ZOLTAV resources

ANNUAL REPORT 2014

IN THIS REPORT

FIRST REVENUES
$20 million

TOTAL 2014 PRODUCTION
2.8 mmboe

TOTAL GROUP 2P RESERVES
210 mmboe

BOARD OF DIRECTORS

Alastair Muir Ferguson
Executive Chairman
(appointed 19 June 2014)

Andrey Komarov
Executive Director
(appointed 17 November 2014)

Stephen Lowden
Senior Independent Director

Symon Drake-Brockman
Non-executive Director

Michael Lombardi
Non-executive Director

Marcus James Rhodes
Non-executive Director
(appointed 19 June 2014)

Yulia Lebedina
Non-executive Director
(appointed 17 November 2014)

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)

AUDIT COMMITTEE
Marcus Rhodes (Chairman)
Michael Lombardi
Stephen Lowden

REMUNERATION AND NOMINATION COMMITTEE
Stephen Lowden (Chairman)
Michael Lombardi

ADVISERS

COMPANY SECRETARY
Elian Corporate Services (Jersey) Limited
44 Esplanade, St Helier, Jersey, JE4 9WG,
Channel Islands

CORPORATE ADMINISTRATOR
Elian Corporate Services (Jersey) Limited
44 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

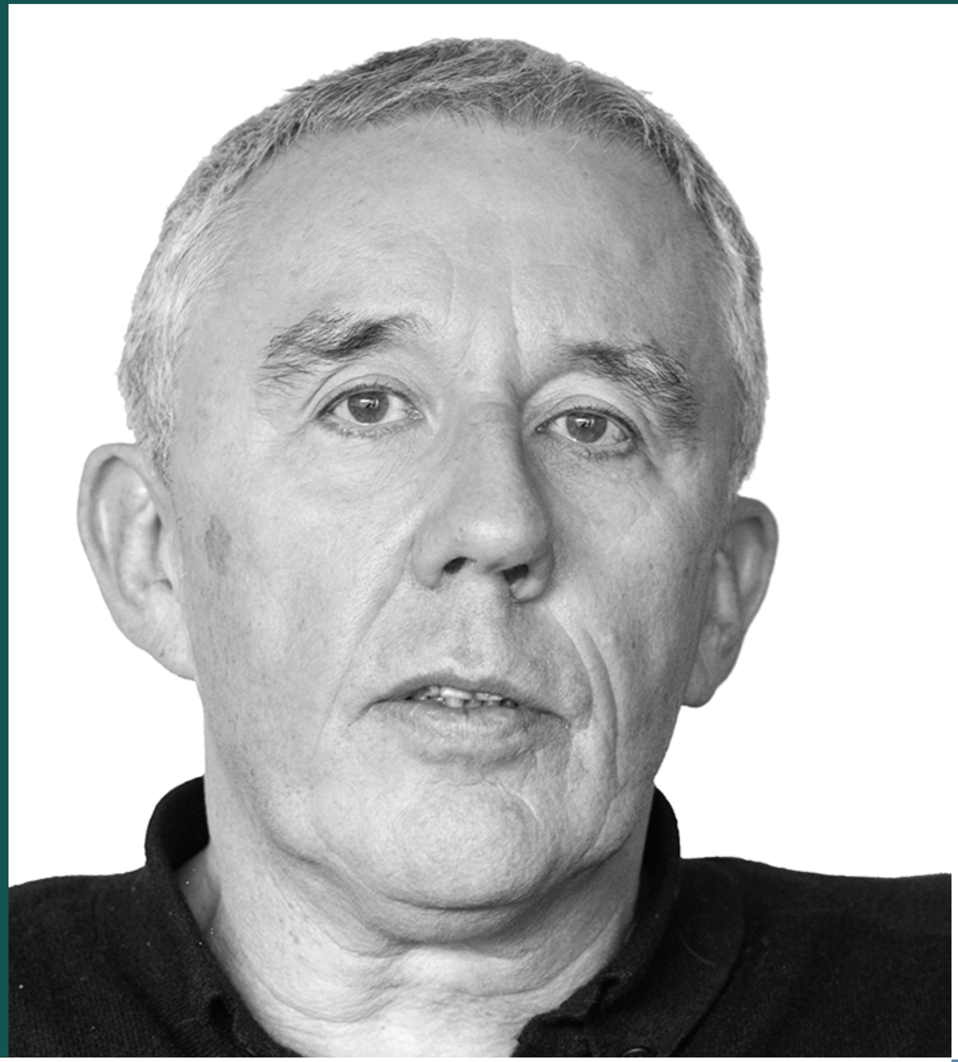
SOLICITORS
Berwin Leighton Paisner
Adelaide House, London Bridge, London,
EC4R 9HA, United Kingdom

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

2014 was the year in which Zoltav became a producing oil and gas business



I am pleased to present Zoltav's annual report for the year ended 31 December 2014.

2014 was the year in which Zoltav became a producing oil and gas business. Activity during the year was dominated by two significant projects: the acquisition and integration of the Bortovoy Licence and operating assets in the Saratov Oblast; and the seismic acquisition and well-testing programmes on the Koltogor Licences in Khantiy-Mansisk, West Siberia. In both cases, Zoltav has been able to add considerable value to its assets in a short space of time.

With a strong foundation of assets, experienced management, regional knowledge and supportive shareholders, Zoltav is uniquely well placed to build an oil and gas business of considerable scale in the CIS. We will continue to leverage our strengths to grow the business both organically and through acquisitions in the region.

Notwithstanding the macroeconomic and geopolitical challenges faced during 2014, Zoltav is operationally and financially sound. The impact of the significant movement in exchange rates is explained in the financial review. In summary, however, while the Company's U.S. Dollar reported revenue has inevitably declined, our Ruble revenue, operating costs and margin remain unaffected.

The Bortovoy Licence

The primary focus of the Company during 2014 has been the completion of the acquisition of the Bortovoy Licence and the transition into a producing oil and gas business.

In June, Zoltav completed the acquisition of a 100% interest in the Bortovoy Licence. Bortovoy is a 3,215 square kilometre area containing a number of productive gas fields, a processing plant and significant potential upside from further exploration and appraisal in the east of the licence. The Bortovoy Licence is a sizeable asset situated along the northern margin of the Pre-Caspian Basin, one of the largest hydrocarbon basins in the CIS. It contains Proved plus Probable gas reserves of 750 bcf (21.2 bcm) and 3.9 mmbbls (488 mT) of oil and condensate. In the year to 31 December 2014 the Bortovoy Licence produced 14.7 bcf (416 mcm) of gas (2013: 14.8 bcf / 419 mcm) and 174,429 bbls of oil and condensate (2013: 284,178 bbls) - a total of 2.8 mmboe (396 mToe) (2013: 2.9 mmboe/413 thousand Toe).

Zoltav's interest in the Bortovoy Licence stemmed not only from its existing reserve base and ongoing gas and liquids production, but also from the considerable upside potential that exists from additional prospects within the licence area and the scope for increased future production. The latter is being accomplished through the hooking-up of additional fields to the existing gas processing facility and, longer-term, through the construction of additional gas production facilities in the east of the licence.

In the latter half of the year significant progress was made on both of these objectives. I am pleased to report that, by November, the West Bortovoy gas plant was operating at its full capacity

of 48.4 mmcf/d (1.4 mmcm/d); and that we have considerably improved our understanding of the Western Fields, enabling us to keep the plant full.

In parallel, we have been reviewing the feasibility and viability of development options for the Eastern Fields. The Nepriakhinskoye field in the far east of the licence contains Proved plus Probable plus Possible gas reserves of 899 bcf (25.5 bcm). During the latter part of 2014 and early 2015 the Company has been focusing on planning for the appraisal and development of this significant asset.

Zoltav paid a total consideration of US$180 million to the vendor of the Bortovoy Licence, Bandbear (a significant Zoltav shareholder), which was 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 Ruble 2.2 billion (US$59.84 million) of bank debt held by the operating company.

The Company was pleased to enjoy the support for the transaction of several investors including Bandbear, whose agreement to accept approximately one-third of the consideration payable in Zoltav shares further demonstrates its confidence in the Company; and ARA Capital, whose investment of a further US$45.61 million into the Company by way of a subscription for Zoltav shares at US$1.60 (100 pence) per share funded the majority of the cash component of the acquisition consideration.

The Koltogor Licences

The Koltogor Exploration and Production Licence ("Koltogor Licence") and Koltogor Exploration Licence 10 ("Koltogor 10") cover a contiguous area of 695 square kilometres in Khantiy-Mansisk, Western Siberia.

A significant seismic acquisition programme was completed over the Koltogor Licence during 2014, resulting in the acquisition of 466 square kilometres of 3D seismic data and 71 kilometres of 2D seismic data.

This, together with the incorporation into the Company's existing reservoir model of test data acquired by previous operators and a successful well testing programme on both Koltogor Licences, has resulted in a greater understanding of the reservoir distribution and, in turn, a 288% increase in the Company's Russian standard C1 plus C2 oil reserves attributed to this acreage.

The C1 plus C2 reserves on these assets under the Russian Federation Classification Scheme now stand at more than 1 billion barrels (137 mmT). The Company intends to commission an update of its reserves and resources under the Petroleum Resources Management System under which it reports later this year.

The Koltogor Licences contain the largest undeveloped oil discovery in the prolific Western Siberian oil province of Khantiy-Mansisk. Zoltav's 100% interest places the Company in a very favourable position to advance the development of these fields. We are commencing the next phase in the appraisal programme which will in due course include appraisal drilling and testing in order to further define and prove the optimum method of extracting the hydrocarbons.

A detailed review of operations during 2014 accompanies this report.

Corporate and managerial developments

The changes to the Board and management that occurred during 2014 reflected the Company's transition to an operating oil and gas company.

In May, the Company announced the appointments of Marcus Rhodes and myself as Non-executive Directors. Mr Rhodes is an experienced director and audit committee chairman of major publicly-listed companies operating in Russia and the CIS; while I have considerable personal experience of the Russian gas

market having led TNK-BP's gas and power business in Russia and Ukraine. John Grimshaw and Oliver Donagher (previously Non-executive Directors of the Company) retired from the Board in May. The Board is grateful for their contributions.

In November, Andrey Komarov and Yulia Lebedina were appointed to the Board as Non-executive Directors. Mr Komarov is a very experienced Russian oil and gas professional having held senior managerial positions with a number of major Russian energy businesses including having served as Vice President, Gas Business Development & Sales, and latterly as Vice President, Gas & Power, at TNK-BP. Ms Lebedina is Head of the Corporate Department at Millhouse LLC. She initially joined Millhouse LLC in 2006 in the group's legal department, prior to which she was Senior Corporate Counsel at Sibneft OJSC (now Gazprom Neft).

At the end of the year Symon Drake-Brockman stepped down from the role of Executive Chairman but remains on the Board as a Non-executive Director. At the same time, I became Executive Chairman with Andrey Komarov taking on the role of Executive Director. These are key building blocks in developing an experienced team capable of managing a growing oil and gas business in the CIS.

I would like to reiterate the Board's thanks to Mr Drake-Brockman for having made a valuable contribution to the development of the Company during its transition from an investing company into an operational oil and gas business.

In June, alongside the completion of the acquisition of the Bortovoy Licence, we further strengthened the management of Bortovoy's operating company through the appointments of Alexei Khomyakov as Technical Director and Airat Ganeev as Chief Geologist.

Outlook

The conditions currently affecting the sector in our region have, in my opinion, created a significant opportunity for a company with Zoltav's specific characteristics to build a strong, medium sized, CIS-focussed oil and gas company. While we undertake the work to develop our existing portfolio and review the acquisition opportunities available to the Company we have set out to live within our means and focus on operational excellence. Our current plans do not include any need to access additional capital unless required to fund acquisitions. If the Company follows the growth curve we expect it to, it is the Board's intention to seek, in the next 24 months, a listing on the Main Market of the London Stock Exchange once appropriate to the Company's stage of development and scale of operations.

With the completion of the acquisition of the Bortovoy Licence and the integration of this asset into the Company, our focus there is on ensuring that the Western Gas Plant continues to produce at full capacity and that the Western Fields are developed efficiently and effectively; while concurrently developing an appraisal strategy for the highly prospective Eastern Fields of the licence.

At Koltogor, the interpretation of 3D seismic data from last year's programme has enabled the Company to re-map the reservoir distribution of the oil field which we now understand to be a significantly bigger asset. With over 1 billion barrels (137 mmT) of Russian standard reserves, the Koltogor licences contain the largest undeveloped oil discovery in the prolific Western Siberian oil province of Khantiy-Mansisk. The immediate focus will be on developing an appraisal programme for the conventional Upper Jurassic formations. Having significantly enhanced the Koltogor Licences' value potential as a 100% interest holder we will, in due course, consider bringing on a partner with the capacity to accelerate the appraisal – and ultimately development – programmes.

We continue to seek opportunities for growth, both organically and through acquisition in our core areas of Russia and the CIS and we anticipate a significant amount of our effort to be focused on this during 2015.

I would like to express the Board's appreciation of our entire staff's dedication to meeting the growth objectives set by the Company.

I look forward to reporting further progress in the months ahead.

AMFEG.

Alastair Ferguson
Executive Chairman
23 April 2014

STRATEGY

Zoltav is building a mid-size oil and gas business focused on the CIS. There are **five** characteristics which demonstrate why we are distinctive and uniquely well positioned to achieve this:

- **Attractive asset base** with substantial organic appraisal and development upside
- Ability to **add considerable value to assets** in a short space of time – we will seek acquisition targets where we can replicate that performance
- **Targeting further acquisitions** in the CIS which will generate additional cash flows and more exploration upside
- Support of **strong major shareholders,** providing access to finance for acquisitions
- High principles of **corporate governance**

Zoltav is uniquely well placed to build an oil and gas business of considerable scale in the CIS

GROUP RESERVES UNDER PRMS AS AT 31 DECEMBER 2014

		Proved	Probable	Proved + Probable	Possible
Bortovoy Licence					
Gas	bcf	352.9	396.8	749.7	640.0
Oil & Liquids	mmbbls	2.0	1.8	3.8	2.4
Gas, Oil and Liquids	mmboe	62.0	69.2	131.2	111.2
Koltogor Licences					
Gas	bcf	0.5	23.5	24.0	55.7
Oil	mmbbls	1.6	73.5	75.1	174.0
Gas & Oil	mmboe	1.7	77.5	79.2	183.5
Total					
Gas	bcf	353.4	420.3	773.7	695.7
Oil & Liquids	mmbbls	3.6	75.3	78.9	176.4
Gas, Oil and Liquids	mmboe	63.7	146.7	210.4	294.6

Zoltav's main operational objective at Bortovoy has been to achieve and maintain full capacity production

Bortovoy Licence

The acquisition of the Bortovoy Licence in the Saratov Oblast completed on 18 June 2014; 196 days of production are therefore included in the group accounts for the year.

Zoltav's main priority since the acquisition of the Bortovoy Licence has been to restore the Western Gas Plant to its full average daily production capacity of approximately 48.4 mmcf/d (1.4 mmcm/d). Zoltav planned to achieve this by boosting production on the Karpenskoye field (the main producer) with a series of workover operations and through the drilling of an infill well; as well as through hooking-up the Zhdanovskoye field to the Western Gas Plant.

The three-well Zhdanovskoye field hook-up project was commenced shortly after Zoltav assumed managerial responsibility for the Bortovoy Licence on 21 November 2013. All three Zhdanovskoye wells and the newly drilled Karpenskoye Well 100 were successfully hooked-up to the Western Gas Plant and were on stream by late October 2014. Full plant capacity was achieved on 27 October 2014 – approximately three months ahead of plan – and has since been maintained.

While Zoltav's main operational objective at Bortovoy has been to achieve and maintain full capacity production, Zoltav has concurrently been undertaking scenario planning for the development of the highly prospective Eastern Fields of the licence. The construction of a second gas plant in this area of the licence, close to the Pavlovskoye field – with its Proved plus Probable plus Possible gas reserves of 183.7 bcf (5.2 bcm) - is currently perceived by management as the most likely scenario.

Additional prefeasibility work was carried out to look at early development options from the phased development of the more advanced Eastern Fields – including Pavlovskoye, Kochkurovskoye, West Lipovskoye, Lipovskoye and Nepriakhinskoye. During Q4 we refocused on preparing to appraise the substantial easternmost field – Nepriakhinskoye - which has Proved plus Probable plus Possible gas reserves of 899 bcf (25.5 bcm). Our current planning assumes that we will develop a new gas plant with an annual capacity of approximately 70 bcf (2 bcm). This will naturally be dependent upon the success of the appraisal programme at Nepriakhinskoye.

Production

In 2014, production from the Bortovoy Licence was 7,656 boe/d (1,086 Toe/d) (2013: 8,004 boe/d / 1,132 Toe/d). This comprised 40.2 mcf/d (1.14 mcm/d) of gas (2013: 40.5 mcf/d / 1.15 mcm/d) and 478 bbls/d (60 T/d) of oil and condensate (2013: 779 bbls/d / 99 T/d). Overall this was a 4.4% reduction in production compared with 2013. Gas production decreased by 0.7%, whilst liquids production reduced by 38.6%. This reflects significant declines in the oil wells producing from the Karpenskoye rim. The Company's immediate priority is on exploiting the considerable gas potential of the licence and as such we are not planning to target any further oil rim wells in the foreseeable future. The highest monthly production achieved in 2014 was approximately 8,636 boe/d (1,225 Toe/d) in December – a level which we expect to maintain throughout 2015.

Approximately 54% of 2014's production described above is included in Zoltav's accounts for 2014 following the Company's acquisition of the Bortovoy Licence on 18 June.

Development drilling and other well activity

Well 100 was spudded on 29 June. This was an infill well on the Karpenskoye field, which is the main producing field at present. The well was hooked-up to the Western Gas Plant and brought on stream on 27 October. It tested at a rate of 7.8 mmcf/d (220 mcm/d) of gas and 67 bbls/d (8 T/d) of condensate. It was brought into production at a constrained rate of 5.9 mmcf/d (165 mcm/d) of gas and 42 bbls/d (5 T/d) of condensate on a 10mm choke. Production from Well 100 is constrained by the capacity of the Western Gas Plant.

During 2014 we undertook a number of recompletions and workovers on existing Karpenskoye wells with a view to reducing water producing zones. We completed seven workovers and six recompletions on Karpenskoye and Zhdanovskoye wells. Whilst largely successful we were unable to return Karpenskoye Wells 17 and 19 to production despite efforts to isolate the water. Testing confirmed that neither is producing formation water. Accordingly, at the end of the year we commissioned consultants to review plans to side-track these wells by the end of 2015.

The Company has also started planning work and engineering studies for compression on the Karpenskoye field in order to optimise reserve recovery.

Bortovoy Field by Field 2P reserves

Field Reserve Category	Gas (Proved+Probable) English (mmcf)	Gas (Proved+Probable) Metric (mmcm)	Oil & Liquids (Proved+Probable) English (mbbls)	Oil & Liquids (Proved+Probable) Metric (mT)
Krasnokutskoye	9,923	281	-	-
Zhdanovskoye	72,995	2,067	366	52
Karpenskoye	95,350	2,700	2,215	283
Mokrousovkoye	45,133	1,278	-	-
Total Western Fields	**223,401**	**6,326**	**2,581**	**335**
Pavlovskoye	162,518	4,602	1,028	119
Kochkurovskoye	-	-	-	-
West-Lipovskoye	-	-	-	-
Lipovskoye	49,935	1,414	279	34
Nepriyakhinskoye	313,841	8,887	-	-
Total Eastern Fields	**526,294**	**14,903**	**1,307**	**153**
Total All Fields	**749,695**	**21,229**	**3,888**	**488**

Zhdanovskoye hook-up

Work commenced in May to hook-up Wells 8, 30 and 102 in the eastern part of the Zhdanovskoye field to the Western Gas Plant. This included the laying of pipeline and the installation of associated well management equipment. The three wells have been re-entered and were hooked-up to the Western Gas Plant on 8 October on a temporary permit. A full permit was subsequently granted during Q1 2015.

Western Gas Plant

Operations at the Western Gas Plant have continued smoothly with the plant operating more reliably than the prior year. During the course of 2014 we reduced operational downtime at the plant by approximately 30%. We expect to maintain and improve this operational performance in 2015. We have instituted a programme to improve the efficiency of the processing plant which has involved replacing the cooling units and filters, with the objective of improving the throughput.

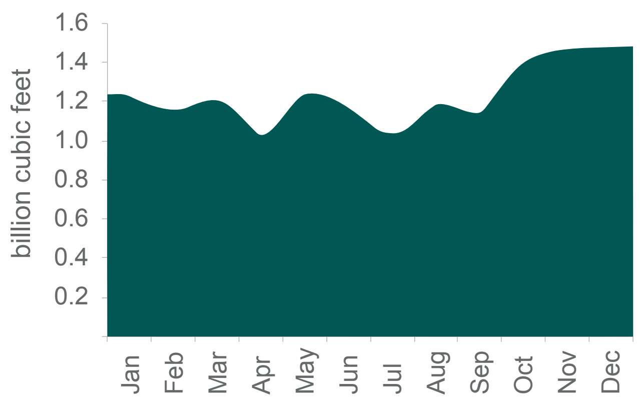
The main project has been an upgrade of the plant to ensure that the gas remains at the appropriate GOST standard temperature during the summer period. The project commenced in April 2014 and is expected to be completed during June 2015.

Eastern Fields and gas plant

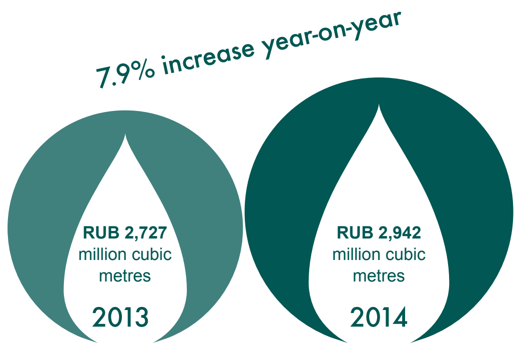
The newly appointed Chief Geologist and Technical Director of our operating subsidiary have been reviewing the existing data on the Eastern Fields. Work is ongoing to determine an appraisal plan for the Nepryakhinskoye field, the most easterly on the Bortovoy Licence and most sizeable of the Eastern Fields. The results of the appraisal programme will determine the required size and configuration of the future Eastern Gas Plant.

The Nepriakhinskoye 1 Well was drilled by the previous owners in 2011. The well did not discover a gas-water contact and thus reserve certainty will require further appraisal. The well tested at a rate of approximately 21.1 mmcf/d (600 mcm/d) of gas over a limited period. We believe that the Nepriakhinskoye field may extend across to the Muravlinskoye field. The Muravlinskoye 2 Exploration Well was spudded by the previous owner in 2011 but was aborted prior to reaching target depth due to budgetary constraints. Zoltav expects to revisit this well as part of the future appraisal programme of the Eastern Fields.

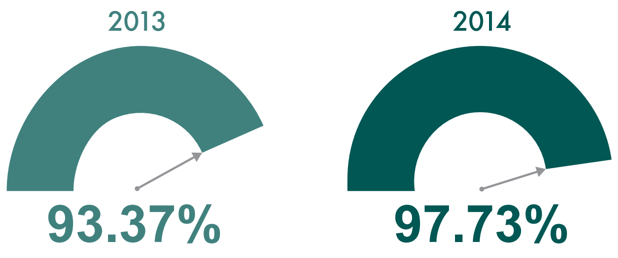
WESTERN GAS PLANT: 2014 MONTHLY GAS PRODUCTION



BORTOVOY LICENCE: GAS SALES PRICE

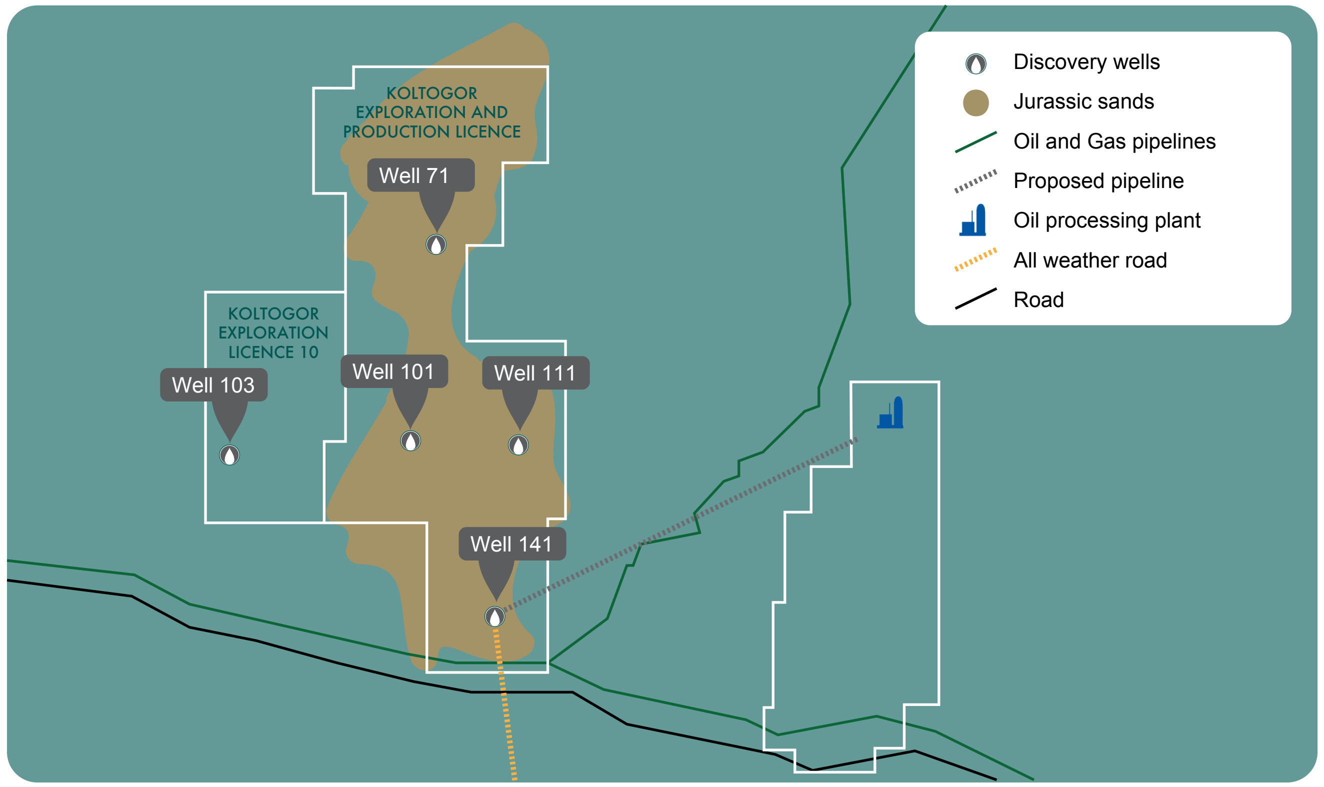


WESTERN GAS PLANT: OPERATIONAL EFFICIENCY



BORTOVOY LICENCE: REDUCED HEADCOUNT

Full plant capacity was achieved approximately three months ahead of plan – and has since been maintained



Koltogor Licences

Koltogor Exploration and Production Licence ("Koltogor E&P Licence")

During 2014 at Koltogor, in Khantiy-Mansisk, Western Siberia, we completed the acquisition of 466 square kilometres of 3D seismic data and 71 kilometres of 2D seismic data.

The interpretation of the data, which was completed by the end of 2014 – combined with the incorporation into the Company's existing reservoir model of well test data acquired by previous operators – resulted in two substantial upgrades by the Russian Federal Agency for Subsoil Use ("Rosnedra") of C1 plus C2 oil reserves under the Russian Federation Classification Scheme ("Russian Standard"). The first of these upgrades came in June while the second occurred after the year-end in Q1 2015.

The interpretation of 3D seismic data has enabled the Company to re-map the reservoir distribution of the Koltogor oil field which we now understand to be a significantly larger asset.

The Russian Standard reserves at the Koltogor E&P Licence have increased by 683.3 mmbbls (90 mmT) since Zoltav's acquisition of the licence in July 2013 and now stand at 949.4 mmbbls (125 mmT).

In addition to the 3D seismic survey, Zoltav completed limited testing of Well 141 in the southernmost part of the Koltogor E&P Licence. The testing of the Upper Jurassic Ju1-1 horizon was undertaken over a period of 6 days. Once cleaned, the well was tested using a 10mm choke and flowed 201 cf/d (32 cm/d) of liquids of which 101 cf/d (16 cm/d) was a crude oil of 43 degrees API.

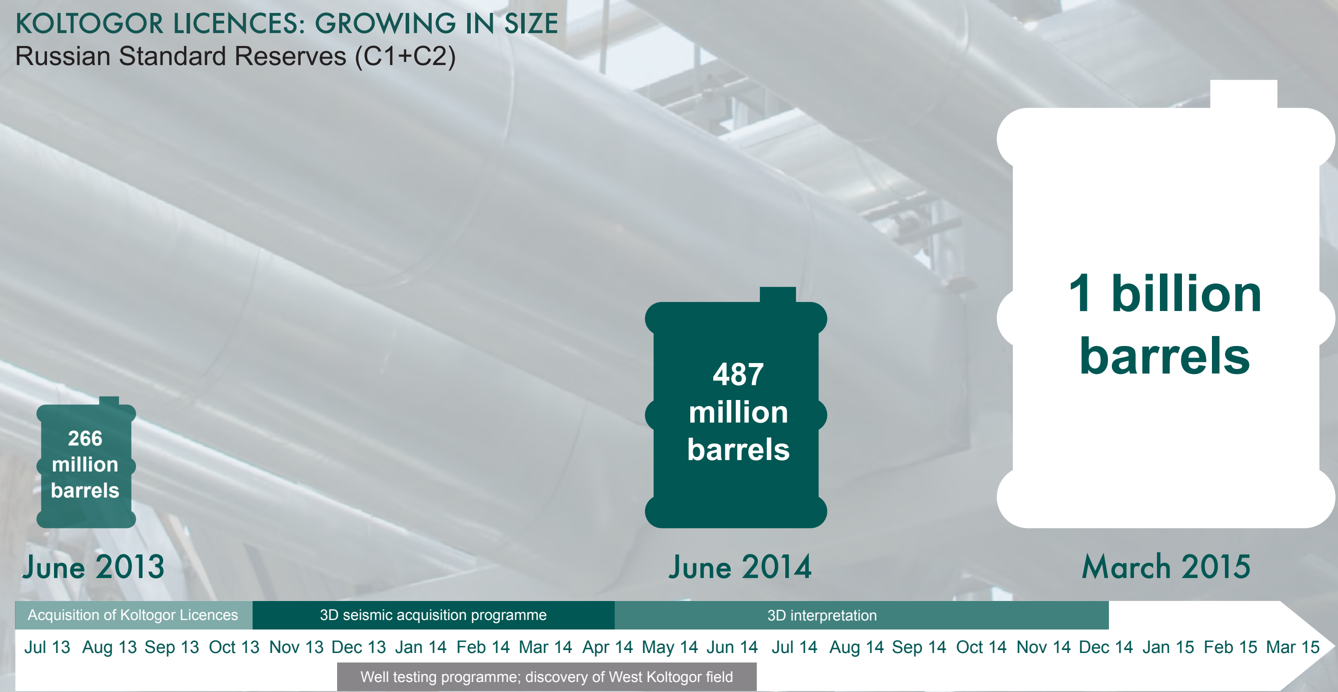
This result corroborated the 2009 test data acquired from the previous operator when Well 141 flowed 182 cf/d (29 cm/d) of liquids of which 85 cf/d (13.6 cm/d) was oil.

Koltogor Exploration Licence 10 ("Koltogor 10")

Following completion of testing operations on Well 141 on the Koltogor E&P Licence, the workover rig was moved to Koltogor 10 where it re-opened Well 103 with a primary objective to test the Upper Jurassic Ju1-1 horizon. The well flowed 21.4 cf/d (3.4 cm/d) of oil. The successful testing of the Upper Jurassic Ju1-1 horizon at Well 103 resulted in the discovery of the new West Koltogor oil field. This discovery was made in the same formation as the neighbouring Koltogor E&P Licence, however we believe the two fields are separated by a fault.

The work programme on Koltogor 10 resulted in Rosnedra's registering, in June, of 84 mmbbls (12 mmT) of Russian Standard C1 plus C2 oil reserves, giving total current registered reserves of the two Koltogor licences combined to in excess of 1 billion barrels (137mmT). The Company intends to commission an update of its reserves and resources under the Petroleum Resources Management System, under which Zoltav reports the reserves and resources for its licences, and will publish this upon completion (expected to be during Q3 2015).

With over a billion barrels of Russian Standard C1+C2 reserves, the Koltogor Licences contain the largest undeveloped oil discovery in the prolific West Siberian oil province of Khantiy-Mansisk



Zoltav completed the acquisition of Royal Atlantic Energy (Cyprus) Limited ("Royal Atlantic Energy") and OOO Vostok Energy (the "Management Company") on 18 June 2014 and, with it, the Company's readmission to trading on the AIM Market. The accounts to 31 December 2014, which follow, therefore include 196 days of trading of Royal Atlantic Energy's licence holding entity, Diall Alliance – the operator of the Bortovoy Licence.

The review of operations, which precedes this financial review, includes a summary of Diall Alliance's key production and financial metrics. These demonstrate that the lack of investment by the prior owners in the Western Fields resulted in a decline in production rates and hence revenue and ultimately cash generation. Our immediate focus since assuming managerial responsibility at Bortovoy has been on returning the Western Gas Plant to its full capacity during 2014. This was achieved in October 2014.

As noted below our operating revenues and costs are both denominated in Rubles ("RUB"); as are our assets at Diall Alliance and SibGeCo (the operating company of the Koltogor Licences). There has been significant foreign exchange volatility in the RUB, and thus significant movement in the value of our assets presented in US$. This volatility has been recorded for each asset and liability, as well as through reserves as the value of the assets has not been impaired.

Revenue

Group revenues – the first since Zoltav's establishment as an oil and gas company - for the 196 days in which Diall Alliance was owned by the Company were US$20.0 million (2013: nil). Gas sales are priced in RUB and are not tied to either the United States Dollar ("US$"). Accordingly, revenues in US$, the Group's reporting currency, will naturally be affected by fluctuations in the rate of US$ to RUB. Diall Alliance's RUB-denominated revenue for 2014 was RUB1,466 million (2013 RUB1,501 million) with the increase in our RUB denominated revenue being offset by a reduction in oil production.

Gas realisations were US$2.17/mcf or RUB83.30/mcf (US$ 76.58/mcm or RUB2,941/mcm) (2013: US$2.43/mcf or RUB77.46/mcf (US$85.8/mcm or RUB2,734/mcm)). Gas produced was sold to Mezhregiongaz, a Gazprom subsidiary, at the transfer point on entry to the Central Asian Centre Pipeline.

Oil and condensate realisations were US$46.8/bbl or RUB1,798/bbl (US$368/t or RUB14,115/t) (2013: US$47.0/bbl or RUB1,496/bbl (US$369/t or RUB11,746/t)). Oil and condensate are sold directly at the Western Gas Plant to a small number of different purchasers through a tender process.

With the Western Gas Plant operating at full capacity we expect to see commensurately higher gas RUB-denominated revenue in 2015. We have not forecasted an increase in the RUB-based gas price during the year, but continue to seek to maximise sales prices where possible.

Operating loss

The operating loss, before the exceptional gain on the date of acquisition of Diall, for the period was US$7.6 million (2013: US$4.4 million), reflecting that, for the just over half of the period under review, Zoltav was not producing any revenues but bore the costs of US$3.2 million associated both with the acquisition of Royal Atlantic Energy and its Management Company; and the costs of the work programme at the Koltogor Licences.

At Diall Alliance the operating profit denominated in RUB was RUB6.2 million, a reduction of 30%. As our operating costs are largely fixed, a reduction in production revenue is not matched by a reduction in operating costs. We would expect to see a commensurate increase in RUB-denominated operating profit in 2015 as a result of our efforts to maintain the Western Gas Plant's full production capacity.

Finance costs are represented by interest on the Sberbank facility of RUB2,400 million (US$40.6 million) entered into by Diall Alliance on 4 April 2014, a second and final tranche of which was drawn down on 8 December 2014.

Taxation

The total tax charge for the year was US$2.4 million (2013: US$ nil). Despite the Group being predominantly in a development phase it is not able to use losses incurred in one part of the Group against profits in another.

Other taxation

A new gas mineral extraction tax ("MET") formula was implemented from 1 July 2014 and is based on a combination of average gas prices, gas production as a share of total hydrocarbon output and complexity of gas reservoirs. The effective ("MET") rate applicable in the period was RUB15.4/mcf or RUB543/mcm (2013: RUB9.4/mcf or RUB331/mcm).

In addition to production taxes the Company was subject to a 2.2% property tax which is based on the net book value of Russian assets calculated for property tax purposes. This figure is included in the cost of sales in the consolidated income statement.

Profit after tax

Our profit after tax amounted to US$21.7 million in the year ended 31 December 2014 (2013: US$4.3 million). In 2014 we recorded an exceptional gain on the acquisition of Diall of US$35.0 million relating to the negative goodwill that arose from the excess of value of the assets purchased.

Cash

Total cash resources at the end of the period were US$10.7 million.

Liquidity

Following the acquisition of Royal Atlantic Energy and the associated capital raise, the Company has sufficient liquidity to fund its improvements on the Western Fields at Bortovoy; and for the investment planned for the Koltogor Licences through to the end of 2015. It is expected that the longer-term plans to appraise – and ultimately develop - the Eastern Fields on the highly prospective Bortovoy Licence; and the appraisal drilling plans for the Koltogor Licences will require additional funding.

Outlook

We do not expect to see any above-Russian inflation increases in gas realisations in the near future. As a result of the Company's successful investment programme to bring the Western Gas Plant at Bortovoy up to full capacity, the Company expects production rates to be maintained at approximately 48.4 mmcf/d (1.4 mmcm/d) in 2015.

Alistair Stobie
Director Finance
23 April 2015

Diall Alliance Financial Performance

	FY 2014	FY 2013
Oil and condensate (barrels)	171,854	286,275
Gas (mcf)	13,867,030	13,858,759
Total (boe)	**2,646,706**	**2,759,652**
Operating results (US $'000)		
Oil and condensate sales	8,042	13,450
Gas Sales	30,100	33,766
Revenue	**38,142**	**47,216**
Production costs	(9,792)	(11,221)
Production based taxes	(6,818)	(6,534)
Depreciation, depletion and amortisation	(9,071)	(10,649)
Cost of sales	**(25,681)**	**(28,404)**
Operating profit/(loss)	**6,227**	**8,826**
Net realisation		
Oil and condensate (US $/barrels)	46.80	46.98
Gas (US $/mcf)	2.17	2.44
Operating data (US $/boe)		
Production costs	3.70	4.07
Production based taxes	2.58	2.37
Depreciation, depletion and amortisation	3.43	3.86
EBITDA calculation (US $'000)		
EBITDA	**15,384**	**22,005**
EBITDA per boe (US $/boe)	5.81	7.97

* Note: 196 days of Diall Alliance 2014 production are included in the group accounts for the year.

CSR is embedded in everything we do. We strongly believe in our responsibility to protect and preserve the natural environment we operate in

Environment

Responsible environmental management is a core component of our approach to CSR. Zoltav is committed to complying with applicable legislation and to identifying risks to the environment. We recognise that oil and gas exploration and production activities can have an impact on the environment. As such we aim, wherever possible, to implement processes to avoid, mitigate or manage any adverse impacts our operations might have.

Zoltav is committed to employing highly competent personnel who share the company's values and who are committed to implementing our high standards of environmental performance in everything they do. We regularly review and monitor key environmental performance indicators to measure our success in this area.

Engaging with local communities

By engaging with local communities in the areas around our licences, Zoltav aims to stimulate sustainable development. Co-operation with local communities is key to the success of our operations, and we continually seek to maximise local involvement to provide the potential for economic and social benefits. We are also committed to building and utilising the skills available locally at all levels.

Health and Safety

Zoltav is committed to providing a safe and healthy work environment and to conducting our various businesses in a safe and environmentally protective manner. All employees and officers are expected to perform their duties consistent with the site specific safety and environmental rules and regulations and are expected to obey all local, regional and national laws and regulations. All employees and officers are expected to carry out their duties in all ways that enhance health, safety and environmental compliance.

ENSURING A FUTURE FOR THE GREAT BUSTARD

Great bustards are among the heaviest flying birds in the world. However, it is also a vulnerable species and South West Russia - where the Bortovoy Licence is situated - is one of the few remaining thriving populations of this rare breed.

The great bustard are often spotted on the Bortovoy Licence and Zoltav is deeply committed to maintaining the great bustard's natural environment by identifying key areas where they can co-habit easily with our operations.

As part of our environmental scheme, we carry out regular monitoring and studies of the birds wherever they are on the Bortovoy Licence. Throughout 2014 Zoltav continued to financially support monitoring initiatives across a 12,000 square kilometre area. A total of 827 sightings of these magnificent, stately birds were recorded during the year.

THE ROAD TO KARPENKA

The road from Lebedevka to Karpenka - within the Bortovoy Licence in the Saratov Oblast - was in extremely poor condition at the outset of 2014. This is an essential road used on a daily basis by residents of Lebedevka, Karpenka, Rozovka and Repnoe - especially by families taking children to and from the schools and kindergartens of Lebedevka and Karpenka. Zoltav has funded substantial repairs to 10,992 square metres of road surface during 2014, reducing the risk of accidents and improving the access for these communities to rapid medical or other important services.

Alastair Ferguson - Executive Chairman

Alastair Ferguson, 57, was appointed as a non-executive director in May 2014; and subsequently became the executive chairman in December 2014. He has an extensive background in the oil and gas industry and considerable experience of the Russian gas market. 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 focused on the Caspian region in Kazakhstan. Alastair 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 adviser 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.

Andrey Komarov - Executive Director

Andrey Komarov, 50, was appointed as a non-executive director in November 2014; and subsequently became an executive director in December 2014. He is a very experienced Russian oil and gas professional having held senior managerial positions with a number of major Russian energy businesses. Between 2006 and 2013 Andrey Komarov served as Vice President, Gas Business Development & Sales, and latterly as Vice President, Gas & Power, at TNK-BP, where he worked with Alastair Ferguson (also a director of Zoltav). In 2002 Andrey Komarov joined Sibneft OJSC (now Gazprom Neft), one of Russia's leading oil producers, as Director, Regional Sales and was subsequently appointed as the group's Vice President, Downstream in 2004. Prior to Sibneft OJSC, Andrey Komarov held the positions of Deputy General Director and Commercial Director of the Moscow Oil Refinery and served as an adviser to the Minister of Fuel and Energy of the Russian Federation.

Stephen Lowden - Senior Independent Director

Stephen Lowden, 55, was appointed as a non-executive director in August 2011. He 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, where Zoltav is focused. 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.

Symon Drake-Brockman – Non-executive Director

Symon Drake-Brockman, 53, was appointed Executive Chairman in August 2011; and subsequently became a non-executive director in December 2014. He has a wealth of experience from a long career in finance covering both debt and equity markets and 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

Michael Lombardi, 58, 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, one of the world's largest offshore law firms, headquartered in Jersey. As a partner for over fifteen years, providing integrated legal and administration services on an international basis, Michael Lombardi has a wealth of experience in advising on risk management and governance structures. He is a director of Ogier Fund Administration (Jersey) Limited, which has over US$20 billion in assets under administration and is a subsidiary of Ogier Fiduciary Services Limited, which has total assets under administration exceeding US$250 billion. He is a founder director of the Channel Islands Stock Exchange and the author of a guide to corporate governance in Jersey.

Marcus Rhodes - Non-executive Director

Marcus Rhodes, 53, was appointed as a non-executive director in May 2014. He is an experienced director of major publicly-listed companies operating in Russia and the CIS. He is a qualified chartered accountant and a member of the Institute of Accountants in England & Wales. Marcus Rhodes is currently a non-executive director and chairman of the audit committee of NASDAQ-listed QIWI plc, a major provider of payment solutions in Russia and the CIS. He is also a non-executive director and chairman of the audit committee for the Russian company PhosAgro OJSC, one of the world's leading producers of phosphate-based fertilisers and listed on the London Stock Exchange, Tethys Petroleum Limited, the London Stock Exchange-listed company with assets in Central Asia and the Caspian region, London Stock Exchange-listed Cherkizovo Group OJSC, Russia's largest meat producer and the MICEX and RTS-listed Rosinter Restaurants Holding OJSC, the leading casual dining chain operator in Russia and the CIS. From 2008-2012, Marcus Rhodes was a non-executive director and chairman of the audit committee for NYSE-listed Wimm-Bill-Dann Foods OJSC, one of Europe's largest dairy products companies, headquartered in Moscow. From 2010-2012 he was a non-executive director and chairman of the audit committee for London Stock Exchange-listed Ros Agro plc, one of the largest agriculture industry holding companies in Russia. Marcus Rhodes was an audit partner for Ernst & Young from 2002-2008. Prior to that, he was an audit partner for Arthur Andersen from 1998-2002.

Yulia Lebedina – Non-executive Director

Yulia Lebedina, 36, was appointed as a non-executive director in November 2014. She is an experienced corporate lawyer based in Moscow and is currently Head of the Corporate Department at Millhouse LLC, responsible for corporate governance and the provision of legal and corporate support for transactions. Yulia Lebedina initially joined Millhouse LLC in 2006 in the group's legal department, prior to which she was Senior Corporate Counsel at Sibneft OJSC (now Gazprom Neft), one of Russia's leading oil producers.

The Directors of the Company present their annual report together with the audited consolidated financial statements for the year ended 31 December 2014.

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

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

Results
The results of the Company are as shown on page 30.

Dividends
The Directors do not recommend the payment of a final dividend and no interim dividend was paid during the year (2013: US$nil).

Share capital
Details of movements in the share capital of the Company during the year are set out in note 2.16 to the financial statements. The Company's policy in respect of capital and risk management is set out in note 28.

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 going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern.

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 2014		31 December 2013	
	Number of ordinary shares	Percentage of existing share capital	Number of ordinary shares	Percentage of existing share capital
Symon Drake-Brockman	469,055	0.3%	469,055	0.8%
Stephen Lowden	-	-	-	-
John Grimshaw (resigned 19 May 2014)	-	-	-	-
Michael Lombardi	-	-	-	-
Oliver Donagher (resigned 19 May 2014)	-	-	-	-
Alastair Ferguson	-	-	-	-
Andrey Komarov (appointed 17 November 2014)	-	-	-	-
Yulia Lebedina (appointed 17 November 2014)	-	-	-	-
Marcus Rhodes	-	-	-	-
	469,055	0.3%	469,055	0.8%

	31 December 2014	31 December 2013
	Number of ordinary share options	Number of ordinary share options
Symon Drake-Brockman	1,250,000	1,250,000
Stephen Lowden	500,000	500,000
John Grimshaw (resigned 19 May 2014)	-	-
Michael Lombardi	-	-
Oliver Donagher (resigned 19 May 2014)	-	-
Alastair Ferguson	-	-
Andrey Komarov (appointed 17 November 2014)	-	-
Yulia Lebedina (appointed 17 November 2014)	-	-
Marcus Rhodes	-	-
	1,750,000	1,750,000

On 12 December 2014 the expiry date of Messrs Drake-Brockman and Lowden's Options was extended to 30 October 2017.

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 2014 were as follows:

	Number of ordinary shares	Percentage of existing share capital
ARA Capital Limited	56,243,076	39.6%
Bandbear Limited	56,243,076	39.6%
Crediton Invest Limited	6,353,568	4.5%
Matteson Overseas	6,353,568	4.5%
	125,193,288	88.2%

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 28 to the financial statements.

Independent Auditor

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:

AMFeG.

Alastair Ferguson
Executive Chairman
23 April 2015

Introduction

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

Compliance

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

This statement sets out measures taken by the Board to apply the principles of the Code to the year ended 31 December 2014 and to the date of the Directors' Report.

Board of directors

Role of the Board

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

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

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

Board composition

The Board currently comprises two executive directors and five non-executive directors of whom three are deemed to be independent:

- Alastair Ferguson – Executive Chairman
- Andrey Komarov – Executive Director
- Stephen Lowden – Senior Independent Director
- Michael Lombardi – Independent Non-executive Director
- Symon Drake-Brockman –Non-executive Director
- Marcus Rhodes – Independent Non-executive Director
- Yulia Lebedina – Non-executive Director

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, Elian 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 and Michael Lombardi with Stephen Lowden as Chairman.

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

The report on remuneration is set out on page 26.

Attendance at Board and Committee Meetings

The board held three in person board meetings during 2014. These were attended by all the directors appointed at the time who were able to attend.

The table below sets out the total number of meetings of the Board and its committees during the year and attendance by members at those meetings. In addition to the three "in person" board meetings five others were held on an ad hoc basis to facilitate the acquisition of Diall.

	Board	Audit committee	Nomination and Remuneration
Meetings held during the year	8	2	2
Meetings attended during the year:			
Symon Drake-Brockman	3	-	
Stephen Lowden	3	2	2
John Grimshaw (Resigned 19 May 2014)	5	1	
Oliver Donagher (Resigned 19 May 2014)	5	-	
Michael Lombardi	5	2	2
Alastair Ferguson (Appointed 19 May 2014)	3	-	1
Marcus Rhodes (19 Appointed May 2014)	3	1	

Internal control

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

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

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

The Board has considered the need for an internal audit function but has decided, after taking into account the current status of the Company, such a function is not at present justified.

Relations with Shareholders

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

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

Report on remuneration

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

Policy on remuneration

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

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

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

Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2014 is shown in the table below:

	Alastair Ferguson [1]	Symon Drake-Brockman	Andrey Komarov [1]	Marcus Rhodes [1]	Michael Lombardi	Stephen Lowden	Yulia Lebedina [1]	John Grimshaw	Oliver Donagher	Total
	US$	US$	US$	US$	US$	US$	US$	US$	US$	US$
Salary	252,680	666,461	7,363	65,891	59,369	138,568	7,363	19,206	23,047	1,239,948
Share based complensation	-	-	-	-	-	-	-	-	-	-
2014 Total	**252,680**	**666,461**	**7,363**	**65,891**	**59,369**	**138,568**	**7,363**	**19,206**	**23,047**	**1,239,948**
Salary	-	234,769	-	-	44,186	131,492	-	44,186	26,936	481,569
Share based compensation	-	-	-	-	-	-	-	-	-	-
2013 Total	**-**	**234,769**	**-**	**-**	**44,186**	**131,492**	**-**	**44,186**	**26,936**	**481,569**

[1] Represents remuneration since joining the board.

Share price

During the year, the share price of the Company traded in the range of £0.54 to £1.70 pence. The shares were readmitted to trading on Aim on 17 June following the acquisition of RAECL and resumed trading from suspension on 23 May 2014.

Report on the group financial statements

Our opinion

In our opinion, Zoltav Resources Inc.'s non-statutory group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its profit 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.

What we have audited

Zoltav Resources Inc.'s financial statements comprise:

- the consolidated statement of financial position as at 31 December 2014;
- 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.

Certain required disclosures 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.

The financial reporting framework that has been applied in the preparation of the financial statements 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.

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 22, 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 International Standards on Auditing (UK and Ireland) ("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 for reporting obligations under the AIM rules for Companies issued by the London Stock Exchange in accordance with our engagement letter dated 23 September 2014 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Other matter

We draw attention to the fact that these financial statements have not been prepared under section 394 of the Companies Act 2006 and are not the company's statutory group financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
23 April 2015

Consolidated statement of comprehensive income for the year ended 31 December 2014
(in '000s US dollars, unless otherwise stated)

	Note	2014	2013
Revenue	6	**20,018**	-
Cost of sales	7		
Production based taxes		(3,871)	-
Depreciation, depletion and amortization		(4,241)	-
Other cost of sales		(5,407)	-
Total cost of sales		**(13,519)**	-
Gross profit		**6,499**	-
Operating, administrative, selling expenses	8	(14,196)	(4,419)
Other gains/(losses) - net		138	30
Loss before exceptional items		**(7,559)**	**(4,389)**
Gain on acquisition	4	34,974	-
Profit/(loss) after exceptional items		**27,415**	**(4,389)**
Finance income	10	489	-
Finance cost	10	(3,798)	-
Profit/(loss) before tax	11	**24,106**	**(4,366)**
Taxation	12	(2,399)	42
Profit/(loss) for the year attributable to owners of the parent		**21,707**	**(4,324)**
Items that may be subsequently reclassified to the income statement			
Currency translation differences		(74,927)	493
Other comprehensive income for the year		**(74,927)**	**493**
Total comprehensive income/(loss) for the year		**(53,220)**	**(3,831)**
Income/(loss) per share attributable to owners of the parent during the year:		$ cents	$ cents
Basic		20.74	(11.72)
Diluted		20.25	(10.87)

Consolidated statement of financial position as at 31 December 2014
(in '000s US dollars, unless otherwise stated)

	Note	2014	2013
ASSETS			
Non-current assets			
Exploration and evaluation assets	13	83,922	38,099
Property, plant and equipment	14	82,163	5
Total non-current assets		**166,085**	**38,104**
Current assets			
Inventories	15	323	-
Trade and other receivables	16	3,139	828
Financial assets at fair value through profit or loss		196	307
Cash and cash equivalents	17	10,694	7,265
Total current assets		**14,352**	**8,400**
TOTAL ASSETS		**180,437**	**46,504**
EQUITY AND LIABILITIES			
Share capital	18	28,391	11,432
Share premium		159,899	42,975
Other reserves		43,592	44,350
Accumulated losses		(39,542)	(61,249)
Translation reserve		(74,434)	493
Total equity		**117,906**	**38,001**
Non-current liabilities			
Borrowings	22	39,076	-
Provisions	23	10,649	4,383
Deferred tax liabilities	24	5,369	3,923
Total non-current liabilities		**55,094**	**8,306**
Current liabilities			
Borrowings	22	3,200	-
Other taxes payable	25	1,137	25
Trade and other payables	26	3,100	172
Total current liabilities		**7,437**	**197**
TOTAL LIABILITIES		**62,531**	**8,503**
TOTAL EQUITY AND LIABILITIES		**180,437**	**46,504**

The consolidated financial statements on pages 30 to 64 were approved by the Board of Directors and authorised for issue on 23 April 2014.

Consolidated statement of cash flows for the year ended 31 December 2014
(in '000s US dollars, unless otherwise stated)

	2014	2013
Cash flows from operating activities		
Operating gain/(loss)	**24,106**	**(4,389)**
Adjustments for:	**-**	
Gain on acquisition	(34,974)	-
Change in estimates of decommissioning and environmental restoration provisions	753	17
DD&A	4,330	-
Net finance costs	3,309	
Other gains/(losses) - net	(170)	(30)
Operating cash inflows/(outflows) before working capital changes	**(2.646)**	**(4,402)**
Increase in inventory	(18)	-
Decrease/(increase) in other receivables	3,057	(725)
Increase/(decrease) in trade and other payables	(2,271)	107
Net cash from/(used in) operating activities before tax paid and interests	**(1,878)**	**(5,020)**
Interest received	439	12
Interest paid	(3,046)	-
Income tax paid	(15)	-
Net cash from/(used in) operating activities	**(4,500)**	**(5,008)**
Cash flows from investing activities		
Disposal of investment securities	-	127
Acquisition of subsidiaries	(58,941)	-
Net cash acquired on acquisition of Royal Group	9,229	82
Capital expenditure in relation to exploration and evaluation activities	(8,359)	(3,636)
Purchase of property, plant and equipment	(4,810)	(5)
Net cash (used in)/generated from investing activities	**(62,881)**	**(3,432)**
Cash flows from financing activities		
Proceeds from borrowings	4,024	777
Repayment of borrowings	-	(381)
Issue of ordinary shares	71,898	15,000
Net cash generated from financing activities	**75,922**	**15,396**
Net increase/(decrease) in cash and cash equivalents	**8,541**	**6,957**
Translation differences	(5,112)	200
Cash and cash equivalents at the beginning of the year	**7,265**	**108**
Cash and cash equivalents at the end of the year	**10,694**	**7,265**

Consolidated statement of changes in equity for the year ended 31 December 2014
(in '000s US dollars, unless otherwise stated)

	Share capital	Share premium	Capital reserve	Employee share-based compensation reserve	Convertible loan note	Accumulated losses	Translation reserve	Total equity
At 1 January 2013	**3,752**	**8,892**	**40,444**	**3,906**	**61**	**(56,925)**	**-**	**130**
Issue of shares on conversion	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	-	-	-	-	-	-	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**
Issue of ordinary shares	16,959	116,924	-	-	-	-	-	133,883
Employee share-based compensation	-	-	-	(758)	,	,	,	(758)
Transactions with owners	16,959	116,924	-	(758)	-	-	-	133,125
Translation reserve movements	-	-	-	-	-	-	(74,927)	(74,927)
Income/(loss) for the year	-	-	-	-	-	21,707	-	21,707
At 31 December 2014	**28,391**	**159,899**	**40,444**	**3,148**	**-**	**(39,542)**	**(74,434)**	**117,906**

FOR THE YEAR ENDED 31 DECEMBER 2014 (in '000s US dollars, unless otherwise stated)

1 Background

1.1 The Company and its operations

The Zoltav Group (Group) comprises Zoltav Resources Inc. (Company), together with its subsidiaries:

Name	Place of incorporation	Function
Zoltav Resources Holdings (Jersey) Limited	Jersey	Holding company
ZRI Services (UK) Ltd	United Kingdom	Service company
CenGeo Holdings Limited (hereinafter "CenGeo Holdings")	Cyprus	Holding company
CJSC SibGeCo (hereinafter "SibGeCo")	Russia	Operating company
Royal Atlantic Energy (Cyprus) Limited (hereinafter "Royal")	Cyprus	Holding company
Diall Alliance LLC (hereinafter "Diall")	Russia	Operating company
Vostok Energy LLC (hereinafter "Vostok") was renamed as Zoltav Resource LLC	Russia	Management company

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 and the CIS. 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 4 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.

Royal Atlantic Energy (Cyprus) Limited, incorporated in Cyprus, was acquired by Zoltav Resources Holdings (Jersey) Limited on 18 June 2014. Royal Atlantic Energy (Cyprus) Limited has a 100% interest in Diall Alliance LLC, incorporated in Russia, which holds the Bortovoy exploration and production licence, and in Zoltav Resource LLC "), incorporated in Russia, which is a management company for Diall Alliance LLC.

Zoltav Resources Holdings (Jersey) Limited was incorporated in Jersey as a private limited company on 9 January 2013 and acts as a holding company for the Group's investments.

ZRI Services (UK) Ltd was incorporated in the United Kingdom as a private limited company on 29 January 2013 and provides London-based services to the Group.

1.2 Russian business environment

The Company's operations are located in the Russian Federation

1.3 Russian Federation

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

The recent political and economic turmoil witnessed in the region, in particular the developments in Ukraine, and falling crude oil prices, have had and may continue to have a negative impact on the Russian economy, including further weakening of the Russian Ruble, higher interest rates, reduced liquidity and making it harder to raise international funding. These events, including current and future international sanctions against Russian companies and individuals and the related uncertainty and volatility of the financial markets, may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management's expectations.

Whilst not currently affecting the Company's operations, the sanctions being imposed by the European Union and the United States of America continue to evolve. The Company cannot confirm that the sanctions will not have an effect on the Company's operations or its ability to access international capital markets in the future.

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

A number of new and amended IFRS and IFRIC interpretations became effective as of 1 January 2014 as described below:

(a) Amendments early adopted by the Company
There were no standards, amendments and interpretations adopted early by the Company.

(b) New Standards, Amendment to Standards and Interpretations effective and relevant
IAS 27 Separate Financial Statements, IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of interests in other entities 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 standard provides additional guidance to assist in the determination of control where this is difficult to assess

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

The adoption of these Accounting Standards didn't have a material impact on the Company's consolidated financial statements.

(c) Standards, Amendments and Interpretations effective but not relevant

		Effective for annual periods beginning or after
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011)	01-Jan-14
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 11	Joint Arrangements	01-Jan-14
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.

(d) Standards, Amendments and Interpretations not effective

IFRS 9	Financial Instruments - classification and measurement	01-Jan-18

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 (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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; unrealised losses are also eliminated unless the cost cannot be recovered.

The Company and its subsidiaries outside the Russian Federation maintain their financial statements in accordance with IFRSs as adopted by the EU. The Russian subsidiaries of the Group maintain their statutory accounting records in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The consolidated financial statements are based on these statutory accounting records, appropriately adjusted and reclassified for fair presentation in accordance with International Financial Reporting Standards as adopted by the EU. A list of the Company's subsidiaries is provided in Note 1.

2.5 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.

2.6 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.

2.7 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 Ruble ("RUB"). It is the Management's view that the RUB best reflects the financial results of its Cyprus subsidiaries because they are dependent on entities based in Russia that operate in an RUB environment in order to recover their investments. As a result, the functional currency of the Cypriot and Russian subsidiaries continues to be the RUB.

(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

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

The major exchange rates used for the revaluation of the closing balance sheet at 31 December 2014 were:

US$ 1: RUB 56.2584 (2013: US$ 1: RUB. 32.7292)

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.

2.8 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.

(a) Drilling, seismic and other costs

Costs directly associated with an exploration well, including certain geological and geophysical costs, and exploration and property leasehold acquisition costs, are capitalised until the 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.

(b) Sub-soil licences

Costs incurred prior to the award of oil and gas licences, concessions and other exploration rights are expensed in profit or loss. Costs incurred on the acquisition of a licence interest are initially capitalised on a licence by licence basis and are capitalised within exploration and evaluation assets and held un-depleted until the exploration phase on the licence is complete or commercial reserves have been discovered at which time the costs are transferred to development assets as part of property, plant and equipment - oil and gas assets.

2.9 Property, plant and equipment

(a) Property, plant and equipment – oil and gas assets
Oil and gas assets are stated at cost less accumulated depletion or accumulated depreciation and, where relevant, impairment costs.

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

Development and production assets are accumulated generally on a field by field basis and represent the cost of developing the commercial reserves discovered and bringing them into production together with E&E expenditures incurred in finding commercial reserves and transferred from the intangible E&E assets as described above. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, any costs directly attributable to bringing the asset into operation, and the cost of recognising provisions for future restoration and decommissioning, if any.

Major facilities may be capitalised separately if they relate to more than one field or to the licence area as a whole. Subsequent expenditure is capitalised only if it either enhances the economic benefits of the development/production asset or replaces part of the existing development/production asset. Any costs remaining associated with the part replaced are expensed. Directly attributed overheads are capitalised where they relate to specific exploration and development activities.

(i) Depletion
Oil and gas properties in production, including wells and directly related pipeline costs, are depreciated using the unit-of-production method. Sub-soil licences and other licenses capitalised as part of oil and gas properties in production are amortised also using the unit-of-production method. Unit-of-production rates are based on proved reserves of the field concerned, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date.

(ii) Depreciation
Major oil and gas facilities that have a shorter useful life than the lifetime of the related fields are depreciated on a straight-line basis over the expected useful life of the facility. Depreciation of items of such assets is calculated using straight-line method to allocate their cost to their residual values over their estimated useful lives:

Buildings and constructions – 15-30 years

Machinery and equipment – 5 years

The asset's residual values and useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period.

(b) Property, plant and equipment – other business and corporate assets
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The gain or loss arising from a retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognised in the income statement.

Depreciation is provided on buildings and facilities, motor vehicles, office equipment and furniture at rates calculated to write off the cost, less estimated residual value, evenly over its expected useful life.

For depreciation purposes, useful lives are estimated as follows:

Other equipment and furniture – 5 years

Motor vehicles – 5 years

2.10 Impairment of non-current assets

(i) Impairment indicators
Exploration and evaluation assets are tested for impairment when facts and circumstances assessed in accordance with IFRS 6 suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount and in any event prior to the transfer of the carrying value to development and production assets. Other non-current assets are tested for impairment whenever events or changes in circumstances assessed in accordance with IAS 36 indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

(ii) Calculation of recoverable amount
The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Cash generating units
For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

For the purposes of assessing impairment, exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region. For development and production assets the cash generating unit applied for impairment test purposes is generally the field. For shared infrastructure a number of field interests may be grouped together where surface infrastructure is used by several fields in order to process production for sale.

(iv) Reversals of impairment
An impairment loss is reversed to the extent that the factors giving the rise to the impairment charge are no longer prevalent. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion, depreciation or amortisation, if no impairment loss had been recognised.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

2.11 Inventories

Unsold natural gas and hydrocarbon liquids and sulphur in storage are stated at the lower of cost of production or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Materials and supplies inventories include chemicals necessary for production activities and spare parts for the maintenance of production facilities. Materials and supplies inventories are recorded at cost and are carried at amounts which do not exceed the expected recoverable amount from use in the normal course of business. Cost of inventory is determined on a weighted average basis. Cost of finished goods comprises direct materials and, where applicable, direct labour plus attributable overheads based on a normal level of activity and other costs associated in bringing inventories to their present location and condition, but excludes borrowing costs. Lower value items of materials and supplies are written-off directly to profit or loss.

2.12 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.

2.13 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.

2.14 Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.15 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.

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

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

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

2.16 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.

2.17 Revenue recognition
Revenue, which is the fair value of consideration received or receivable, is recognised when it is probable that economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group. The following criteria must also be met before revenue is recognised:

(i) Sale of goods
Revenue from the sale of oil, gas, and condensate is recognised when the title passes to the customer.

(ii) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

2.18 Mineral extraction tax
In the Russian Federation MET is payable on the extraction of hydrocarbons, including natural gas, crude oil and condensate, and is levied based on quantities of natural resources extracted multiplied by the applicable MET rate for the product and field in question. MET is a production based tax (as opposed to income) and is accrued as a tax on production and recorded within cost of sales.

2.19 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.

2.20 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.

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 2014 the provision has been estimated using a discount rate of 11.96% (31 December 2013: 8.43%) and a core inflation rate of 11.4% (2013: 3.4%).

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.

3.3 Impairment of assets

(a) Exploration and evaluation:

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

When, at the end of the exploration and evaluation stage, commercial reserves are determined to exist in respect of a particular field the 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.

(b) Development and Production:

When the fields enter the production phase, the recoverable amounts of cash-generating units and individual assets will be determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations will require the use of estimates and assumptions. It is reasonably possible that the oil price assumption may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of long-term assets.

The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets. There were no such indicators of possible impairment identified during the reporting years covered by this historical financial information.

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.

3.5 Evaluation of reserves and resources

Estimates of proved reserves are used in determining the depletion charge for the period and assessing whether any impairment charge/or reversal of impairment is required for development and producing assets. Proved reserves are estimated by an independent international Oil and Gas Engineering Firm, by reference to available geological and engineering data, and only include volumes for which access to market is assured with reasonable certainty.

When the fields enter the development and production phase, estimates of reserves are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells and changes in economic factors, including product prices, contract terms or development plans. Changes to Group's estimates of proved reserves affect prospectively the amounts of the depletion charge, decommissioning assets and provisions where change in reserve estimates cause the estimated useful lives of assets to be revised.

Depletion is provided based on the production profile on a field by field basis which may exceed the existing licence period. Licence extensions are generally awarded by the license authorities in Russia as a matter of course provided that production plans demonstrate that additional time is required to economically produce the field and that the development and production requirements of the initial license grant have been met.

3.6 Sub-soil licences

The Group is subject to periodic reviews of its activities by governmental authorities in Russia with respect to the requirements of its sub-soil licences and seeks amendments to the licences when supported by the results of ongoing exploration and development activities. The requirements under the licences are subject to interpretation and enforcement policies of the relevant authorities. In management's opinion, as of 31 December 2014, there are no non-compliance issues that will have an adverse effect on the financial position or the operating results of the Group.

4 Acquisitions

4.1 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.

4.2 Acquisition of Royal

On 13 December 2013, the Company signed a Sale and Purchase Agreement with Bandbear Limited to acquire 100% of the share capital of Royal Atlantic Energy (and with it the Bortovoy Licence described above). The acquisition was completed on 18 June 2014 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) and the payment of US$58.94 million in cash. In addition, following the transaction the Group assumed US$59.9 million of bank debt held by Royal Atlantic Energy. The acquired business will increase the Group's penetration of its chosen upstream gas and oil market, provide operating cash flow immediately and is expected to provide value to its shareholders through developing and producing hydrocarbons in the Saratov Region of the Russian Federation.

The acquisition-date fair value of the total purchase consideration and its components are as follows:

In million of US Dollars	
Cash consideration paid	58.9
Fair value of new issued shares of the acquirer	61.2
Total purchase consideration	120.1

The fair value of the new issued shares of the acquirer was determined on the basis of the closing market price of the ordinary shares on the date which Zoltav signed an Acquisition Agreement with Bandbear.

Acquisition related transaction costs of US$3.2 million were expensed as operating, administrative, selling expenses.

In accordance with IFRS 3 "Business Combinations", the Group is required to account for acquisitions based on the fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed.

In millions of US Dollars	Attributed Fair Value
Cash and cash equivalents	9.2
Exploration and evaluation assets	90.0
Property, plant and equipment	128.9
Inventories	0.5
Trade and other receivables	7.5
Borrowings	(62.1)
Provisions	(9.1)
Trade and other payables	(5.6)
Other taxes payable	(1.8)
Deferred tax liabilities	(2.4)
Fair value of identifiable net assets of subsidiary	155.1
Negative goodwill arising from the acquisition	(35.0)
Total purchase consideration (net of assumed liability)	120.1
Less: Non-cash consideration	(61.2)
Outflow of cash and cash equivalents on acquisition	58.9

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The fair values of assets and liabilities acquired are based on a combined valuation approach that considered both discounted cash flows expected to be generated from the acquired business and a multiple based approach looking to similar recent observable market transactions The valuation of identifiable tangible and intangible assets was performed by an independent professional appraiser. Based on the appraisal report the following items were included in the purchase price allocation:

- Mineral rights valued at US$90.0 million;
- Property, plant and equipment valued at US$128.9 million.

The fair value of the assets acquired and liabilities assumed is greater than the purchase consideration given. The resultant negative goodwill of $35.0 million is as a result the initial acquisition of the assets by Bandbear following the administration of the former owner and the related party nature of the transaction. The negative goodwill on acquisition has been immediately recognised in the income statement as a gain on acquisition.

The revenue included in the consolidated income statement from 18 June 2014 to 31 December 2014 and contributed by Diall Alliance LLC was US$20.02 million. Had Diall Alliance been consolidated into the Group from 1 January 2014, the consolidated income statement for the year ended 31 December 2014 would show pro-forma revenue of US$38.14 million (year ended 31 December 2013: US$47.2 million).

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.

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.

5.3 Fair value measurements recognised in the statement of financial position

	2014	2013
Listed securities:		
Equity securities -United Kingdom	196	307

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 2014				
Financial assets at FVPL	196	-	-	196
31 December 2013				
Financial assets at FVPL	307	-	-	307

There were no transfers between level 1, 2 and 3 during the year (2013: none).

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

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

	31 December 2014	31 December 2014	31 December 2013	31 December 2013
	Fair value	Carrying value	Fair value	Carrying value
Financial assets				
Trade and other receivables	3,139	3,139	828	828
Cash and cash equivalents	10,694	10,694	7,265	7,265
Total ASSETS	**13,833**	**13,833**	**8,093**	**8,093**
Financial liabilities				
Borrowings	40,606	42,275	-	-
Trade and other payables	3,100	3,100	172	172
Total LIABILITIES	**43,706**	**43,706**	**172**	**172**

The fair value of borrowings is based on cash flows discounted using a rate based on the borrowing rate of 12.02% and is within level 2 of the fair value hierarchy.

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6 Revenue

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

Revenue is primarily from the sale of three products:

	2014	2013
Gas sales	15,721	-
Oil sales	1,927	-
Condensate sales	2,370	-
Total sales	**20,018**	-

All gas sales are to one customer, Gazprom Mezhreiongaz Saratov LLC under a long term contract effective till 31 December 2015 with terms reviewed annually. Condensate and oil are sold to regional buyers. The sales of all three products are denominated in RUB.

7 Cost of sales

	2014	2013
Depreciation and depletion	4,241	-
Mineral extraction tax	3,871	-
Wages and salaries	1,579	-
Repair and maintenance	1,378	-
Materials and supplies	1,144	-
Other taxes and royalties	363	-
Compensation benefits to operations personnel	230	-
Other	713	-
Total cost of sales	**13,519**	-

8 Operating, administrative, selling expenses

	2014	2013
Accountancy, audit, legal and consulting services [1]	7,055	1,872
Wages and salaries including Director's fee	3,107	1,121
Rent expense	585	-
Currency translation differences	24	(11)
Other	3,425	1,437
Total operating, administrative, selling expense	**14,196**	4,419

[1] Included within the accountancy, audit, legal and consulting services are US$3.2 million of expenses in respect of the acquisition of Diall.

9 Employee benefit expenses (including directors' remuneration)

	2014	2013
Salaries, allowances and benefits in kind	4,686	1,121
Share-based compensation	-	-
	4,686	**1,121**

Average monthly Number of Employees for the year (including executive directors)

	2014 Number	2013 Number
Administrative	85	1
Operating	197	-
Total	**282**	**1**

10 Net finance (costs)/income

	2014	2013
Interest on borrowings	(3,239)	(5)
Interest on deposits	489	17
Unwinding of the discount on decommissioning and environmental restoration provision	(559)	11
Total	**(3,309)**	**23**

11 Profit/(loss) before taxation

	2014	2013
Profit/(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	470	219
Fees payable to the Company's auditors' for other services:		
- Other assurance services [1]	839	969
- Tax advisory and compliance	75	30
Employee benefits expenses (including Directors' remuneration)	4,686	1,121

[1] Fees for other assurance services are in respect of the Company's readmission to Aim and the acquisition of Diall Alliance.

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12 Taxation

The tax charge for the year comprises:

	2014	2013
Current tax expense	9	-
Deferred tax expense	(2,408)	42
Total income tax expense	**(2,399)**	**42**

Reconciliation between expected and actual taxation charge is provided below.

	2014	2013
Profit before income tax	**24,106**	**(4,366)**
Theoretical tax charge at applicable income tax rate of 0% (2013: 0%)	-	-
Effect of different foreign tax rates	(172)	-
Unrecognized DT assets	(1,555)	-
Tax effect of expenses not deductible for tax purposes	(672)	42
Total income tax expense	**(2,399)**	**42**

The Company is subject to Jersey income tax at the rate of 0% (2013 0%).

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

13 Exploration and evaluation assets

	Sub-soil licences	Drilling, seismic and other costs	Decommissioning asset	Construction work in progress	Total
Balance at 1 January 2014	**19,212**	**15,210**	**1,828**	**1,849**	**38,099**
Additions	38,254	59,707	469	162	98,592
Reclassification	1,575	2	-	(1,577)	-
Transfer to Property, plant and equipment	-	(612)	-	-	(612)
Change in the estimates of decommissioning provision	-	-	1,335	-	1,335
Exchange difference	(22,581)	(29,223)	(1,363)	(325)	(53,492)
Balance at 31 December 2014	**36,460**	**45,084**	**2,269**	**109**	**83,922**

Additions in the year include additions on acquisition of Royal Atlantic Energy of US$25.8 million, US$63.7 million and US$0.5 million in respect of 'licences and other intangibles', 'exploration, evaluation and other property plant and equipment' and 'decommissioning asset' respectively.

In management's opinion, as at 31 December 2014 there were no non-compliance issues in respect of the licences that would have an adverse effect on the financial position or the operating results of the Group.

All of the Group's exploration and evaluation assets are denominated in RUB. The significant exchange differences recorded here reflect the significant movement in the RUB, the functional currency of Diall and Royal, and the US$, the Group reporting currency.

14 Property, plant and equipment

	Oil and gas assets	Motor vehicles	Other equipment and furniture	Construction work in progress	Total
Cost (Balance at 1 January 2014)	**-**	**-**	**5**	**-**	**5**
Additions	121,244	437	216	14,533	136,430
Reclassification	6,209	35	-	(6,244)	-
Transfer from exploration and evaluation assets	589	-	-	23	612
Disposals	(431)	(24)	(1)	(208)	(664)
Exchange difference	(48,690)	(183)	(82)	(3,077)	(52,032)
Balance at 31 December 2014	78,921	265	138	5,027	84,351
Accumulated depreciation and impairment					
Balance at 1 January 2014	-	-	-	-	-
Depreciation and depletion	(4,151)	(69)	(109)	-	(4,329)
Disposals	74	20	1	-	95
Exchange difference	1,975	28	43	-	2,046
Balance at 31 December 2014	(2,102)	(21)	(65)	-	(2,188)
Net book value at 1 January 2014	**-**	**-**	**5**	**-**	**5**
Net book value at 31 December 2014	**76,819**	**244**	**73**	**5,027**	**82,163**

Additions in the year include additions on acquisition of Royal Atlantic Energy of US$128.4 million, US$0.4 million and US$0.1 million in respect of 'oil and gas assets', 'motor vehicles' and 'other equipment and furniture' respectively.

Substantially all of the Group's property, plant and equipment assets are denominated in RUB. The significant exchange differences recorded here reflect the significant movement in the RUB, the functional currency of Diall and Royal, and the US$, the Group reporting currency.

15 Inventories

	2014	2013
Natural gas and hydrocarbon liquids	36	-
Materials and supplies	287	-
Total inventories	323	**-**

16 Trade and other receivables

	2014	2013
Trade receivables	2,512	-
Prepayments	453	127
Other accounts receivable	69	-
VAT receivable	103	662
Other taxes prepaid	2	39
Total trade and other receivables	3,139	828

Prepayments are advance payments for services to be rendered within the next twelve months.

Current VAT receivable is expected to be recovered within the next twelve months.

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17 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 28.

18 Share capital

At 31 December 2014	Number of ordinary shares	Nominal Value
Authorised (par value of US$0.20 each)	250,000,000	50,000
Issued and fully paid (par value of US$0.20 each)	141,955,385	28,391
At 31 December 2013		
Authorised (par value of US$0.20 each)	250,000,000	50,000
Issued and fully paid (par value of US$0.20 each)	57,161,189	11,432

On 31 March 2014, Zoltav received US$5.0 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 31 March 2014, 4,549,591 shares of US$0.20 were issued for consideration of US$5,000,000.

On 12 June 2014, 100,000 shares of nominal value of US$0.20 were issued as a result of the warrants exercise for a consideration of US$167,361. The amount of US$95,193 was transferred from employee share-based compensation reserve to share premium upon exercise of the warrants.

On 18 June 2014, 38,263,095 shares of US$1.60 were issued for a consideration of US$61,220,952. The subscription was received from Bandbear Limited as part of the consideration for the acquisition of the entire issued share capital of Royal Atlantic Energy (Cyprus) Limited.

On 18 June 2014, The Company raised a total of US$65,946,418 through the issue of 41,216,511 shares at US$1.60 (100 pence). Subscriptions were received from ARA Capital (US$45.615 million for 28,509,375 shares), Crediton Invest (US$10.166 million for 6,353,568 shares) and Matteson Overseas (US$10.166 million for 6,353,568 shares). An exchange rate of US$1.60: £1.00 was agreed in the Subscription Agreements.

On 20 June 2014, 250,000 shares of US$0.20 were issued as a result of the warrants exercise for a consideration of US$425,690. The amount of US$235,245 was transferred from employee share-based compensation reserve to share premium upon exercise of the warrants.

On 26 June 2014, 250,000 shares of US$0.20 were issued as a result of the options exercise for a consideration of US$85,138. The amount of US$271,246 was transferred from employee share-based compensation reserve to share premium upon exercise of the options.

On 15 July 2014, 15,000 shares of US$0.20 were issued as a result of the warrants exercise for a consideration of US$25,685. The amount of US$14,182 was transferred from employee share-based compensation reserve to share premium upon exercise of the warrants.

On 25 July 2014, 110,000 shares of US$0.20 were issued as a result of the warrants exercise for a consideration of US$186,678. The amount of US$104,003 was transferred from employee share-based compensation reserve to share premium upon exercise of the warrants.

On 28 July 2014, 40,000 shares of US$0.20 were issued as a result of the warrants exercise for a consideration of US$67,950. The amount of US$37,819 was transferred from employee share-based compensation reserve to share premium upon exercise of the warrants.

19 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. No dividends were paid.

20 Earnings/(loss) per share

Basic earnings/(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.

Diluted earnings/(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.

	2014	2013
Earnings/(loss) attributable to owners of the Company – Basic	21,786	(4,324)
Earnings/(loss) attributable to owners of the Company – Diluted	21,786	(4,324)
	Number of Shares	Number of Shares
Weighted average number of shares for calculating basic loss per share	105,022,152	36,895,011
Effect of dilutive potential ordinary shares – warrants	301,377	527,500
Effect of dilutive potential ordinary shares - share options	2,236,678	2,367,500
Weighted average number of shares for calculating diluted loss per share	107,560,207	39,790,011
	US cents	US cents
Basic earnings/(loss) per share	20.74	(11.72)
Diluted earnings/(loss) per share	20.25	(10.87)

21 Share-based payments

21.1 Share Options

At 31 December 2014, the Company had a total of 2,117,500 outstanding share options (2013: 2,367,500). The only movement in share options was a result of the exercise 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.

	2014		2013	
Date of grant	Number	Option exercise price (pence)	Number	Option exercise price (pence)
11 January 2005	117,500	423	117,500	423
23 March 2006	10,000	1904	10,000	1904
23 February 2007	7,500	653	7,500	653
11 January 2008	232,500	445	232,500	445
31 October 2012	1,750,000	20	2,000,000	20
	2,117,500		**2,367,500**	

No share options were granted during the year ended 31 December 2014.

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21.2 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 at that time. 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:

	2014		2013	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at 1 January	367,500	482.2	7,350,000	24.11
Share consolidation	-		(6,982,500)	
Outstanding at 31 December	**367,500**	482.2	**367,500**	482.2

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.

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 (2013 US$1,235,000).

21.3 Directors Share Options

Share options granted to certain existing 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:

	2014		2013	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
Outstanding at 1 January	2,000,000	20.00	40,000,000	1.00
Issued in the year	-		-	
Exercised	(250,000)		-	
Share consolidation	-		(38,000,000)	
Outstanding at 31 December	**1,750,000**	20.00	**2,000,000**	20.00

250,000 share options were exercised during the year ended 31 December 2014. The options were exercised on 24 June 2014 which resulted in 250,000 shares being issued with the nominal value of $US0.2 at a price of £0.2. During the year the vesting period of the remaining options was extended from 30 October 2015 to 30 October 2017. 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 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)	1.62525

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 1,900,791 (2013: US$2,172,332).

21.4 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. After share consolidation in 2013 the number of warrants was 527,500. All 527,500 warrants were exercised or lapsed in 2014.

515,000 warrants were exercised during the 12 month year ended 31 December 2014. 100,000 warrants were exercised on 5 June 2014;during July 2014 165,000 warrants were exercised; 250,000 warrants were exercised on 2 August 2014 which resulted in 515,000 shares being issued with the nominal value of $US0.2 at a price of £1. The remaining 12,500 warrants lapsed in 2014.

All shares issued in respect of the warrants rank pari-passu in all respects with the ordinary shares.

Total fair value as considered in the employee share-based compensation reserve for warrants was US$12,019 (2013: US$498,943).

21.5 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$ 3,147,809 (2013: US$3,906,275).

US$ 0 of the employee share-based compensation is included in the statement of comprehensive income for 2014 (2013: US$2,172,332).

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

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22 Borrowings

22.1 Non-current borrowings

	2014	2013
Borrowings		
Non-revolving credit facility - current liability	3,200	-
Non-revolving credit facility - non-current liability	39,076	-
Total borrowings	**42,276**	**-**

Non-revolving credit facility

On 4 April 2014, Diall Alliance entered into a non-revolving credit facility agreement no 5878 with Sberbank of Russia OJSC. The maximum amount capable of being drawn down under the facility is RUB 2,400,000,000 (US$69.6 million). The facility may be drawn down in a single or several tranches starting from 30 April 2014 until 31 March 2015. The maturity date is 30 April 2021, being the 7 year anniversary of the facility being entered into. Diall Alliance is obliged to repay the principal amount of the loan in 24 tranches commencing on 11 May 2015 and on a quarterly basis from then on with a final repayment tranche being payable on the maturity date. The interest rate is 10.98% per annum. Sberbank may unilaterally amend the interest rate in the event of increases in refinancing rates of the Central Bank of Russia. Diall Alliance paid an upfront commission on the facility of 1% of the facility amount (RUB24,000,000 (US$0.8 million)) and there is a drawdown charge of 0.25% per year on the balance of the facility amount not withdrawn by Diall Alliance within the established timeframe. Diall Alliance has the option to prepay the loan in whole or in part at any time, subject to the payment of a fee. Diall Alliance provided certain warranties and representations to Sberbank in the agreement. The agreement contains certain loan covenants and events of default which are customary for a facility of this type. The Company is in compliance with these covenants. The loan is secured on the fixed assets of Diall Alliance, such security being granted pursuant to various pledge and mortgage deeds entered into by Diall Alliance on or about the date of the Sberbank Facility.

The amount of the draw down facility as of 31 December 2014 was RUB 2,400,000,000 (US$42.7 million). The credit facility is measured at amortised cost, using the effective interest method.

23 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.

	2014	2013
Provision as at 1 January	4,383	-
Additions	9,109	4,358
Unwinding of discount	559	(18)
Change in estimate of decommissioning and environmental restoration provision	2,953	(18)
Exchange difference	(6,356)	61
Provision as at 31 December	**10,649**	**4,383**

Additions in 2014 are in respect of the acquisition of Diall.

This provision has been created based on the Company's internal estimates of the liability assumed in the acquisition of CenGeo Holdings and Royal Atlantic Energy (Cyprus) Limited. 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.

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24 Deferred tax liabilities

Movements in temporary differences during the year:

	31 December 2014	Recognizsd in profit or loss	Exchange difference	Acquisition of Royal Group	31 December 2013
Decommissioning provision	1,310	203	(769)	1,876	-
Other current assets	142	(16)	(91)	249	-
Tax loss carry-forwards	4,488	1,636	(2,460)	5,312	-
Deferred tax assets	**5,940**	**1,823**	**(3,320)**	**7,437**	**-**
Exploration and evaluation asset	(7,463)	(2,738)	4,600	(5,397)	(3,928)
Property, plant and equipment	(3,769)	(1,505)	2,043	(4,307)	-
Borrowings	(77)	13	50	(140)	-
Deferred tax liabilities	**(11,309)**	**(4,230)**	**6,693**	**(9,844)**	**(3,928)**
Net deferred tax liabilities	**(5,369)**	**(2,408)**	**3,372**	**(2,404)**	**(3,928)**

Deferred income tax assets are not recognised for mainly tax losses carried forward for SibGeCo 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 $8,082,887 (2013 – $9,637,810).

A net deferred tax asset has been recognised for on the basis that there will be sufficient taxable profits, based on the group's profit forecast, against which these temporary differences can be utilised.

The deferred tax assets expire in 2018-2024.

25 Other taxes payable

	2014	2013
VAT payable	816	-
Property tax	97	-
Mineral extraction tax	93	-
Other taxes payable	131	25
Total	**1,137**	**25**

26 Trade and other payables

	2014	2013
Trade payables	2,043	11
Accrued expenses	1,038	145
Payables to employees	19	16
Total	**3,100**	**172**

27 Operating leases

Operating lease payments are mainly rentals by the Group of land, office space and equipment required for use on a temporary basis. Leases are normally signed on a short term basis of one to two years with options to extend.

Lease payments under operating leases recognised in the statement of comprehensive income for the year amounted to US$211,000 (2013 – US$0).

At the reporting date the Group's outstanding commitments for future minimum lease payments under non-cancellable leases fall due as follows:

	2014	2013
Within one year	67	-
In two to five years	22	-
More than five years	105	-

28 Financial instruments and financial risk management

	2014	2013
FINANCIAL ASSETS		
Trade and other receivables	2,581	-
Cash and cash equivalents	10,694	7,265
	13,275	**7,265**
FINANCIAL LIABILITIES		
Financial liabilities carried at amortised cost	42,276	-
Trade and other payables	2.043	11
	44,319	**11**

Overview of the Company's financial risk management

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

- Liquidity risk
- Market 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.

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28.1 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.

	Contractual amount	Less than 1 year	1-2 years	Over 5 years
Financial liabilities as at 31 December 2014				
Borrowings	60,015	7,747	39,031	13,237
Trade and other payables	2,043	2,043	-	-
Total	**62,058**	**9,790**	**39,031**	**13,237**

	Contractual amount	Less than 1 year	1-2 years	Over 5 years
Financial liabilities as at 31 December 2013				
Unsecured borrowings				
Trade and other payables	11	11	-	-
Total	**11**	**11**	**-**	**-**

28.2 Market risk

Market risk includes interest risk and foreign exchange risk.

(a) Interest risk

The Company has exposure to interest risk since Diall Alliance entered into a non-revolving credit facility agreement with Sberbank and according to the terms of the agreement Sberbank may unilaterally amend the interest rate in the event of increases in refinancing rates of the Central Bank of Russia. Sberbank hasn't amended interest rate by the reporting date.

(b) Foreign exchange 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 Diall and SibGeCo, which is the RUB.

The Group's operations are within the Russian Federation where all of its revenue, costs and financing from both Sberbank and intra-group lending are denominated in RUB. As a result there is no exposure at the operating subsidiary level to foreign exchange movements. 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.

28.3 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.

Due to the nature of the Group's business, the Group is largely dependent on one customer (Gazprom Mezhregiongaz Saratov LLC) for a significant portion of revenues. Gazprom Mezhregiongaz Saratov LLC accounted for 78.5%, 71.4%, 70.5%, and 72.1% of its total revenue in fiscal 2014, 2013, 2012, and 2011, respectively. The loss or the insolvency of this customer for any reason, or reduced sales of our principal product, could significantly reduce the Group's ongoing revenue and/or profitability, and could materially and adversely affect the Group's financial condition. The credit rating assigned to Gazprom by Standard & Poor's is BBB. To manage credit risk and exposure for the key customer, the Group have entered into a long term five-year contract with Gazprom Mezhregiongaz Saratov LLC, which will be due to renewal in 2015. As for the smaller customers, the Group imposes minimum credit standards that the customers must meet before and during the sales transaction process.

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

To limit exposure to credit risk on cash and cash equivalents Management's policy is to hold cash and cash equivalents in reputable financial institutions. During 2014 cash was held mainly with OAO Sberank Rossii (rating Ba2.ru, Moody's).

	2014	2013
Ba2.ru, Moody's	9,289	-
Baa3.ru Moody's	-	6,705
Other	1,406	560
Total cash and cash equivalents	**10,694**	**7,265**

28.4 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.

29 Commitments and contingencies

29.1 Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred at 31 December 2014 was US$1.7 million (31 December 2013 – no material commitments).

29.2 Insurance

The laws and practices of the insurance industry in the Russian Federation is in a developing state. The Company's insurance currently includes cover for damage to or loss of assets, including business interruption insurance should an insurable incident result in a shut-down of the Western Plant for an extended period of time, insurance for out-of-control wells and environmental damage caused thereby, third party liability coverage (including employer's liability insurance) and directors and officers liability insurance, in each case subject to excesses, exclusions and limitations. However, there can be no assurance that such insurance will be adequate to cover losses or exposure for liability or that the Company will continue to be able to obtain insurance to cover such risks. Whilst the laws and practices of the insurance industry continue to develop 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.

29.3 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.

29.4 Taxation contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be material to the financial position and/or the overall operations of the Group.

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.

29.5 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.

30 Related party transactions

30.1 Control relationships

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

30.2 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.

30.3 Other related parties

On 19 March 2013, the Company entered into the First ARA Subscription Agreement with ARA Capital, pursuant to which ARA committed to provide up to US$20,000,000 of funds principally to support the working capital requirements of the Company, such funding to be made at a price per Ordinary Share of £0.70. ARA Capital completed this subscription in full on 31 March 2014.

On 13 December 2013, the Company entered into the Second ARA Subscription Agreement with ARA Capital, pursuant to which ARA Capital committed to subscribe for US$45,615,000, such funding to be made at a price per Ordinary Share of £1.00.

On 13 December 2013, the Company entered into the Acquisition Agreement (as subsequently amended pursuant to the SPA Amendment) for the acquisition of 100% of the shares of Royal Atlantic Energy and 100% participatory interest in Vostok Energy Limited Liability Company. The following is a summary of certain terms and conditions of the Acquisition Agreement:

(a) Zoltav Resources conditionally agreed to acquire 100% of the shares of Royal Atlantic Energy and 100% participatory interest in Vostok Energy Limited Liability Company and have the Diall Receivable and Royal Atlantic Energy Receivable (to the extent the same remain outstanding at completion of the Acquisition Agreement) novated to it. Bandbear agreed to sell such interest as is held by it in the shares of Royal Atlantic Energy and participatory interest in Vostok Energy Limited Liability Company to Zoltav Resources and to enter into novations of the Diall Receivable and the Royal Atlantic Energy Receivable.

(b) The aggregate consideration for the purchase of 100% of the shares of Royal Atlantic Energy and 100% participatory interest in Vostok Energy Limited Liability Company and the novation of the Diall Receivable and the Royal Atlantic Energy Receivable was US$77,505,100, RUB10,000 and €5,100 in cash and US$102,500,000 to be satisfied by the allotment and issue to Bandbear of Ordinary Shares as set out in the Acquisition Agreement, credited as fully paid.

(c) The parties to the Acquisition Agreement agreed therein that Diall Alliance should be able to enter into a new debt facility after the Acquisition Agreement had been entered into and before its completion and that all or part of such new facility be used to reduce amounts outstanding under the Diall Receivable to Bandbear. Accordingly, on 20 December 2013 RUB82,000,000 and on 29 April 2014 a further RUB2,186,273,565 was repaid to Bandbear by Diall Alliance.

(d) Bandbear provided the Company and Zoltav Resources with warranties as to capacity and certain other limited warranties including as to title. The Company and Zoltav Resources also gave certain warranties and undertakings to Bandbear as to capacity and authority and certain other limited warranties.

(e) Pursuant to the SPA Amendment, the Acquisition Agreement was amended by the parties to reflect, inter alia, an assignment to Zoltav Resources of a loan note issued by Royal Atlantic Energy in favour of Bandbear on 31 January 2014 and changes to the Subscription which have been agreed subsequent to the Acquisition Agreement having been entered into, together with consequential changes resulting therefrom.

There were no other related party transactions during the year.

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31 Effects of movements in foreign exchange

As noted above, the Company's operations are in the Russian Federation and its prime currency of operation in the region is the RUB. The US$:RUB moved from US$1:RUB32.7292 at 31 December 2013 to US$1:RUB56.2584 as at 31 December 2014 and continues to fluctuate. Under IFRS these movements are reflected at each asset and liability level with the net adjusting amount being reflected within Shareholders equity. A summary of these movements in 2014 are set-out below:

	2014 US$,000
Exploration and evaluation Assets	(53,492)
Property, plant and equipment	(49,986)
Borrowings	37,353
Other	(8,802)
Total currency translation differences	(74,927)

32 Events after reporting date

32.1 Foreign exchange rates

The RUB exchange rate at the date of authorising these financial statements for issue was RUB 53.6555 for 1 USD. As the Group conducts its business in the Russian Federation in RUB this fact doesn't have a significant adverse impact on the Financial Statements.

32.2 Russia's sovereign bonds downgrade

In January 2015, Fitch rating agency downgraded Russia's credit rating to BBB- from BBB with a negative outlook, meaning further downgrades are possible.

33 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.

"barrel" or "bbls"	a stock tank barrel, a standard measure of volume for oil, condensate and natural gas liquids, which equals 42 US gallons
"bcf"	billion cubic feet
"bcm"	billion cubic metres
"boe"	barrel of oil equivalent
"/d"	per day
"mcf"	thousand cubic feet
"mcm"	thousand cubic metres
"mmboe"	million barrels of oil equivalent
"mmcf"	million cubic feet
"mmcm"	million cubic metres
"mmT"	million tonnes
"mT"	thousand tonnes
"mToe"	thousand tonnes of oil equivalent

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