Stobie (Director Finance) heading up finance and transaction execution. We are building a team of executives who are accomplished operators in Russia and who understand how to achieve the full potential from our existing and future assets. I expect to continue to build out the executive team as The Group's portfolio of assets develops and we look forward to welcoming not only the other senior executives who will join the Company as a result of the RAECL acquisition but also the entire team working on the Bortovoy Licence and production facility.

Outlook

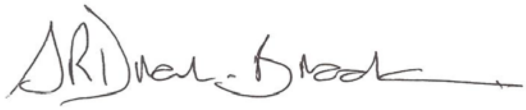
Our immediate corporate focus is on completing the acquisition of RAECL. As a result of a Management Services Agreement in place with the Vendor, the Company has been actively steering developments at the Bortovoy Licence since the Sale and Purchase Agreement was signed.

The Company's operational focus is on increasing production from the Karpenskoye field and hooking up the Zhdanovskoye field such that the plant on the Bortovoy Licence is operating at its full existing capacity of 1.4 million cubic metres of gas per day. Our geological and geophysical team is currently reviewing the data on the Eastern part of the Bortovoy Licence with a view to developing a long-term exploration and appraisal programme. We expect to expand on this later in the year.

At the same time, our geological team is working with the Company's contractors on the processing, interpretation and analysis of data acquired from the winter's 3D seismic programme at Koltogor (and recent well tests) to design both an appraisal drilling programme for the Koltogor Licence and an exploration and appraisal strategy for Koltogor 10 in order to better define that asset.

I believe The Group’s expertise in operating in Russia, and in identifying attractive oil and gas assets in the region, position it favourably to create value from a region which enjoys the largest energy reserves in the world. I look forward to reporting on progress at Bortovoy and Koltogor over the coming months, as well as on further asset acquisitions.

Symon Drake-Brockman
Chairman



Symon Drake-Brockman

Chairman

23 May 2014

The Board of Directors - Profiles

Symon Drake-Brockman - Executive Chairman

Symon Drake-Brockman, 52, has a wealth of experience from a long career in finance covering both debt and equity markets. He was formerly chief executive officer of RBS Global Banking and Markets in the Americas and chief executive officer of RBS Greenwich Capital, global head of RBS' Debt Markets division and Board member of RBS Global Banking and Markets. Mr Drake-Brockman previously held senior positions with ING Barings and JP Morgan in London, New York, Tokyo and Hong Kong. He is currently a Non Executive on the Board of Nexus Energy in Australia, and the Managing Partner of Pemberton, the London based Private Equity firm.

Michael Lombardi - Non Executive Director (appointed 19 March 2013)

Michael Lombardi, 57, was appointed as a non-executive director in March 2013. He qualified as a Jersey solicitor in 1994 and is a senior partner of Ogier, a leading commercial law firm headquartered in Jersey. Michael is an experienced commercial lawyer with particular expertise in alternative investment funds and financial services law including fund authorizations, issues of public securities and structured finance transactions. He joined Ogier in 1991 and has been a partner since 1996. After training with Dundas & Wilson in Edinburgh he qualified as a lawyer in Scotland, England, Hong Kong, Bermuda and Jersey and has a Master of Laws degree in International Business Law. Michael has been recognized by the International Bar Association as a foremost legal practitioner in Jersey for investment funds and was also named by Chambers Global as a leading individual for corporate/commercial law in Jersey. He sits on the boards of a number of investment companies, including Intermediate Capital Group Mezzanine Funds and UBS Global Property Fund.

Stephen Lowden - Non Executive director

Stephen Lowden, 54, has over 25 years' experience in the international oil and gas industry across exploration, development, production and gas liquefaction. Throughout his career in the oil and gas industry, Stephen Lowden has worked around the world but has spent a considerable time working on projects in the CIS. Stephen Lowden has previously held positions with Premier Oil plc, including chief petroleum engineer, general manager for development and production and an executive director of the board and, more recently, at Marathon Oil Company as president of Marathon International, head of corporate business development and an officer of the company. Stephen Lowden is also involved with two private energy businesses.

Alastair Ferguson - Non Executive director

Alastair Ferguson, 56, has over 33 years experience in the oil and gas industry. He is a non-executive director of JKX Oil and Gas plc, listed on the London Stock Exchange with assets in Eastern and Central Europe, and Kazmunaigaz Exploration and Production, an oil and gas exploration and production company focussed on the Caspian region in Kazakhstan. Mr Ferguson was an Executive Vice-President Gas & Power with TNK-BP between 2003-2011 having successfully led its gas and power business in Russia and Ukraine. He continues to work in Moscow as an independent advisor on energy issues. Prior to that, he held a wide range of senior positions with BP during his 33 year career in the oil and gas industry.

Marcus Rhodes - Non Executive director

Marcus Rhodes, 52, has served as a non-executive director and chairman of the audit committee of QIWI plc since May 2013. He is also a non-executive director and chairman of the audit committee for PhosAgro OJSC (since May 2011), Tethys Petroleum Limited (since September 2009), Cherkizovo Group OJSC (since December 2009) and Rosinter Restaurants Holding OJSC (since May 2008). From July 2008 until November 2012, Mr. Rhodes was a non-executive director and chairman of the audit committee for Wimm-Bill-Dann Foods OJSC, and from June 2010 until July 2012 for Ros Agro plc. Mr. Rhodes was an audit partner for Ernst & Young from 2002 until 2008. Prior to that, he was an audit partner for Arthur Andersen from 1998 until 2002. He qualified as a chartered accountant in 1986 and is a member of the Institute of Accountants in England & Wales (ICAEW). Mr. Rhodes graduated with a BA (Hons) from Loughborough University in 1982 with a degree in economics.

Zoltav Resources Inc.

Directors' report for the year ended 31 December 2013

The Directors of the Company present their annual report together with the audited consolidated financial statements for the year ended 31 December 2013.

Principal activity

The principal activities of the Company and its subsidiaries (the “Group”) are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Russian Federation.

Business review

A review of the business for the year and of future developments is given in the Chairman’s Report.

Results

The results of the Company are as shown on page 17.

Dividends

The Directors do not recommend the payment of a final dividend and no interim dividend was paid during the year (2012: US$nil).

Share capital

Details of movements in the share capital of the Company during the year are set out in note 17 to the financial statements. The Company’s policy in respect of capital and risk management is set out in note 26.

Directors

The membership of the Board who served during the year and up to the date of approving the financial statements is set out on page 1.

Going concern

The Directors have prepared cash flow forecasts through to 31 December, which take account of the following:

- On 13 December 2013 the Company signed a sale and purchase agreement with Bandbear Ltd to acquire Royal Atlantic Energy (Cyprus) Ltd., and its wholly-owned subsidiary, Diall Alliance the owner of the Bortovoy Licence. The transaction caused the Company to suspend its shares from trading prior to the completion of the reverse takeover and publishing an Admission Document to Shareholders.
- Once the transaction is complete the enlarged group will have sufficient working capital until 31 December 2015.
- the acquisition constitutes a reverse takeover under the AIM Rules and therefore, trading in the Company's shares has automatically been suspended under Rule 14. This does not have any impact upon the going concern of the Company as it will be readmitted upon fulfilling specific requirements of the Aim Rules.

The forecasts indicate sufficient cash balances remain throughout the period to 31 December 2015. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' interests

Certain Directors have owned shares of the Company during the year ended 31 December 2013. Interests in the ordinary shares of the Company are as follows:

	31 December 2013		31 December 2012	
	Number of ordinary shares	**Percentage of existing share capital**	**Number of ordinary shares**	**Percentage of existing share capital**
Symon Drake-Brockman	469,055	0.8%	9,381,108	2.5%
Stephen Lowden	-	-	-	-
John Grimshaw (resigned 19 May 2014)	-	-	-	-
Michael Lombardi	-	-	-	-
Oliver Donagher (resigned 19 May 2014)	-	-	-	-
David Francis (resigned 7 June 2013)	n/a	n/a	3,754,244	1.0%
Alastair Ferguson	-	-	-	-
Marcus Rhodes	-	-	-	-
	469,055	0.8%	13,135,352	3.5%

	31 December 2013 Number of ordinary share options	**31 December 2012 Number of ordinary share options**
Symon Drake-Brockman	1,250,000	25,000,000
Stephen Lowden	500,000	10,000,000
John Grimshaw (resigned 19 May 2014)	-	-
Michael Lombardi	-	-
Oliver Donagher (resigned 19 May 2014)	-	-
David Francis (resigned 7 June 2013)	n/a	5,000,000
Alastair Ferguson	-	-
Marcus Rhodes	-	-
	1,750,000	40,000,000

On 4 July 2013 the ordinary shares of the Company were consolidated such that 20 old ordinary shares with nominal value of US$0.01 became 1 new ordinary share with nominal value of US$0.20.

Substantial shareholdings

The interests in excess of 3% of the issued share capital of the Company which have been notified to the Company as at 31 December 2013 were as follows:

	Number of ordinary shares	Percentage of existing share capital
ARA Capital Limited	23,184,111	40.6%
Bandbear Limited	17,979,981	31.5%
Dmitry Kamyshev	3,406,734	6.0%
Alexander Sokolov	2,271,155	4.0%
Mark Tomkins	2,255,000	3.9%
	49,096,981	86.0%

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

AIM Rules for Companies require the Directors to prepare financial statements for each financial year. Under those Rules the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's ‘Framework for the preparation and presentation of financial statements’. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website.

Financial risk management objectives and policies

Details of the financial risk management objectives and policies are provided in note 26 to the financial statements.

Independent Auditor

Deloitte LLP resigned as the Company's independent auditor on 2 April 2013 . PricewaterhouseCoopers LLP were appointed as the Company's independent auditor on 2 April 2013 and have expressed their willingness to continue in office.

For and on behalf of the Board

Symon Drake-Brockman
Chairman
23 May 2014

Corporate governance report for the year ended 31 December 2013

Introduction

The Board's overriding objective is to ensure that the Group delivers long-term capital appreciation for its shareholders.

Compliance

The Company seeks to comply with the UK Corporate Governance Code ("the Code") albeit as an AIM-listed company and Cayman Island incorporated company it is not required to. The Board of Directors is committed to developing and applying high standards of corporate governance appropriate to the Company's size and its future prospects.

This statement sets out measures taken by the Board to apply the principles of the Code to the year ended 31 December 2013 and to the date of the Directors' Report.

Board of directors

Role of the Board

The Board's role is to provide entrepreneurial leadership to the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims and ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management's performance in meeting these objectives. The Board sets and monitors the Group's values and standards and ensures that the Group's obligations to shareholders and other stakeholders are understood and met.

The Board has a formal schedule of matters reserved for its approval, including:

- Strategic and policy considerations
- Annual budget, including capital expenditure
- Interim and final financial statements
- Management structure and appointments
- Mergers, acquisitions, disposals
- Capital raising
- Significant changes in accounting policies
- Appointment or removal of Directors or the Company Secretary

Board composition

The Board currently comprises one executive director and four non-executive directors all of whom three are deemed to be independent:

- Symon Drake-Brockman – Executive Chairman
- Stephen Lowden – Independent Non-executive
- Michael Lombardi – Independent Non-executive
- Alastair Ferguson – Independent Non-executive
- Marcus Rhodes – Independent Non-executive

There is a clear division of responsibilities between the executive and non-executive directors.

Board balance and independence

Under the provisions of the UK Corporate Governance Code as a Smaller Company the Company meets the requirements to have at least two independent non-executives on the Board.

The Board meets at least quarterly to discuss opportunities available to the Company as a whole.

The Company maintains insurance for Directors and Officers of the Company.

The Chairman of the Board is an executive and is responsible for the leadership and effective running of the Board, including the interaction between executive and non-executive members, and for ensuring that the Board is kept appropriately informed about the business activities of the Company. The Chairman also seeks to ensure effective communication with shareholders and other stakeholders.

The Board has access to the Company's advisers to notify them on financial, governance and regulatory matters. Any Director wishing to do so in the furtherance of his duties may take independent professional advice at the Company's expense. This also applies to any Director in his capacity as a member of the Audit, Remuneration or Nomination committees. Through the Chairman the Directors also have access to the Company Secretary, Ogier Corporate Services (Jersey) Limited.

The Board is supported by specialised committees ensuring that sound governance procedures are followed. The Corporate Governance section of the Company's website includes the terms of reference of the Audit, Remuneration and Nomination Committees at www.zoltav.com.

Board Committees

The Audit Committee

The Audit Committee currently comprises Marcus Rhodes, Stephen Lowden and Michael Lombardi, with Marcus Rhodes as Chairman. The Board is satisfied that collectively the Audit Committee has sufficient, recent and relevant financial experience.

The duties of the Audit Committee are to review the financial information of the Company, to oversee the Company's financial reporting processes and internal control systems, and to manage the relationship with the Company's external auditor. The Audit Committee also has primary responsibility for making recommendations on the appointment, re-appointment and removal of the external auditor, and for approving any significant non-audit services provided by the external auditor to ensure that objectivity and integrity are safeguarded. The Audit Committee reports its work, findings and recommendations to the Board after each meeting.

The Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently comprises Stephen Lowden, Michael Lombardi and Alastair Ferguson with Stephen Lowden and Chairman.

The principal functions of the Remuneration and Nomination Committee include recommending to the Board the policy and structure for the remuneration of the Chairman, Non-Executive Directors and (as determined by the Board) senior management, determining the remuneration packages of the Chairman, the Non-Executive Directors and senior management, reviewing and approving performance-based remuneration and compensation for loss or termination of office payable to Non-Executive Directors and senior management, ensuring that no Director is involved in deciding his own remuneration and approving the service contracts of Directors and senior management. And

The report on remuneration is set out on page 15.

leading the process for appointments to the Board and make recommendations to the Board based on their evaluation of the balance of skills, knowledge and experience on the Board.

Attendance at Board and Committee Meetings

The table below sets out the number of meetings of the Board and its committees during the year and attendance by members at those meetings.

	Board meetings	Audit committee meetings
Meetings held during the year	9	2
Meetings attended during the year:		
Symon Drake-Brockman	7	-
Stephen Lowden	6	2
John Grimshaw	5	2
Oliver Donagher	5	-
Michael Lombardi	6	2
David Francis	5	-

Internal control

The Board is responsible for maintaining a strong system of internal control and risk management to safeguard shareholders' investments and the Company's assets. The system of internal control is designed, taking into account the Company's business objectives and strategy, to provide reasonable, but not absolute, assurance against material misstatement or loss.

The criteria the Board uses to assess the effectiveness of the system of internal control include:

- the nature and extent of the risks facing the Company;
- the extent and categories of risk that the Board regards as acceptable for the Company to bear;
- the likelihood of the risks materialising and the financial impact of the risks;
- the Company's ability to reduce the incidence and impact on the business of risks that do materialise; and
- the costs of operating particular controls relative to the benefit thereby obtained.

The Board has considered the need for an internal audit function but has decided, after taking into account the current status of the Company, such a function is not at present justified. This decision will be kept under review once the acquisition of RAECL is completed.

Relations with Shareholders

The Company believes that effective communication with shareholders is of utmost importance. It has an established cycle for communicating trading results at the interim and year end stages and, as appropriate, of providing business updates via the Regulatory News Service and press releases.

The Company makes information available through regulatory announcements and its interim and annual reports. Copies of all such communications can be found on the Company website, www.zoltav.com.

Report on remuneration

The Board recognises that Directors' and employees' remuneration is of legitimate concern to shareholders, and is committed to following good practice and to ensuring that the interests of the Directors and employees are aligned with those of shareholders.

Policy on remuneration

The Company aims to set levels of remuneration that are sufficient to attract, retain and motivate Directors and senior management of the quality required to run the Company successfully, whilst ensuring that the interests of Directors and employees are aligned with those of shareholders. The Company operates within a competitive environment in which the Company's performance depends on the individual contributions of the Directors.

When determining annual salaries and performance-based remuneration the Company takes into account the following factors:

- direct and indirect contribution towards the Company's current profitability;
- the development of businesses or transactions that may help achieve the Company's objective in future years;
- the quality of earnings, in the context of market conditions, as well as the quantity of earnings;
- vision and innovation;
- remuneration levels and practices in other firms engaged in similar activities; and
- incentive to continue to contribute to the Company's objectives.

Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2013 is shown in the table below.

	Symon Drake-Brockman	**Oliver Donagher** *2	**John Grimshaw** *1	**Michael Lombardi***2	**Stephen Lowden**	**David Francis***3	**Total**
	US$	US$	US$	US$	US$	US$	US$
Salary	234,769	26,936	44,186	44,186	131,492	56,389	537,958
Share based compensation	-	-	-	-	-	-	-
2013 Total	**234,769**	**26,936**	**44,186**	**44,186**	**131,492**	**56,389**	**537,958**
Salary	236,759	-	-	-	132,882	132,882	502,523
Share based compensation	1,357,708	-	-	-	543,083	271,541	2,172,332
2012 Total	**1,594,467**	**-**	**-**	**-**	**675,965**	**404,423**	**2,674,855**

*1 Appointed 19 March 2013
*2 Appointed 7 June 2013
*3 Resigned 7 June 2013

Share price

During the year, the share price of the Company traded in the range of £0.70 to £1.76 pence. The share price on 11 November 2014, the last date prior to shares being temporarily suspended was £1.04.

Independent auditors' report to the directors of Zoltav Resources Inc.

Report on the group financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The non-statutory group financial statements (the "financial statements"), which are prepared by Zoltav Resources Inc., comprise:

- the consolidated statement of financial position as at 31 December 2013;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Audited Consolidated Financial Statements, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Audited Consolidated Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the company's directors as a body to meet their reporting obligations under the AIM rules for Companies issued by the London Stock Exchange in accordance with our engagement letter dated 13 December 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants
London
23 May 2014

Zoltav Resources Inc.

Consolidated statement of comprehensive income for the year ended 31 December 2013

(in '000s US dollars, unless otherwise stated)

	Note	2013	2012
Other gains/(losses) - net	13	30	(65)
Operating expenses	6	(4,419)	(3,462)
Operating loss		**(4,389)**	**(3,527)**
Net finance income/(cost)	8	23	(1)
Loss before taxation		**(4,366)**	**(3,528)**
Taxation	10	42	-
Loss for the year		**(4,324)**	**(3,528)**
Other comprehensive income			
Items that may be subsequently reclassified to the income statement			
Currency translation differences		493	-
Other comprehensive income for the year, net of tax		**493**	**-**
Total comprehensive loss for the year		**(3,831)**	**(3,528)**
Loss per share attributable to owners of the parent during the year:	19	**US cents**	**US cents**
Basic		(6.70)	(0.94)
Diluted		(6.38)	(0.87)

All the items dealt with in arriving at the result for the year relate to continuing activities.

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

Zoltav Resources Inc.

Consolidated statement of financial position as at 31 December 2013

(in '000s US dollars, unless otherwise stated)

	Note	2013	2012
ASSETS			
Non-current assets			
Exploration and evaluation assets	11	38,099	-
Property, plant and equipment	12	5	-
Total non-current assets		**38,104**	**-**
Current assets			
Other receivables	15	828	44
Financial assets at fair value through profit or loss	13	307	404
Cash and cash equivalents	16	7,265	108
Total current assets		**8,400**	**556**
TOTAL ASSETS		**46,504**	**556**
EQUITY AND LIABILITIES			
Share capital	17	11,432	3,752
Share premium		42,975	8,892
Other reserves		44,350	44,411
Accumulated losses		(61,249)	(56,925)
Translation reserve		493	-
Total equity		**38,001**	**130**
Non-current liabilities			
Borrowings	21	-	345
Provisions	22	4,383	-
Deferred tax liabilities	14	3,923	-
Total non-current liabilities		**8,306**	**345**
Current liabilities			
Other taxes payable		25	-
Trade and other payables	23	172	81
Total current liabilities		**197**	**81**
TOTAL LIABILITIES		**8,503**	**426**
TOTAL EQUITY AND LIABILITIES		**46,504**	**556**

The consolidated financial statements on pages 18 to 54 were approved by the Board of Directors and authorised for issue on 23 May 2014.

Symon Drake- Brockman
Chairman

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

Zoltav Resources Inc.

Consolidated statement of cash flows for the year ended 31 December 2013

(in '000s US dollars, unless otherwise stated)

	Note	2013	2012
Cash flows from operating activities			
Operating loss		**(4,389)**	**(3,528)**
Adjustments for:			
Change in estimates of decommissioning and environmental restoration provisions	8	17	-
Employee share-based compensation		-	2,172
Other gains/(losses) - net	13	(30)	65
Operating cash outflows before working capital changes		**(4,402)**	**(1,290)**
(Increase)/decrease in other receivables		(725)	6
Increase/(decrease) in trade and other payables		107	(49)
Net cash used in operating activities		**(5,020)**	**(1,333)**
Cash flows from investing activities			
Disposal of investment securities	13	127	697
Net cash acquired on acquisition of Cengeo		82	-
Capital expenditure in relation to exploration and evaluation activities		(3,636)	-
Acquisition of office equipment	12	(5)	-
Net cash (used in)/generated from investing activities		**(3,432)**	**697**
Cash flows from financing activities			
Proceeds from borrowings	21	777	405
Repayment of borrowings		(381)	
Issue of ordinary shares		15,000	-
Net finance income		12	1
Net cash generated from financing activities		**15,408**	**406**
Net increase/(decrease) in cash and cash equivalents		**6,957**	**(231)**
Translation differences		200	**-**
Cash and cash equivalents at the beginning of the year		**108**	**339**
Cash and cash equivalents at the end of the year	16	**7,265**	**108**

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

Zoltav Resources Inc.

Consolidated statement of changes in equity for the year ended 31 December 2013

***(in '000s US dollars, unless otherwise stated*)**

	Note	Share capital	Share premium	Capital reserve	Employee share-based compensation reserve	Convertible loan note	Accumulated losses	Translation reserve	Total equity
At 1 January 2012		**3,752**	**8,892**	**40,444**	**1,734**	**-**	**(53,397)**	**-**	**1,425**
Convertible loan note-equity component		-	-	-	-	61	-	-	61
Employee share-based compensation	20	-	-	-	2,172	-	-	-	2,172
Transactions with owners		-	-	-	2,172	61	-	-	2,233
Total comprehensive loss for the year		-	-	-	-	-	(3,528)	-	(3,528)
At 31 December 2012		**3,752**	**8,892**	**40,444**	**3,906**	**61**	**(56,925)**	**-**	**130**
Issue of shares on conversion	21	218	545	-	-	(61)	-	-	702
Issue of ordinary shares		7,462	33,538	-	-	-	-	-	41,000
Transactions with owners		7,680	34,083	-	-	(61)	-	-	41,702
Translation reserve movements on subsidiary		-	-	-	-	-	-	493	493
Loss for the year		-	-	-	-	-	(4,324)	-	(4,324)
At 31 December 2013		**11,432**	**42,975**	**40,444**	**3,906**	**-**	**(61,249)**	**493**	**38,001**

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

1 Background

1.1 The Company and its operations

The Zoltav Group (Group) comprises Zoltav Resources Inc. (Company), together with its subsidiaries Zoltav Resources Holdings (Jersey) Limited and ZRI Services (UK) Ltd, CenGeo Holdings Limited (hereinafter "CenGeo") and CJSC SibGeCo (hereinafter "SibGeCo").

The Company was incorporated in the Cayman Islands on 18 November 2003, which does not prescribe the adoption of any particular accounting framework. The Board has therefore adopted International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and as adopted by the European Union.

The principal activities of the Company and its subsidiaries (the "Group") are the acquisition, exploration and development of hydrocarbon assets and production of hydrocarbons in the Russian Federation. The Company's shares are listed on the AIM of London Stock Exchange. The financial statements are prepared in United States Dollars.

CenGeo Holdings, incorporated in Cyprus, was acquired by Zoltav Resources Holdings (Jersey) Limited on 4th July 2013. CenGeo Holdings has a 100% interest in SibGeCo, a company incorporated in Russia, which holds the Koltogorsky production licence and the legacy Koltogorsky exploration licences.

Zoltav Resources Holdings (Jersey) Limited was incorporated in Jersey as a private limited company on 9 January 2013.

ZRI Services (UK) Ltd was incorporated in the United Kingdom as a private limited company on 29 January 2013.

1.2 Russian business environment

The Company's operations are located in the Russian Federation. Consequently, the Company is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal aspects, contribute to the challenges faced by entities operating in the Russian Federation. The historical financial information reflects management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of The Group have been prepared in accordance with International Financial Reporting Standards (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, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with 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 3.

2.2 Going concern

The consolidated financial statements have been prepared on the going concern basis as the directors have concluded that the Group will continue to have access to sufficient funds in order to meet its obligations as they fall due for at least the foreseeable future as explained further in the Directors Report.

2.3 Disclosure of impact of new and future accounting standards

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2013:

(a) Amendments early adopted by the Company

There were no standards, amendments and interpretations adopted early by the Company.

(b) Standards, Amendment to Standards and Interpretations effective and relevant to the Company's operations:

IAS 1 Presentation of Items of Other Comprehensive Income (Amendments)

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments also require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

(in '000s US dollars, unless otherwise stated)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is permitted or required. In general, the disclosure requirements in IFRS 13 are more extensive than those required by current standards as entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

Adoption of these Accounting Standards and Interpretations in future periods will not have a material impact on the operations of the Group.

(c) New Standards, Amendment to Standards and Interpretations effective but not relevant

		Effective for annual periods beginning or after
IAS 1	Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendments)	01-Jul-12
IAS 19	Employee Benefits (Revised)	01-Jan-13
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011)	01-Jan-13
IFRS 7	Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (Amendments)	01-Jan-13
IFRS 1	Government Loans (Amendments)	01-Jan-13
IFRS 13	Fair value measurement	01-Jan-13
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01-Jan-13
	Annual Improvements May 2012	01-Jan-13

(d) New Standards, Amendment to Standards and Interpretations not yet effective and relevant

IAS 27 Separate Financial Statements & IFRS 10 Consolidated Financial Statements effective for periods beginning on or after 1 January 2014.

IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements and the issues raised in SIC 12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent.

The Directors do not expect that the adoption of these Accounting Standards and Interpretations in future periods will have a material impact on the operations of the Company.

(in '000s US dollars, unless otherwise stated*)

(e) Standards, Amendments and Interpretations not yet effective

		Effective for annual periods beginning or after
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendments)	01-Jan-14
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets (Amendments)	01-Jan-14
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting (Amendments)	01-Jan-14
IFRS 9	Financial Instruments - classification and measurement	01-Jan-18
Various	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	01-Jan-14
IFRIC 21	Levies	01-Jan-14

The directors do not expect the new Standards, Amendments and Interpretations to have a material impact on the financial statements.

2.4 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are all entities in which the Group directly or indirectly owns more than 50 percent of the voting stock or otherwise has the power to govern the financial and/or operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets.

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. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group’s share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealized 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 1.

2.5 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 which decide 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. 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 companies operating activities are based in 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 Russian Federation.

2.6 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 the 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 Cypriot and Russian 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 statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Foreign exchange gains and losses that relate to cash and cash equivalents, borrowings and other foreign exchange gains and losses are presented in the statement of comprehensive income within operating expenses

(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 presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses 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 2013 were:

US$ 1: RUR32.7292 (2012: US$ 1: RUR.30. 4769)

The accounting policies set out below have been applied consistently to all years presented in the historical financial information, and have been applied consistently by the Company.

2.7 Exploration and evaluation 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. Costs directly associated with an exploration well, including certain geological and geophysical costs, and exploration and property leasehold acquisition costs, are capitalised 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 that are not directly related to an exploration well are expensed as incurred.

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

(a) Impairment – exploration and evaluation assets

Exploration and evaluation assets are tested for impairment prior to reclassification to development property, plant and equipment or intangible 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.

(b) 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.

2.8 Financial instruments

Financial assets and financial liabilities are recognised when and only when, the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of comprehensive income.

(a) Financial assets

The Company classifies its financial assets into one of the following categories: financial assets at fair value through profit or loss and loans and receivables.

Regular purchases of financial assets are recognised on the trade date. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date. The accounting policies adopted for each category are:

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the Company of financial assets is provided internally on that basis to the key management personnel.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the statement of comprehensive income. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gains or losses do not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in on an accruals basis.

(c) Other receivables

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment losses on other receivables are provided for when objective evidence is received that the Company will not be able to collect amounts due to it in accordance with the original terms of the receivables. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the statement of comprehensive income for the period in which the impairment occurs.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a Company of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the Company of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the Company and, national or local economic conditions that correlate with defaults on the assets in the Company.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal is recognised in the statement of comprehensive income in the period in which the reversal occurs.

(d) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(e) Other financial liabilities

Other financial liabilities include trade and other payables and are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

(f) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(g) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the statement of comprehensive income.

For financial liabilities, they are removed from the balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the statement of comprehensive income.

2.9 Acquisitions, asset purchases and disposals

Acquisitions of oil and gas properties are accounted for under the purchase method where the target meets the definition of a business combination.

Transactions involving the purchases of an individual field interest, or a group of field interests, that do not qualify as a business combination are treated as asset purchases, irrespective of whether the specific transactions involved the transfer of the field interests directly or the transfer of an incorporated entity. Accordingly, no goodwill or deferred tax gross up arises. The purchase consideration is allocated to the assets and liabilities purchased on an appropriate basis. Proceeds on disposal are applied to the carrying amount of the specific intangible asset or development and production assets disposed of and any surplus is recorded as a gain on disposal in the statement of comprehensive income.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and amounts repayable on demand with banks and short-term highly liquid investments which are readily convertible into known amounts of cash without notice and are subject to an insignificant risk of changes in value and which were within three months of maturity when acquired.

2.11 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction. Any discount on the issue of ordinary shares is deducted from the share premium account.

The capital reserve arose in prior periods on the application of the reverse acquisition accounting when the Company made its first acquisition.

2.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognized 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 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 substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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) Retirement benefit schemes

No pension contributions were payable in the year. In 2010, the Company participated only in defined contribution pension schemes and paid contributions to independently administered funds on a mandatory or contractual basis. The assets of these schemes are held separately from those of the Company in independently administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant Company. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense on an accruals basis.

(b) Share-based employee compensation

The Company operates equity-settled share-based compensation plans to remunerate its Directors and key management.

All services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the fair value of the share options and warrants awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in the statement of comprehensive income unless it qualifies for recognition as an asset, with a corresponding credit to employee share-based compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than vested.

Upon exercise of share options or warrants the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital and the amount previously recognised in employee share-based compensation reserve will be transferred out with any excess being recorded as share premium.

When the share options or warrants have vested and then lapsed, the amount previously recognised in the employee share-based compensation reserve is transferred to the retained earnings or accumulated losses.

(c) Bonus plans

The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) 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 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within control of the Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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 Critical accounting estimates and judgements

The preparation of the historical financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate are revised and in any future years affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

3.1 Income taxes

The Group is subject to income and other taxes. Significant judgement is required in determining the provision for income tax and other taxes due to complexity of the tax legislation of the Russian Federation. The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation official pronouncements and court decisions which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however under certain circumstances a tax year may remain open longer.

Deferred tax assets are recognised to the extent that it is probable the Group will generate enough taxable profits to utilise deferred income tax recognised. Significant management judgement is required to determine the amount of deferred tax assets recognised, based upon the likely timing and the level of future taxable profits. Management prepares cash-flow forecasts to support recoverability of deferred tax assets. Cash flow models are based on a number of assumptions relating to oil prices, operating expenses, production volumes, etc. These assumptions are consistent with those, used by independent reserve engineers. Management also takes into account uncertainties related to future activities of the company and going concern considerations. When significant uncertainties exist, deferred tax losses are not recognised even if recoverability of these is supported by cash flow forecasts. Refer to further details in note 14.

3.2 Provision for decommissioning and environmental restoration

This provision is significantly affected by changes in technology, laws and regulations which may affect the actual cost of decommissioning and environmental restoration to be incurred at a future date. The estimate is also impacted by the discount rates used in the provisioning calculations. The discount rates used are the Russian Government Bond Rates.

As at 31 December 2013 the provision has been estimated using a discount rate of 8.43% (31 December 2012: 7.3%, 31 December 2011: 6.4%; 31 December 2010: 5.0%) and a core inflation rate of 3.4% as at 31 December 2013 (2012: 4.4%).

3.3 Impairment of assets

(a) Exploration:

An impairment exercise will be performed at the end of the exploration and evaluation process.

When, at the end of the exploration and evaluation stage, commercial reserves are determined to exist in respect of a particular field the Company will perform an impairment test in relation to costs capitalised. Where reserves are determined in sufficient quantity to justify development, the associated assets are transferred to property plant and equipment. Until conclusion of the exploration phase, there can be no certainty that commercial reserves exist. Where commercial reserves are determined not to exist, capitalised E&E expenditure is expensed.

3.4 Valuations of share options or warrants granted

The fair value of share options or warrants granted was calculated using the Black-Scholes Pricing Model which requires the input of highly subjective assumptions, including the volatility of the share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the Directors of the Company, the existing model will not always necessarily provide a reliable single measure of the fair value of the share options. Details of the inputs are set out in note 20 to the financial statements.

4 Acquisition of CenGeo

In July 2013, the Group purchased 100% of the share capital of CenGeo.

The acquisition of CenGeo by the Group was determined to be an asset acquisition due to CenGeo having no significant processes or outputs. The consideration paid by the Group was $26million settled by the issue of ordinary shares in the Company.

On acquisition, the Group acquired net liabilities of US$8million and with a value of $34million attributed to the acquired evaluation and exploration assets.

5 Determination of fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(in '000s US dollars, unless otherwise stated)

5.1 Other receivables

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

5.2 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The book value of the non derivative financial assets is equal to their fair value.

6 Operating expenses

	2013	**2012**
Directors' fees and salaries	1,121	503
Share-based compensation	-	2,172
Accountancy, consulting and other advisory fees	1,872	383
Currency translation differences	(11)	-
Other expenses	1,437	404
	4,419	**3,462**

7 Employee benefit expenses (including directors' remuneration)

	2013	**2012**
Salaries, allowances and benefits in kind	1,121	503
Share-based compensation	-	2,172
	1,121	**2,675**

Six Directors served during the current year. The remuneration of the highest paid Director was US$234,769 (2012: US$1,594,467). Details of Directors’ benefit expense are disclosed in the report on remuneration on page 15**.**

(in '000s US dollars, unless otherwise stated)

8 Net finance income/(costs)

	2013	2012
Interest on borrowings	(5)	(1)
Interest on deposits	17	-
Unwinding of the discount on decommissioning and environmental restoration provision	11	-
Total	**23**	**(1)**

9 Loss before taxation

	2013	2012
Loss before taxation is arrived at after charging:		
Auditors' remuneration:		
Fee payable to the Company's auditor for the audit of the Company's financial statements	75	45
Fees payable to the Company's auditors' for other services:		
- Other assurance services	969	-
- Tax advisory and compliance	30	-
Employee benefits expenses (including Directors' remuneration)	1,121	2,675

10 Taxation

The Company is subject to Jersey income tax at the rate of 0% (2012 0%).

The Company has significant unrelieved tax losses, the utilisation of which is uncertain and consequently no deferred tax asset has been recognised.

One of the subsidiaries, SibGeCo, is subject to income tax on its losses as detailed below:

Income tax benefit

	2013	2012
Deferred income tax benefit		
- Origination and reversal of temporary differences	42	-
Income tax benefit	**42**	-

(in '000s US dollars, unless otherwise stated)

11 Exploration and evaluation assets

	Licences and other intangibles	Exploration, evaluation and other property, plant and equipment	Decommissioning asset	Construction work in progress	Total
Additions on acquisition of Cengeo	17,499	15,497	1,862	-	34,858
Additions subsequent to acquisition	1,784	-	-	1,852	3,636
Change in the estimates of decommissioning provision	-	-	(18)	-	(18)
Exchange difference	(71)	(287)	(16)	(3)	(3,77)
Balance at 31 December 2013	**19,212**	**15,210**	**1,828**	**1,849**	**38,099**

There are no opening balances as the exploration and evaluation assets were acquired through the acquisition of Cengeo.

12 Property, plant and equipment

	Office equipment
Cost	
Additions	5
At 31 December 2013	5
Accumulated depreciation and impairment	
Charge for 2013	-
At 31 December 2013	-
Net book value at 31 December 2012	**-**
Net book value at 31 December 2013	**5**

(in '000s US dollars, unless otherwise stated)

13 Financial assets at fair value through profit or loss

	2013	**2012**
Listed securities:		
Equity securities - USA	-	1
Equity securities - United Kingdom	307	403
Fair value of listed securities	**307**	**404**

The movement in financial assets at fair value through profit or loss during the year is as follows:

	2013	**2012**
At 1 January	404	1,166
Disposals during the year	(127)	(697)
Unrealised loss on financial assets at fair value through profit or loss	(35)	(100)
Realised gain on disposal of financial assets at fair value through profit or loss	65	35
At 31 December	**307**	**404**

13.1 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable:

- level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2013				
Financial assets at FVPL	**307**	**-**	**-**	**307**
31 December 2012				
Financial assets at FVPL	**404**	**-**	**-**	**404**

There were no transfers between level 1, 2 and 3 during the year (2012: none).

(in '000s US dollars, unless otherwise stated)

14 Deferred tax assets and liabilities

Movements in temporary differences during the year:

	31 December 2013	Recognised in profit or loss	Exchange difference	Acquired on acquisition of Cengeo
Exploration and evaluation asset	(3,923)	42	16	(3,897)
Borrowings	-	-	-	-
Deferred tax liabilities	**(3,923)**	**42**	**16**	**(3,897)**

There are no opening balances as the deferred tax assets and liabilities were acquired through the acquisition of Cengeo.

Deferred income tax assets are not recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits are not probable. The Group has not recognised deferred income tax assets of $9,637,810.

The deferred tax liabilities expire in 2018-2023.

15 Other receivables

	2013	2012
VAT receivable	662	-
Other taxes prepaid	39	-
Advances / prepayments	127	44
Total	**828**	**44**

16 Cash and cash equivalents

Cash and cash equivalents are represented by cash at bank and the majority of cash held is denominated in USD.

The Company's exposure to credit risk and impairment losses related to cash and cash equivalents are disclosed in Note 26.

17 Share capital

At 31 December 2013	**Number of ordinary shares**	**Value**
Authorised (par value of US$0.20 each)	250,000,000	50,000

(in '000s US dollars, unless otherwise stated)

Issued and fully paid (par value of US$0.20 each)	57,161,189	11,432
At 31 December 2012		
Authorised *(par value of US$0.01 each)*	5,000,000,000	50,000
Issued and fully paid *(par value of US$0.01 each)*	375,244,344	3,752

On 7 June 2013 21,846,635 ordinary shares of US$0.01 each were issued on conversion of the Loan Note (see note 21).

On 3 July 2013 the 5,000,000,000 ordinary shares of US$0.01 each in the authorised share capital (whether issued or otherwise) of the Company (being US$50,000,000 in aggregate) were consolidated and divided into 250,000,000 ordinary shares with a par value of US$0.20.

On the date of consolidation, there were 397,090,979 shares of US0.01 in issue which were converted to an equivalent of 19,854,548 ordinary shares of US$0.20 each.

On 5 July 2013 11,828,935 ordinary shares of US$0.20 each were issued for consideration of US$13,000,000.

On 5 July 2013 23,657,870 ordinary shares of US$0.20 each were issued for consideration of US$26,000,000, being the acquisition price of Cengeo.

On 30 December 2013, 1,819,836 shares of US$0.20 were issued for a consideration of US$2,000,000.

18 Dividends

In accordance with the relevant legislation applicable to the Group, the Group's distributable reserves are limited to the balance of retained earnings as recorded in the Group's statutory financial statements prepared in accordance with International Accounting Standards. For all comparable years the Group had accumulated losses in accordance with the statutory financial statements and therefore no dividends could be declared or paid.

19 Loss per share

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

(in '000s US dollars, unless otherwise stated)

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible loans and share options/warrants.

	2013	**2012**
Loss attributable to owners of the Company - Basic	(3,831)	(3,528)
Loss attributable to owners of the Company - Diluted	(3,831)	(3,527)
	Number of Shares	**Number of Shares**
Weighted average number of shares for calculating basic loss per share	57,161,189	375,244,344
Effect of dilutive potential ordinary shares - warrants	527,500	10,550,000
Effect of dilutive potential ordinary shares - share options	2,367,500	14,016,667
Effect of dilutive potential ordinary shares - convertible loan	-	3,623,188
Weighted average number of shares for calculating diluted loss per share	60,056,189	403,434,199
	US cents	**US cents**
Basic loss per share	(6.70)	(0.94)
Diluted loss per share	(6.38)	(0.87)

The diluted loss per share for 2013 is US Cents 6.38 taking into account the existing warrants, share options and in the previous year, the convertible Loan Note (2012: US Cents 0.87).

20 Share-based payments

20.1 Share options

At 31 December 2013, the Company had a total of 2,367,500 outstanding share options (2012: 47,350,000). The only movement in share options was a result of the share consolidation which took place during the year.

Options which are lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options and are available for re-use.

	2013		**2012**	
Date of grant	**Number**	**Option exercise price (pence)**	**Number**	**Option exercise price (pence)**

11 January 2005	117,500	423	2,350,000	21.15
23 March 2006	10,000	1904	200,000	95.20
23 February 2007	7,500	653	150,000	32.65
11 January 2008	232,500	445	4,650,000	22.25
31 October 2012	2,000,000	20	40,000,000	1.00
	2,367,500		**47,350,000**	

No share options were granted during the year ended 31 December 2013. On 3 July 2013 the authorised ordinary share capital of the Company was consolidated and divided into 250,000,000 ordinary shares with a par value of $0.20. As such the share options have been adjusted accordingly.

During the year ended 31 December 2012 a total of 40,000,000 share options were issued to the current Directors of the Company.

20.2 Initial Share Options

The Company adopted an employee Share Option Scheme on 4 March 2005 (**Share Option Scheme**) in order to incentivise key management and staff. The following share options were granted to the former employees and directors of the Company under the Initial Share Option Scheme adopted on 4 March 2005 (**Initial Share Options**) and are still in existence:

	2013		**2012**	
	Number	**Weighted average exercise price (pence)**	**Number**	**Weighted average exercise price (pence)**
Outstanding at 1 January	7,350,000	24.11	7,350,000	24.11
Share consolidation	(6,982,500)		-	
Outstanding at 31 December	**367,500**	482.20	**7,350,000**	24.11

Share options granted under the Initial Share Option scheme were exercisable as follows:

- the first 30% of the options between the first and tenth anniversary of the date of grant;
- the next 30% of the options between the second and tenth anniversary of the date of grant; and
- the remaining options between the third and tenth anniversary of the date of grant.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined through use of the binomial option pricing model, at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The options vested immediately.

(in '000s US dollars, unless otherwise stated*)

The binomial option pricing model applied to the grant of share options in respect of calculating the fair values. Key inputs to the model are as follows:

	Share options			
	11 January 2005	**23 March 2006**	**23 February 2007**	**11 January 2008**
Share price at grant	20.75p	93.25p	36.25p	22.25p
Option exercise price	21.15p	95.20p	32.65p	22.25p
Expected life of option	10 years	10 years	10 years	10 years
Expected volatility	60 - 65%	60 - 65%	60 - 65%	60 - 65%
Expected dividend yield	5.0%	5.0%	5.0%	5.0%

Volatility has been based on the historical trading performance of the Company and comparable companies. The risk free rate has been determined based on 10 year government bonds.

Total fair value as considered in the employee share-based compensation reserve for Initial Share Options was US$1,235,000 (2012 US$1,235,000).

20.3 Directors Share Options

Share options granted to the current Directors of the Company on 31 October 2012 (**Directors Share Options**) were exercisable at any time between the commencement of the option period and third anniversary of the date of grant. Share options granted under this scheme were as follows:

	2013		**2012**	
	Number	**Weighted average exercise price (pence)**	**Number**	**Weighted average exercise price (pence)**
Outstanding at 1 January	40,000,000	1.00	-	-
Issued in the year	-	-	40,000,000	1.00
Share consolidation	(38,000,000)			
Outstanding at 31 December	**2,000,000**	20.00	**40,000,000**	1.00

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined through use of the Black-Scholes technique, at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The options vested immediately.

(in '000s US dollars, unless otherwise stated)

The Black-Scholes formula is the option pricing model applied to the grant of share options in respect of calculating the fair values. Key inputs to the model are as follows:

	Share options 31 October 2012
Share price at grant	3.45p
Option exercise price	1.00p
Expected life of option	3 years
Expected volatility	216.1%
Expected dividend yield	0.0%
Risk free rate	0.49%
Fair value per share option	3.342p
Exchange rate used (USD:GBP)	1.61529

Volatility has been based on the Company's trading performance from 1 January 2011. The risk free rate has been determined based on 5 year government bonds.

Total fair value as considered in the employee share-based compensation reserve for Directors Share Options was US$2,172,332 (2012: US$2,172,332).

20.4 Warrants

In August 2011, the Company granted 10,550,000 warrants with an exercise price of 5.0 pence, vesting from 2 August 2011 to 2 August 2014. These were issued to the following:

	2013 Number (after share consolidation)	**2012 Number**
Peter Bayard Moss	12,500	250,000
Robert John Richard Owen	15,000	300,000
ECK Partners Holdings Limited	250,000	5,000,000
Old Church Street Holdings Limited	250,000	5,000,000
	527,500	**10,550,000**

All shares issued in respect of the warrants rank pari-passu in all respects with the ordinary shares. Following the share consolidation on 3 July 2013, there was no mechanism for the adjustment of the warrants in issue. The warrant holders gave their consent for adjustment as shown above.

(in '000s US dollars, unless otherwise stated)

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) as determined through use of the Black-Scholes technique, at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The options vested immediately.

The Black-Scholes formula is the option pricing model applied to the grant of warrants in respect of calculating the fair values. Key inputs to the model are as follows:

	Share warrants 2 August 2011
Share price at grant	3.85p
Warrant exercise price	5.00p
Expected life of warrants	3 years
Expected volatility	217.5%
Expected dividend yield	0%
Risk free rate	5.3%
Fair value per share warrant	3.075p
Exchange rate used (USD:GBP)	1.54

Volatility has been based on the Company's trading performance from 1 January 2011. The risk free rate has been determined based on 5 year government bonds.

Total fair value as considered in the employee share-based compensation reserve for warrants was US$498,943 (2012: US$498,943).

20.5 Total share options and warrants

Total fair value for both share options and warrants as considered in the employee share-based compensation reserve was US$3,906,275 (2012: US$3,906,275).

US$ nil of the employee share-based compensation is included in the statement of comprehensive income for 2013 (2012: US$2,172,332).

No liabilities were recognised due to share-based payment transactions.

(in '000s US dollars, unless otherwise stated)

21 Borrowings

21.1 Non-current borrowings

	2013	2012
Borrowings		
Convertible loan note	-	345
Total current debt	**-**	**345**

The Company's exposure to liquidity risk related to borrowings is disclosed in Note 26.

Convertible loan note

The Company issued an unsecured 1.0% interest bearing convertible loan note (**Loan Note**), at the par amount of £500,000 on 15 September 2012 (**Issue Date**) to be drawn down in two tranches of £250,000 each. The Loan Note matures three years from the issue date at the nominal value of £500,000 or at any time during the life of the Loan Note, can be converted into shares at the holder's option at the rate of 1 share per £0.023. The values of the liability component and the equity conversion component were determined at the issuance of the Loan Note.

The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate for an equivalent non-convertible loan note. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves.

The first tranche of £250,000 was drawn down during the year ended 31 December 2012, and the second tranche of £250,000 was drawn down in the six month period ended 30 June 2013. The Loan Note together with accrued interest totalling £502,473 ($763,127) was converted into 21,846,635 ordinary shares on 7 June 2013.

The Loan Note was recognised in the statement of financial position as follows:

	2013	2012
Face value of Loan Note	-	405
Equity component	-	(61)
Liability component on initial recognition	-	344
Interest expense	-	1
Liability component	**-**	**345**

The fair value of the liability component of the Loan Note at 31 December 2013 amounted to US$nil (2012: US$345,583). The fair value was calculated using cash flows discounted at a rate based on the borrowings rate of 6.64%.

(in '000s US dollars, unless otherwise stated)

22 Decommissioning and environmental restoration provision

The decommissioning and environmental restoration provision represents the net present value of the estimated future obligations for abandonment and site restoration costs which are expected to be incurred at the end of the production lives of the oil fields which is estimated to be in excess of 20 years.

	2013
Provision as at 1 January	-
Assumed in acquisition of CenGeo	4,358
Unwinding of discount	(18)
Change in estimate of decommissioning and environmental restoration provision	(18)
Exchange difference	61
Provision as at 31 December	**4,383**

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

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

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

The discount rates used to determine the Decommissioning and environmental restoration provision is based on the Russian Government Bond Rates. The provision has been estimated using a discount rate of 8.43% (31 December 2012: 7.3%; 31 December 2011: 6.4%). The change is estimate above is solely as a result of the change in the discount rates.

(in '000s US dollars, unless otherwise stated)

23 Trade and other payables

	2013	2012
Accrued expenses	145	81
Trade payables	11	-
Payables to employees	16	-
Total	**172**	**81**

24 Operating leases

The Company had no operating lease commitments at 31 December 2013 (2012: none).

25 Capital commitments

The Company had no material capital commitments at 31 December 2013 (2012: none).

26 Financial risk management

26.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- liquidity risk
- foreign currency risk
- Credit risk
- Capital risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout this historical financial information.

The Company's risk management policies deal with identifying and analysing the risks faced by the Company, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

26.2 Liquidity risk

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

(in '000s US dollars, unless otherwise stated)

Under the terms of the Koltogor licence, the Company has already undertaken all obligations required for 12 months from the date of approval of these financial statements.

	Contractual amount	Less than 1 year	1-2 years	Over 5 years
Financial liabilities as at 31 December 2013				
Trade and other payables	197	197	-	-
Total	**197**	**197**	**-**	**-**

	Contractual amount	Less than 1 year	1-2 years	Over 5 years
Financial liabilities as at 31 December 2012				
Unsecured borrowings	345	-	-	345
Trade and other payables	81	81	-	-
Total	**426**	**81**	**-**	**345**

There is no material difference between the carrying value and fair value of financial liabilities.

26.3 Foreign exchange rate risk

The Company does not have any significant exposure to foreign currency risk as no significant sales, purchases and borrowings are denominated in a currency other than the functional currency of SibGeCo, which is the RUB.

The Group's main operations are within the Russian Federation when all of its costs and financing are denominated in RUB. The Company is exposed to foreign exchange movements to the extent that its US$ holdings become mismatched with its RUB commitments.

The Group does not currently enter into forward exchange contracts or otherwise hedge its potential foreign exchange exposure.

26.4 Credit risk

Credit risk arises principally from the Group's financial investments, trade and other receivables and cash and cash equivalents. It is the risk that the value of the Group's investments will not be recovered and the risk that the counterparty fails to discharge its obligation in respect of the Company's trade and other receivables and cash balances. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings and indicated government support where applicable.

26.5 Capital risk

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

There have been no other significant changes to the Company's management objectives, policies and processes in the year nor has there been any change in what the Company considers to be capital.

The Company is not subject to externally imposed capital requirements.

27 Commitments and contingents

27.1 Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not generally available. The Company does not have full coverage for its business interruption or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

27.2 Litigation

The Company was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the course of business. In the opinion of management there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operation financial position or cash flows of the Company and which have not been accrued or disclosed in this historical financial information.

27.3 Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation official pronouncements and court decisions which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation official pronouncements and court decisions. However the interpretations of the relevant authorities could differ and the effect on this historical financial information if the authorities were successful in enforcing their interpretations could be significant.

27.4 Environmental matters

The Group's operations are in the upstream oil industry in the Russian Federation and its activities may have an impact on the environment. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligation related thereto. The outcome of environmental liabilities under proposed or future legislation, or as a result of stricter interpretation and enforcement of existing legislation, cannot reasonably be estimated at present, but could be material.

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

28 Related party transactions

28.1 Control relationships

Related parties include shareholders, affiliates and entities under common ownership and control with the Company and key management personnel.

28.2 Management remuneration

There are no transactions or balances with key management and their close family members, except for remuneration in the form of salary and bonuses.

Due to the small organisational structure of the Company all salaries expenses are related to the key management personnel (refer to Note 7).

28.3 Other related parties

The Company's largest shareholder, ARA Capital subscribed for additional shares totalling US$15 million during the year.

The convertible loan note provided to the Company by ARA Capital during 2012, totalling £500,000, was converted (together with accrued interest) into Zoltav shares on 7 June 2013.

ARA Capital also provided the Company with an unsecured loan of £250,000 on 9 April 2013. This was repaid fully (together with interest) following completion of the Cengeo acquisition three months later.

On 16 December 2013 the Company signed a Sale and Purchase Agreement with Bandbear Limited, currently a 32.5 per cent shareholder in Zoltav, to acquire Royal Atlantic Energy (Cyprus) Limited ("Royal Atlantic Energy") which, through a wholly-owned subsidiary, holds the Bortovoy Licence (the "Licence"), a 3,215 square kilometre licence in the Saratov Oblast of the Russian Federation. The licence contains a number of gas fields, a processing plant located in the West of the Licence and significant exploration prospectivity in the East of the Licence

There were no other related party transactions during the period.

29 Events after reporting date

Proceeds of equity issue

On 31 March 2014, Zoltav received $5 million related to the third tranche of the subscription agreement entered with ARA Holdings at the time of the Company's readmission to AIM following the acquisition of SibGeCo.

On 13 December 2013, the Company signed a Sale and Purchase Agreement with Bandbear Limited (the "Vendor"), currently a 29.1 per cent. shareholder in the Company, to acquire RAECL (and with it the Bortovoy Licence described above) for US$180 million. The proposed acquisition (which is expected to be completed by the end of the second quarter of 2014) will be satisfied through the issue of 38,263,095 new Ordinary Shares at an effective price of US$1.60 (100 pence) per share (equivalent to US$61.22 million); the payment of US$58.94 million in cash (and the assumption of US$60.9 million of bank debt.

30 Date of approval of financial statements

The financial statements were approved by the Board of Directors on 23 May 2014.

31 Availability of annual report and financial statements and General Meeting

Copies of the Company's annual report and financial statements will be sent to Registered Shareholders but will not be sent to holders of Depository Interests. The annual report and financial statements will be available for inspection at the Company's registered office and may also be viewed at the Company's website at: www.zoltav.com. Notice of a General Meeting will be sent to shareholders in due course.