

26 May 2015

REGAL PETROLEUM PLC

2014 AUDITED RESULTS

Regal Petroleum plc (the "Company", and with its subsidiaries, the "Group"), the AIM-quoted (RPT) oil and gas exploration and production group, today announces its audited results for the year ended 31 December 2014.

Principal Developments

Ukraine Operations

- Despite ongoing geopolitical events in Ukraine, the Group's production operations have continued relatively normally, although such events have resulted in volatility and weakening of the Ukrainian Hryvnia exchange rates, disruption to the gas sales market and gas sales price, and the imposition of significant increases in subsoil taxes, which in turn, have adversely affected the Group's financial results
- Average production over the year to 31 December 2014 of 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG (1,370 boepd in aggregate) (2013: 185,677 m³/d of gas and 42 m³/d of condensate (1,422 boepd in aggregate) - LPG production commenced at the end of 2013)
- Well SV-59 commenced production testing in January 2014, and is now on production

Finance

- Revenue for the year to 31 December 2014 of \$34.6 million (2013: \$36.7 million)
- Profit for the year to 31 December 2014 of \$5.8 million (2013: \$128.0 million loss)
- Cash generated from operations during the year of \$19.5 million (2013: \$21.7 million)
- Average realised gas, condensate and LPG prices in Ukraine for the year to 31 December 2014 of \$362/Mm³ (UAH4,297/Mm³), \$95/bbl and \$94/bbl respectively (2013: \$415/Mm³ (UAH3,380/Mm³) gas and \$91/bbl condensate - LPG production commenced at the end of 2013)
- Cash and cash equivalents at 31 December 2014 of \$31.8 million (31 December 2013: \$25.1 million), with cash and cash equivalents at 22 May 2015 of \$31.9 million, held as to \$18.3 million equivalent in Ukrainian Hryvnia and the balance of \$13.6 million equivalent predominately in US Dollars and Sterling

Outlook

- Due to the geopolitical situation in Ukraine, the economic impact of the devaluation of the Ukrainian Hryvnia, the increase in subsoil taxes and the uncertainty in both the gas sales price and gas sales market, a limited development programme is planned for 2015
- Focus during 2015 on continued geological, geophysical and well performance studies to improve understanding of the sub-surface at MEX-GOL and SV fields
- Funding of 2015 development programme anticipated to be from existing cash and cash equivalents and operational revenues
- Geopolitical and economic outlook in Ukraine remains uncertain

The Annual Report and Accounts for 2014, together with the Notice of Annual General Meeting, will be posted to shareholders and published on the Company's website during June 2015.

For further information, please contact:

Regal Petroleum plc

Keith Henry, Chairman
Sergei Glazunov, Finance Director

Tel: 020 3427 3550

Strand Hanson Limited

Rory Murphy / Richard Tulloch

Tel: 020 7409 3494

Citigate Dewe Rogerson

Martin Jackson / Shabnam Bashir

Tel: 020 7638 9571

Joe Staffurth, BSc Geology, PESGB, AAPG, consultant to the Company, has reviewed and approved the technical information contained within this press release in his capacity as a qualified person, as required under the AIM Rules.

Definitions

bbl	barrel
boe	barrels of oil equivalent
Bscf	thousands of millions of standard cubic feet
boepd	barrels of oil equivalent per day
HSES	health, safety, environment and security
km	kilometres
km ²	square kilometres
LPG	liquefied petroleum gas
m ³	cubic metre
m ³ /d	cubic metres per day
Mm ³	thousand cubic metres
Mtonnes	thousand tonnes
MMbbl	million barrels
MMboe	million barrels of oil equivalent
%	per cent
scf	standard cubic feet measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
\$	United States Dollar
UAH	Ukrainian Hryvnia

Chairman's Review

The Group is continuing with the development of its 100% owned and operated Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields in north-eastern Ukraine.

The major events that have taken place in Ukraine during the last year, including the change of Government, civil unrest and military conflict in the east of the country, have meant that there has been a great deal of uncertainty about the political, fiscal and economic outlook in Ukraine.

Nevertheless, the Group's operational activities in Ukraine have continued to be relatively unaffected by the upheaval that is ongoing, and the Group has been able to produce relatively normally at its MEX-GOL and SV fields. However, the continuing geopolitical situation has resulted in significant volatility and weakening of the Ukrainian Hryvnia exchange rates, uncertainty in the gas sales price, the imposition of significant increases in subsoil taxes and disruption to the gas supply market over the 2014/2015 winter period. As well as adversely affecting the Group's financial results for 2014, these continuing uncertainties are making it difficult to commit to major capital investment and causing delays to the further development of the MEX-GOL and SV fields in the near term.

During 2014, the Ukrainian Hryvnia devalued significantly against the US Dollar, falling from UAH8.3/\$1.00 on 1 January 2014 to UAH15.8/\$1.00 on 31 December 2014, which resulted in a substantial foreign exchange translation loss of \$62.5 million for the Group. This has adversely impacted the carrying value of the oil and gas development and producing asset due to the translation of two of the Group's subsidiaries from their functional currency of Ukrainian Hryvnia to the Group's reporting currency of US Dollars. As a result of the significant devaluation of the Ukrainian Hryvnia, the National Bank of Ukraine has imposed comprehensive restrictions on the purchase of foreign currency and the remittance of funds outside Ukraine. These restrictions, and the many other economic issues in Ukraine, have put great strain on the Ukrainian banking system, with increasing risks in the capital strength, liquidity and creditworthiness of a number of banks, and very high rates in the wholesale and overnight markets.

Due to these banking restrictions, the Group is unable to remit funds outside Ukraine, which has resulted in the Group's cash holdings of Ukrainian Hryvnia increasing substantially over the past year.

In light of the deterioration in the banking sector in Ukraine, the Group has started to diversify its banking arrangements between a number of banks in Ukraine. However, at present, the Group holds a significant proportion of its Ukrainian Hryvnia cash deposits in Unex Bank, which is indirectly controlled by Mr V Novinskiy, who also ultimately controls a majority shareholding in the Group. As a result, Unex Bank is a related party to the Group. Given the situation in Ukraine and the impact on the banking sector, the Group has been able to obtain additional assurances regarding the security of its cash deposits in Unex Bank, including a representation letter from Unex Bank advising that it continues to fulfil all regulatory requirements of the National Bank of Ukraine, as well as a guarantee and security over another asset from companies within the Smart Holding Group in support of the Group's cash deposits in Unex Bank.

The industrial gas price in Ukraine, which is set in Ukrainian Hryvnia, is broadly related to the US Dollar denominated imported price of gas from Russia. In late 2013, the previous Ukrainian Government negotiated a substantial discount to the imported gas price resulting in a corresponding reduction in the industrial gas price during the first quarter of 2014. Following the change of Government in February 2014, the discount was withdrawn by Russia and the industrial gas price increased significantly on 1 April 2014 and continued to increase during 2014. However, although the industrial gas price generally increased in Ukrainian Hryvnia terms, when translated into US Dollars, there has been a decrease due to the devaluation of the Ukrainian Hryvnia. From April 2015, the imported gas price has fallen, reflecting the fall in global oil commodity prices over recent months.

At the end of July 2014, the Ukrainian Government implemented a number of emergency fiscal measures designed to assist in alleviating the fiscal and economic pressures affecting the Ukrainian economy. One such measure was the imposition of a significant increase in the subsoil taxes payable by oil and gas companies operating in Ukraine for the period from 1 August 2014 to 31 December 2014. This increase in subsoil taxes had the effect of nearly doubling the taxes payable on the Group's gas production and, consequently, has negatively impacted the cost of sales and the Group's financial results for the 2014

financial year. Although the Government originally stated that this increase in subsoil taxes was a temporary emergency fiscal measure, the Government has now extended the increase in subsoil taxes into 2015. It is currently unclear as to the further duration of these subsoil tax increases but it seems likely that the increases will continue for the rest of 2015.

In late November 2014, the Ukrainian Government made an Order that certain specified industrial organisations were obliged to purchase their gas requirements for the period from 1 December 2014 to 28 February 2015 from Naftogaz, the State-owned gas supplier, rather than from other gas producers in Ukraine. During this period, the Order significantly disrupted the gas supply market in Ukraine and adversely impacted the market gas prices. The Group's gas off-taker was affected by this Order, and consequently the Group had to sell its gas production into the general gas market at the prevailing prices. The discounted prices achieved were less than those received prior to the imposition of the Order, and consequently resulted in a negative impact on the Group's financial results for the 2014 financial year, and will also have a negative impact on the Group's results for the 2015 year. Although the Order expired on 28 February 2015, the gas supply market has not yet returned to normal and the Group's realised gas price has continued to be less than prior to the imposition of the Order.

As regards the Group's financial performance in the year to 31 December 2014, a profit of \$5.8 million (2013: \$128.0 million loss) was made, although the devaluation of the Ukrainian Hryvnia against the US Dollar has resulted in a significant foreign exchange loss in the foreign exchange reserve. Cash generated from operations during the period was positive at \$19.5 million (2013: \$21.7 million).

Average production over the year ended 31 December 2014 was 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG (1,370 boepd in aggregate), which was lower compared with 2013 predominately as a result of normal production decline and a well ceasing to produce (2013: 185,677 m³/d of gas and 42 m³/d of condensate (1,422 boepd in aggregate) - LPG production commenced at the end of 2013). Average production for the period from 1 January 2015 to 30 April 2015 was 145,960 m³/d of gas, 45 m³/d of condensate and 21 m³/d of LPG (1,289 boepd in aggregate).

The geopolitical upheaval, the volatility in the gas price and the Ukrainian Hryvnia, and the fiscal and economic uncertainty in Ukraine during 2014, meant that the Group considered it necessary to reduce its planned capital investment programme. The revised programme during the period was limited to carrying out well workover operations at the SV-61 well, designed to eliminate water ingress into the well, undertaking hydraulic fracturing operations to stimulate the MEX-120 well, and installing additional compression equipment. However, down-hole equipment failures during the operations at both the SV-61 well and the MEX-120 well resulted in the deferral of these operations. More limited stimulation operations were undertaken on the MEX-120 well towards the end of the year, but these have not resulted in any significant additional production from this well.

The SV-59 well was completed at the end of 2013 and hooked up to the gas processing facility in early 2014. Its performance was monitored during a production testing programme in the first quarter of 2014, and the well was then put on production.

In addition, the Group has entered into an agreement with NJSC Nadra, the State-owned gas producer, for the lease of the SV-6 well, which is a suspended well owned by NJSC Nadra within the Group's SV licence area. Under this agreement, the Group will undertake workover operations on the well, which, if successful, will result in the well being brought onto production.

Furthermore, the Group has reached an agreement with Pryrodni Resursy, the operator of the adjacent Lutsenky field, under which the Group will purchase "wet" gas and treat it through the Group's gas processing facilities to strip out and sell the liquids. This will not only create an additional revenue stream for the Group, but also improve environmental emissions from the Lutsenky field.

It is with great regret and sadness that I have to report, that despite our endeavours to maintain the highest standards of HSES at our operations, one of our Ukrainian staff suffered a fatal accident whilst undertaking electrical maintenance work. An investigation into the accident by the Ukrainian State Agency for health and safety determined that a latent defect in a high voltage circuit breaker was the cause of the accident. The Group has reiterated its safe working procedures to our Ukrainian staff in the

context of this accident and certain additional measures have been implemented to reinforce our HSES regime.

Business Review and Outlook

The continued instability in Ukraine has meant that planning for the further development of the MEX-GOL and SV fields has been substantially disrupted, and the various political, economic and fiscal uncertainties have made budgeting and commitment to capital investment problematic. The Group has therefore been obliged to take a cautious approach to near term capital investment, whilst undertaking contingent planning for further development of the fields and monitoring the ongoing situation.

Nevertheless, during 2015, further geological, geophysical and well performance studies, aimed at improving the understanding of the sub-surface within the MEX-GOL and SV licences, are continuing, as well as investment in the Group's gas processing facilities and pipeline network, and remedial work on existing wells. Contingent planning is ongoing for the drilling of the MEX-109 well, the hydraulic fracturing of the MEX-120 well and the possible workover of the MEX-102 well.

It is hoped that the situation in Ukraine will improve in due course, allowing better visibility on the political and economic outlook and in turn assisting with the Group's development planning at its MEX-GOL and SV fields.

In conclusion, on behalf of the Board, I would like to thank our staff for the continued dedication and support they have shown, particularly during the difficult events in Ukraine over the last year.

Keith Henry
Executive Chairman

Operations Review

Health, Safety, Environment and Security (“HSES”)

The Group is committed to maintaining the highest HSES standards and the effective management of these areas is an intrinsic element of the overall business ethos. Through strict enforcement of the Group’s HSES Management System, together with regular management meetings, training and the appointment of dedicated safety professionals, the Group strives to ensure that the impact of its business activities on its staff, contractors and the environment is as low as is reasonably practicable. The Group reports safety and environmental performance in accordance with industry practice and guidelines.

Notwithstanding the Group’s commitment to these high HSES standards at our operations, the Group greatly regrets to report that one of our Ukrainian staff suffered a fatal accident while undertaking electrical maintenance work. The Ukrainian State Agency for Mining and Industrial Safety conducted an investigation into the accident and determined that a latent defect in a high voltage circuit breaker was the cause of the accident. The Group has reviewed and reiterated its safe working procedures to Ukrainian staff in the context of this accident and certain additional measures have been implemented to reinforce our HSES regime.

Ukraine Operations

Asset Overview

Regal Petroleum Corporation Limited (a wholly owned subsidiary in the Group) holds a 100% working interest and is the operator of the MEX-GOL and SV fields. The licences are the Group’s sole project and extend over a combined area of 269 km², approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field.

The fields are located, geologically, towards the middle of the Dnieper-Donets sedimentary basin which extends across the majority of north-east Ukraine. The vast majority of Ukrainian gas and condensate production comes from this basin. The reservoir comprises a series of gently dipping Carboniferous sandstones of Visean age (“B-Sands”) inter-bedded with shales that form stratigraphic traps at around 4,700 metres below the surface, with a gross thickness between 800 metres and 1,000 metres. Analysis suggests that these deposits range from fluvial to deltaic in origin. Below these reservoirs is a thick sequence of shale above deeper, similar, sandstones which are encountered at a depth of around 5,800 metres. These sands are of Tournasian age (“T-Sands”). Deeper sandstones of Devonian age (“D-Sands”) have also been penetrated in the fields.

Production

The Group’s average production over the year ended 31 December 2014 was 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG, which equates to a combined total oil equivalent of 1,370 boepd (2013: 185,677 m³/d of gas and 42 m³/d of condensate (1,422 boepd in aggregate) - LPG production commenced at the end of 2013).

The Group’s average production for the period from 1 January 2015 to 30 April 2015 was 145,960 m³/d of gas, 45 m³/d of condensate and 21 m³/d of LPG, which equates to a combined total oil equivalent of 1,289 boepd.

Operations

The geopolitical upheaval, the volatility in the gas price, the devaluation of the Ukrainian Hryvnia, and the fiscal and economic uncertainty in Ukraine during 2014, meant that the Group considered it necessary to reduce its planned capital investment programme.

The revised programme was limited to carrying out well workover operations at the SV-61 well, designed to eliminate water ingress into the well, undertaking hydraulic fracturing operations to stimulate the MEX-120 well, and installing additional compression equipment. However, down-hole equipment failures

during the operations at both the SV-61 well and the MEX-120 well resulted in the deferral of these operations. More limited stimulation operations were undertaken on the MEX-120 well towards the end of the year, but these have not resulted in any significant additional production from this well.

The SV-59 well was drilled to a depth of 5,470 metres, completed and, after initial testing, hooked up to the gas processing facility in early 2014. Its performance was monitored during a production testing programme in the first quarter of 2014, and it was then put on production. The well is currently producing approximately 8,000 m³/d of gas, 8.8 m³/d of condensate and 1.6 m³/d of LPG (113 boepd in aggregate).

The Group has entered into an agreement with NJSC Nadra, the State-owned gas producer, for the lease of the SV-6 well, which is a suspended well owned by NJSC Nadra and located within the Group's SV licence area. Workover operations on this well are underway and it is anticipated that these operations will be concluded in the second quarter of 2015. If the workover operations are successful, it is planned to bring the well onto production.

The Group has also reached an agreement with Pryodni Resursy, the operator of the adjacent Lutsenky field, under which the Group will purchase "wet" gas and treat it through the Group's gas processing facilities to strip out and sell the liquids. This will not only create an additional revenue stream for the Group, but also improve environmental emissions from the Lutsenky field.

Reserves

The Group's estimates of the remaining Reserves and Resources at the MEX-GOL and SV licence areas are derived from an assessment undertaken by independent petroleum consultants, ERC Equipoise Limited ("ERCE"), as at 31 December 2013 (the "ERCE Report"), which was announced on 25 March 2014. The below estimates have not been adjusted for production since 1 January 2014.

The ERCE Report estimated the remaining Reserves as at 31 December 2013 in the Visean B-Sands reservoirs of the MEX-GOL and SV fields, based on the drilling of ten further wells, as follows:-

	Proved (1P)	Proved + Probable (2P)	Proved + Probable + Possible (3P)
Gas	8.3 Bscf	50.1 Bscf	71.2 Bscf
Condensate	0.4 MMbbl	2.5 MMbbl	4.1 MMbbl
LPG	17.4 Mtonnes	105.6 Mtonnes	149.8 Mtonnes
Total	1.9 MMboe	11.7 MMboe	17.2 MMboe

The ERCE Report estimated the Contingent Resources in the Visean B-Sands reservoirs of the MEX-GOL and SV fields as follows, based on the potential drilling of up to 113 future wells (not currently budgeted):-

	Contingent Resources (1C)	Contingent Resources (2C)	Contingent Resources (3C)
Gas	198 Bscf	334 Bscf	519 Bscf
Condensate	8.5 MMbbl	17.4 MMbbl	32.7 MMbbl
Total	41.5 MMboe	73.1 MMboe	119.1 MMboe

Finance Review

The Group's profit for the year ended 31 December 2014 was \$5.8 million comprising profit on ordinary activities before tax of \$8.1 million (2013: \$162.9 million loss) and tax adjustments of \$2.3 million (2013: \$34.9 million). Revenue in 2014, derived from the sale of the Group's Ukrainian gas, condensate and LPG production, was lower at \$34.6 million (2013: \$36.7 million) due to a combination of reduced production volumes and the devaluation of the Ukrainian Hryvnia against the US Dollar, resulting in lower average gas prices in US Dollar terms.

During 2014, the Ukrainian Hryvnia has significantly devalued against major world currencies, including against the US Dollar, where it has fallen from UAH8.3/\$1.00 on 1 January 2014 to UAH15.8/\$1.00 on 31 December 2014. Due to the translation of two of the Group's subsidiaries from their functional currency of Ukrainian Hryvnia to the reporting currency of US Dollars, the devaluation against the US Dollar has had the effect of reducing both revenues and costs, as well as the carrying value of the Group's assets.

As a result of the significant devaluation of the Ukrainian Hryvnia, the National Bank of Ukraine, among other measures, imposed comprehensive restrictions on the purchase of foreign currency and on the remittance of funds outside Ukraine. These restrictions, and the many other economic issues in Ukraine, have put great strain on the Ukrainian banking system, with increasing risks in the capital strength, liquidity and creditworthiness of a large number of local banks, and very high rates in the wholesale and overnight markets. In addition, there have been significant deposit outflows from the banking system and widespread restructuring of bank clients' maturing liabilities. As a result of recommendations from the International Monetary Fund, significant reforms to the Ukrainian banking sector are being implemented, which are intended to strengthen the capitalisation of the Ukrainian banks.

In light of the deterioration in the banking sector in Ukraine, the Group has started to diversify its banking arrangements between a number of banks in Ukraine. These steps are designed to spread the risks associated with each bank's creditworthiness, but the Ukrainian banking sector remains weakly capitalised and so the risks associated with the banks in Ukraine remain significant, including in relation to the banks with which the Group operates bank accounts. In addition, the severe banking restrictions referred to above, have meant that the Group is unable to remit funds outside Ukraine and as a result, the Group's cash holdings of Ukrainian Hryvnia in Ukraine increased significantly over the past year. Further details are set out in the Operational Environment, Principal Risks and Uncertainties section.

Cash generated from operations during the period was positive at \$19.5 million (2013: \$21.7 million).

For the year ended 31 December 2014, the average realised gas, condensate and LPG prices were \$362/Mm³ (UAH4,297/Mm³), \$95/bbl and \$94/bbl respectively (2013: \$415/Mm³ (UAH3,380/Mm³) gas and \$91/bbl condensate - no comparative is available for LPG since LPG production only commenced at the end of 2013).

During the first four months of 2015, the average realised gas, condensate and LPG prices were \$294/Mm³ (UAH6,185/Mm³), \$52/bbl and \$56/bbl respectively. The current realised gas price is \$280/Mm³ (UAH5,790/Mm³).

The maximum industrial gas price within Ukraine was previously adjusted quarterly by the National Commission for State Energy and Public Utilities Regulation (the "National Commission"), but more recently, due to the volatility in the Ukrainian Hryvnia, this gas price has been adjusted monthly. The industrial gas price is broadly related to the imported price of gas from Russia, which in turn is linked to global oil commodity prices. The Group's realised gas price has historically been close to the maximum industrial gas price set by the National Commission. In December 2013, the previous Government of Ukraine negotiated a significant discount to the imported gas price calculated under the longstanding gas supply agreement between Russia and Ukraine. However, following the change of Government in February 2014, the discount to the imported gas price was cancelled, and with effect from 1 April 2014, the imported gas price reverted to the price calculated under the longstanding gas supply agreement between Russia and Ukraine.

Since then, the industrial gas price set by the National Commission has increased substantially in Ukrainian Hryvnia, but the devaluation of the Ukrainian Hryvnia over the same period has meant that the industrial gas price in US Dollar terms has fallen.

In April 2015, it was announced that the imported gas price calculated under the longstanding gas supply agreement between Russia and Ukraine was to be \$248/Mm³ for the second quarter of 2015, reflecting the recent decrease in global oil commodity prices.

The industrial gas price set by the National Commission, with effect from 1 May 2015, is \$324/Mm³ (UAH 6,810/Mm³ using the exchange rate as at 30 April 2015 of UAH21.0/\$1.00).

In late November 2014, the Ukrainian Government made an Order that certain specified industrial organisations were obliged to purchase their gas requirements for the period from 1 December 2014 to 28 February 2015 from Naftogaz, the State-owned gas supplier, rather than from other gas producers in Ukraine. During this period, the Order significantly impacted the gas supply market in Ukraine, causing disruption to the market and adversely affecting the market gas prices. The Group's gas off-taker was affected by this Order, and consequently the Group had to sell its gas production into the general gas market at the prevailing prices. The prices achieved were less than those achieved prior to the imposition of the Order, and consequently resulted in a negative impact on the Group's financial results for the 2014 financial year, and will also have a negative impact on the Group's financial results for the 2015 year.

Although the Order expired on 28 February 2015, the gas supply market has not yet returned to normal and the Group's realised gas price has continued to be less than prior to the imposition of the Order, averaging 11% below the maximum industrial gas price set by the National Commission during the first four months of 2015.

With effect from 1 August 2014, the Ukrainian Government increased the subsoil taxes payable on gas and condensate production, from 15% to 28% for gas produced from deposits below 5,000 metres and from 28% to 55% for gas produced from deposits above 5,000 metres, and from 18% to 21% for condensate produced from deposits below 5,000 metres and from 42% to 45% for condensate produced from deposits above 5,000 metres. Although the Government stated that these increases in subsoil taxes were a temporary emergency fiscal measure for the period from 1 August 2014 to 31 December 2014, the Government extended the increases in subsoil taxes into 2015. It is currently unclear as to the further duration of these subsoil tax increases but it seems likely that the increases will continue for the rest of 2015. The increases in subsoil taxes negatively impacted cost of sales by \$1.4 million in the 2014 financial year, and will also negatively impact the Group's financial results for the 2015 year.

Cost of sales for the year ended 31 December 2014 was lower at \$22.7 million (2013: \$33.7 million), mainly due to lower production volumes and exchange rate fluctuations, and notwithstanding the increased subsoil taxes. A further impact on cost of sales was lower depreciation resulting from the significant impairment loss in the 2013 year, which brought down the depreciable value of property, plant and equipment. This lower depreciation value was the primary reason for the higher gross profit in the 2014 year.

Administrative expenses for the year were lower at \$5.5 million (2013: \$7.3 million). Of this reduction in administrative expenses, \$1.2 million was due to the devaluation of the Ukrainian Hryvnia against the US Dollar.

The tax charge for the year of \$2.3 million (2013: credit of \$34.9 million) comprises a current tax charge of \$1.0 million (2013: charge of \$1.5 million) and a deferred tax charge of \$1.3 million (2013: credit of \$34.9 million).

The Group has recognised a deferred tax asset of \$20.4 million at 31 December 2014 (31 December 2013: \$35.1 million). This comprises a deferred tax asset of \$7.9 million (31 December 2013: \$7.8 million) in relation to UK tax losses carried forward, and \$12.5 million (31 December 2013: \$27.3 million) relating to the Group's oil and gas development and producing asset in Ukraine, which is recognised on the tax effect of temporary timing differences between the carrying value of such asset and its tax base, following

its impairment in 2013. The reduction in the deferred tax asset in 2014 is primarily due to foreign exchange translation losses caused by the devaluation of the Ukrainian Hryvnia against the US Dollar.

Capital investment of \$4.3 million predominately reflects investment in the Group's oil and gas development and production asset for the period (2013: \$23.5 million). Capital investment was lower in the year as a result of the reduction in the field development programme due to the geopolitical and economic uncertainty in Ukraine.

Cash and cash equivalents held at 31 December 2014 were \$31.8 million (31 December 2013: \$25.1 million). The Group's cash and cash equivalents balance at 22 May 2015 was \$31.9 million, held as to \$18.3 million equivalent in Ukrainian Hryvnia and the balance of \$13.6 million equivalent predominantly in US Dollars and Sterling. The movement since 31 December 2013 principally reflects operational cash generated during the year less capital investment in the Group's oil and gas development and producing asset and foreign exchange loss on the translation of the Ukrainian Hryvnia cash balance.

The Group operates bank accounts in Ukraine with Unex Bank which is indirectly controlled by Mr V Novinskiy, who also controls a majority shareholding in the Group. As a result, Unex Bank is a related party to the Group. The Group currently holds a significant proportion of its Ukrainian Hryvnia cash deposits in Unex Bank, but has started to diversify its banking arrangements between other banks in Ukraine.

In the meantime, the Group has been able to obtain additional assurances regarding the security of its cash deposits in Unex Bank, including a representation letter from Unex Bank advising that it continues to fulfil all regulatory requirements of the National Bank of Ukraine, as well as a guarantee and security over another asset from companies within the Smart Holding Group in support of the Group's cash deposits in Unex Bank.

Cash from operations has funded the capital investment during the year, and the Group's current cash position and positive operating cash flow are the sources from which the Group expects to fund the 2015 development programme.

During the preparation of the consolidated financial statements for the year ended 31 December 2014, the Group became aware of matters related to the preparation of the consolidated financial statements for the years ended 31 December 2013 and 31 December 2012 that require restatement. The errors, changes in accounting policies and changes in classification were corrected and treated in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" by restating comparative amounts. The effect and nature of these restatements are detailed in Note 4 below.

The Group manages its revenue, cash from operations and production volumes as key performance indicators. The achieved results for 2014 were revenue of \$34.6 million, cash from operations of \$19.5 million and daily production volumes of 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG, equating to a combined total oil equivalent of 1,370 boepd (2013: 185,677 m³/d of gas and 42 m³/d of condensate (1,422 boepd in aggregate) - LPG production commenced at the end of 2013). Aggregate production volumes for the 2014 year were 55,751,626 m³ of gas, 18,841 m³ of condensate and 7,687 m³ of LPG, equating to a combined total oil equivalent of 500,095 boe (2013: 67,771,986 m³ of gas and 15,303 m³ of condensate (519,071 boe in aggregate)).

The ongoing situation in Ukraine has resulted in a significant devaluation of the Ukrainian Hryvnia against the US Dollar, which is likely to affect the carrying value of the Group's assets in the future.

Operational Environment, Principal Risks and Uncertainties

The Group has a risk evaluation methodology in place to assist in the review of the risks across all material aspects of its business. This methodology highlights technical, operational, external and fiduciary risks and assesses the level of risk and potential consequences. It is periodically presented to the Audit Committee and the Board for review, to bring to their attention potential concerns and, where possible, propose mitigating actions. Key risks recognised are detailed below:-

Risks relating to Ukraine

The Ukrainian economy is currently characterised by high political and economic risks. As a developing economy, in addition to the impact of local political and economic instability, Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Since late 2013, the political situation in Ukraine has experienced significant instability with numerous protests and ongoing political uncertainty that has led to a deterioration of the State's finances, volatility of financial markets and a substantial depreciation of the Ukrainian Hryvnia against major foreign currencies. The ratings of Ukrainian sovereign debt have been downgraded by international rating agencies with negative outlook for the future. During 2014, Ukraine's GDP decreased by 6.8% and annual inflation rose to nearly 25%.

The instability started after the failure of the Ukrainian Government to sign the Association and Free Trade Agreement with the European Union at the end of November 2013. Shortly afterwards, the Ukrainian Government announced a deal with Russia for the purchase of up to \$15 billion of Ukrainian Government bonds, of which \$3 billion was provided in December 2013. This triggered protests against the Government's actions beginning in late 2013 that turned into street violence in January and February 2014. At the end of January 2014, the President of Ukraine accepted the resignation of Ukraine's Prime Minister. Following this, the Russian Government suspended its financial support and relations with Russia started to deteriorate.

An agreement between the President and opposition leaders in late February 2014, in an attempt to resolve the situation, ultimately ended up with the Ukrainian Parliament voting to return to the 2004 Constitution, which provided greater sharing of powers between the Parliament and the President, and the President fleeing the country. On 26 February 2014, the Parliament appointed a new Prime Minister and Government. On 25 May 2014, a new President was elected.

In late February 2014, Russian troops occupied Crimea. On 16 March 2014, an unofficial referendum was held in Crimea on its secession from Ukraine, and Russia signed a treaty with Crimea to annex the territory to Russia. The Ukrainian Parliament declared Crimea as a territory temporarily occupied by Russia.

In April and May 2014, pro-Russian groups in the Donetsk and Luhansk regions demanded autonomy from Ukraine, which led to armed conflict with Ukrainian Government forces, which became progressively worse.

In September 2014, the Ukrainian Government agreed a ceasefire with the pro-Russian groups, but fighting continued and escalated. On 12 February 2015, a further ceasefire agreement was negotiated, and although there has continued to be sporadic fighting, this ceasefire has largely held.

The Group has no assets in Crimea or the areas of conflict in the east of Ukraine, nor do its operations rely on sales or costs incurred there.

The conflict in the region has put further pressure on relations between Ukraine and Russia, and the escalating political tensions have had an adverse effect on the Ukrainian financial markets, hampering the ability of Ukrainian companies and banks to obtain funding from the international capital and debt markets.

During 2014, the Ukrainian Hryvnia devalued significantly against major world currencies, including against the US Dollar, where it has fallen from UAH8.3/\$1.00 on 1 January 2014 to UAH15.8/\$1.00 on 31 December 2014. As at 22 May 2015, the Ukrainian Hryvnia was trading at UAH20.7/\$1.00. As a result, significant external financing is required to maintain the country's economic stability. The National Bank

of Ukraine, among other measures, has imposed severe restrictions on the processing of client payments by banks, on the purchase of foreign currency on the inter-bank market and on the remittance of funds outside Ukraine.

The Ukrainian Government has continued to work with the United States, European Union and International Monetary Fund in order to obtain financing and avoid defaulting on its loans. On 30 April 2014, the International Monetary Fund approved a two-year Stand-By Arrangement for Ukraine, amounting to \$17 billion, to support the Government's economic programme designed to restore macroeconomic stability and enhance the efficiency of mechanisms aimed at sustainable economic growth. In May 2014, the Government signed loan agreements worth a total of \$1.48 billion with the World Bank. In June 2014, the economic component of the Association and Free Trade Agreement with the European Union was signed by the Government. On 11 March 2015, the Stand-By Arrangement was replaced by a new funding package from the International Monetary Fund amounting to \$17.5 billion over a four year period. The agreement for this new funding package stipulates a number of fiscal and economic reforms, including reforms in the banking and energy sectors.

The final resolution and the effects of the political and economic situation in Ukraine are difficult to predict but they are likely to have further severe effects on the Ukrainian economy.

These events have not materially affected the Group's production operations to date, but the ongoing instability is disrupting the Group's development and operational planning for its assets. Furthermore, the political, fiscal and economic instability has impacted the Group's normal business activities, and increased the risks relating to its business operations, financial status, access to secure banking facilities and maintenance of its Ukrainian production licences.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. While this should put the Group in a well-placed position, as experienced previously, there are significant risks to carrying out business in the country. It is considered that the involvement of Energiees Management Limited, as a major shareholder with extensive experience in Ukraine, has helped to mitigate such risks.

Going concern risk

The Group is exposed to risks relating to Ukraine as well as production, hydrocarbon price and other risks, as detailed in this Operational Environment, Principal Risks and Uncertainties section. In view of this, the Group prepares monthly cash flow forecasts which take into account the risks facing the business, to assess its ability to meet its obligations as they fall due, taking into account the risks of variances in revenues.

Having reviewed the accounts, budgets and forward plans (including sensitivity analysis), the latest operational results, the risks outlined herein, and having taken into account the Group's cash holdings, the current and recent practice of contracting for drilling services on a fixed-price basis, the absence of long term contractual arrangements relating to drilling, the assessment of well results prior to entering into firm commitments for future drilling operations and the lower committed expenditure in Ukraine, the Directors continue to believe that the Group is able to manage its business risks successfully despite the current uncertain political and economic outlook. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future regarded as at least 12 months from the date of signing of the Group's financial statements. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Production risks

Producing gas and condensate reservoirs are generally characterised by declining production rates which vary depending upon reservoir characteristics and other factors. Future production of the Group's gas and condensate reserves, and therefore the Group's cash flow and income, are highly dependent on the Group's success in operating existing producing wells, drilling new production wells and efficiently developing and exploiting any reserves, and finding or acquiring additional reserves. The Group may not be able to develop, find or acquire reserves at acceptable costs. The experience gained from drilling undertaken to date highlights such risks as the Group targets the appraisal and production of these hydrocarbons.

Risks relating to further development and operation of the Group's gas and condensate fields in Ukraine

The planned development and operation of the Group's gas and condensate fields in Ukraine is susceptible to appraisal, development and operational risk. This could include, but is not restricted to, delays in delivery of equipment in Ukraine, failure of key equipment, lower than expected production from wells that are currently producing, or new wells that are brought on-stream, problematic wells and complex geology which is difficult to drill or interpret. The generation of significant operational cash is dependent on the successful delivery and completion of the development and operation of the fields. These risks have been demonstrated by the previous downgrade in the Group's remaining reserves which resulted in the reduction in the value in use, and consequent impairment loss relating to the Group's oil and gas development and producing asset in Ukraine. Furthermore, the optimisation of all of the Group's assets is dependent on maintaining constructive relationships between all business stakeholders.

Exposure to credit, liquidity and cash flow risk

The Group does not currently have any loans outstanding. Local customers are managed in Ukraine and their financial position, the Group's past experience and other factors are evaluated. Internal financial projections are regularly made based on the latest estimates available, and various scenarios are run to assess the robustness of the liquidity of the Group. The Group currently holds sufficient cash and cash equivalents for the anticipated short to medium term needs of the business. Whilst much of the future capital requirement is expected to be derived from operational cash generated from production, including from wells yet to be drilled, there is a risk that in the longer term insufficient operational cash is generated, or that additional funding, should the need arise, cannot be secured.

Risks relating to the Ukrainian banking sector

The upheaval in Ukraine has led to a significant deterioration of Ukraine's finances, volatility in financial markets and a substantial depreciation of the Ukrainian Hryvnia against major foreign currencies. As a result, significant external financing is required to maintain the country's economic stability. The National Bank of Ukraine, amongst other measures, has imposed comprehensive restrictions on the processing of client payments by banks, on the purchase of foreign currency on the inter-bank market and on the remittance of funds outside Ukraine. These measures and the many other economic issues in Ukraine have put great strain on the Ukrainian banking system, with increasing risks in the capital strength, liquidity and creditworthiness of a number of banks, and very high rates in the wholesale and overnight markets. In addition, there have been significant deposit outflows from the banking system and widespread restructuring of bank clients' maturing liabilities.

The new funding package to Ukraine, approved by the International Monetary Fund in March 2015, required significant reforms to the Ukrainian banking sector, which are now being implemented. The reforms are being overseen by the National Bank of Ukraine and involve all banks being inspected and assessed, with particular emphasis on lending to a bank's related parties. The inspections are designed to enable the National Bank to assess the financial strength and liquidity of the banks in Ukraine, and may lead to the National Bank imposing remedial measures, ranging from the imposition of requirements for a bank to bolster its capital strength, requirements for a bank to reduce its exposure to related party lending, the appointment of an administrator to manage the priority of payments by a bank, or in the most extreme cases, the liquidation of a bank.

In light of the deterioration in the banking sector in Ukraine, the Group has started to diversify its banking arrangements between a number of banks in Ukraine. These steps are designed to spread the risks associated with each bank's creditworthiness, but the Ukrainian banking sector remains weakly capitalised and so the risks associated with the banks in Ukraine remain significant.

In addition, the severe banking restrictions referred to above, have meant that the Group is unable to remit funds outside Ukraine, which has resulted in the Group's cash holdings of Ukrainian Hryvnia in Ukraine increasing substantially over the past year.

The Group operates bank accounts in Ukraine with Unex Bank which is indirectly controlled by Mr V Novinskiy, who also controls a majority shareholding in the Group. As a result Unex Bank is a related party to the Group. The Group currently holds a significant proportion of its Ukrainian Hryvnia cash

deposits in Unex Bank, but is taking steps to diversify its banking arrangements between other banks in Ukraine.

In the meantime, the Group has been able to obtain additional assurances regarding the security of its cash deposits in Unex Bank, including a representation letter from Unex Bank advising that it continues to fulfil all regulatory requirements of the National Bank of Ukraine, as well as a guarantee and security from companies within the Smart Holding Group in support of the Group's cash deposits in Unex Bank.

The creditworthiness and potential risks relating to the majority of banks in Ukraine are regularly reviewed by the Group, but the ongoing geopolitical and economic events in Ukraine have significantly weakened the Ukrainian banking sector and so the risks associated with the banks in Ukraine remain significant, including in relation to the banks with which the Group operates bank accounts.

Currency risk

The Group's main activities are (i) investment into the development of the Group's Ukrainian gas and condensate asset; (ii) the production and sale of gas, condensate and LPG; and (iii) the continued exploration for further hydrocarbon reserves.

The Group receives sales proceeds in Ukrainian Hryvnia, and the majority of the capital expenditure costs for the 2015 investment programme will be incurred in Ukrainian Hryvnia, thus revenue and costs are largely matched. As with all currencies, the value of the Ukrainian Hryvnia is subject to foreign exchange fluctuations, but as the Ukrainian Hryvnia does not benefit from the range of currency hedging instruments which are available in more developed economies, the Group had previously adopted a policy that, where possible, funds not required for use in Ukraine be retained on deposit in the United Kingdom, principally in US Dollars. However, the severe banking restrictions, referred to above, on the purchase of foreign currency and the remittance of funds outside Ukraine have meant that the Group has been unable to follow this policy in recent months, and as a result, the Group's cash holdings of Ukrainian Hryvnia in Ukraine have increased significantly over the past year.

Furthermore, during 2014, the Ukrainian Hryvnia significantly devalued against major world currencies, including against the US Dollar, where it has fallen from UAH8.3/\$1.00 on 1 January 2014 to UAH15.8/\$1.00 on 31 December 2014. As at 22 May 2015, the Ukrainian Hryvnia was trading at UAH20.7/\$1.00. In response, the National Bank of Ukraine, among other measures, has imposed severe restrictions on the processing of client payments by banks, on the purchase of foreign currency on the inter-bank market and on the remittance of funds outside Ukraine. In addition, the recent events in Ukraine, as outlined above in "*Risks relating to Ukraine*", are likely to continue to impact the valuation of the Ukrainian Hryvnia against major world currencies. Further devaluation of the Ukrainian Hryvnia against the US Dollar will affect the carrying value of the Group's assets.

Ukraine Production Licences

The Group operates in a region where the right to production can be challenged by State and non-State parties. During 2010, this manifested itself in the form of a Ministry Order instructing the Group to suspend all operations and production from its Ukrainian production licences. Whilst the Ministry Order was resolved in 2011, the environment is such that a challenge may arise at any time in the future in relation to the Group's operations, licence history, compliance with licence commitments and/or local regulations. The Group endeavours to ensure compliance with commitments and regulations via Group procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable time frame for achieving compliance or an alternative, mutually agreeable course of action.

The Group's production licences for the MEX-GOL and SV field currently expire in 2024. However, in the estimation of its reserves, it is assumed that the field development will continue until the end of the field's economic life in 2036, and a consequent assumption is made that licence extensions will be granted in accordance with current Ukrainian legislation. Despite such legislation, it is possible that licence extensions will not be granted, which would affect the achievement of full economic field development and consequently the carrying value of the Group's oil and gas development and producing asset in the future.

Hydrocarbon price risk

The Group derives its revenue principally from the sale of its Ukrainian gas, condensate and LPG production. These revenues are subject to commodity price volatility and political influence. A prolonged period of low gas, condensate and LPG prices may impact the Group's ability to maintain its long-term investment programme with a consequent effect on growth rate which in turn may impact the share price or any shareholder returns. Lower gas, condensate and LPG prices may not only decrease the Group's revenues per unit, but may also reduce the amount of gas, condensate and LPG which the Group can produce economically, as would increases in costs associated with hydrocarbon production, such as subsoil taxes and royalties.

There continues to be significant uncertainty about the future gas price in Ukraine, which has been exacerbated by the major political events that have taken place in Ukraine during recent months. The industrial gas price has been generally related to the imported price of gas from Russia, but in December 2013, the previous Government of Ukraine negotiated a significant discount to the imported gas price calculated under the longstanding gas supply agreement between Russia and Ukraine, which resulted in a reduction in the industrial gas price during the first quarter of 2014. However, following the change of Government in February 2014, the discount of the imported gas price was cancelled, and with effect from 1 April 2014, the imported gas price reverted to the price calculated under the longstanding gas supply agreement between Russia and Ukraine. Furthermore, there is a continuing dispute between Russia and Ukraine as to the interpretation of the gas pricing calculation under their longstanding gas supply agreement. As a result of the continuing uncertainty regarding the industrial gas price, it should be recognised that the industrial gas price may increase or decline significantly.

In late November 2014, the Ukrainian Government made an Order that certain specified industrial organisations were obliged to purchase their gas requirements for the period from 1 December 2014 to 28 February 2015 from Naftogaz, the State-owned gas supplier, rather than from other gas producers in Ukraine. During this period, the Order significantly impacted the gas supply market in Ukraine, causing disruption to the market and adversely affecting the market gas prices. The Group's gas off-taker was affected by this Order, and consequently the Group had to sell its gas production into the general gas market at the prevailing prices. The prices achieved were less than those achieved prior to the imposition of the Government Order, and consequently resulted in a negative impact on the Group's results for the 2014 financial year, and will also have a negative impact on the Group's results for the 2015 year. Whilst the Order was not extended beyond 28 February 2015, similar regulations may be imposed in the future.

With effect from 1 April 2015, the Ukrainian Government implemented reforms to the gas market in Ukraine, under which the previously State-subsidised domestic gas price will begin to converge with the industrial gas price. Over time, these reforms are likely to have an effect on the internal gas market in Ukraine.

The overall economics of the Group's key asset (being the net present value of the future cash flows from the Ukrainian project) are far more sensitive to long term gas, condensate and LPG prices than short term price volatility. However, short term volatility does affect liquidity risk, as, in the early stage of the project, income from production revenues is offset by capital investment.

Production based taxes

At the end of July 2014, the Ukrainian Government approved emergency fiscal measures designed to assist in alleviating the fiscal and economic pressures affecting the economy of Ukraine. These imposed significant increases to the subsoil tax rates payable on gas and condensate production. The measures were imposed for the limited period from 1 August 2014 to 31 December 2014, but due to the continuing fiscal and economic pressures affecting the economy of Ukraine, these measures were extended into 2015 and it seems likely that these measures will continue for the rest of 2015. It is uncertain whether the subsoil tax rates will revert to the levels prior to the temporary increases and the subsoil tax rates may be set at another level. In the event that the subsoil tax rates continue to be substantially higher than the levels prior to the increases, it is likely that the Group's financial results will continue to be negatively impacted in the future.

Industry risks

The Group's ability to execute its strategy is subject to risks which are generally associated with the oil and gas industry. For example, the Group's ability to pursue and develop its projects and development programmes depends on a number of uncertainties, including the availability of capital, seasonal conditions, regulatory approvals, gas, oil, condensate and LPG prices, development costs and drilling success. As a result of these uncertainties, it is unknown whether potential drilling locations identified on proposed projects will ever be drilled or whether these or any other potential drilling locations will be able to produce gas, oil or condensate. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only due to dry holes, but also as a result of productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations are highly technical and complex activities and may be curtailed, delayed or cancelled as a result of a variety of factors. Furthermore, whilst the Group is committed to maintaining the highest standards of health, safety, environmental and security in its operational activities, hydrocarbon drilling and production operations carry inherent risks, which in the event of an incident may significantly affect the operational, production, financial and/or business activities of the Group.

Financial Markets and Economic Outlook

The performance of the Group will be influenced by global economic conditions and, in particular, the conditions prevailing in the United Kingdom and Ukraine. The economies in these regions have been subject to volatile pressures during the period, with the global economy having experienced a long period of difficulties, and more particularly the recent events that have occurred in Ukraine. If these events continue, worsen or recur, the Group may be exposed to increased counterparty risk as a result of business failures in Ukraine or elsewhere and will continue to be exposed if counterparties fail or are unable to meet their obligations to the Group. The precise nature of all the risks and uncertainties the Group faces as a result of these risks cannot be predicted and many of these are outside of the Group's control.

Risks relating to key personnel

The Group has a relatively small team of executives and senior management. Whilst this is sufficient for a group of this nature, there is a dependency risk relating to the loss of key individuals.

**Consolidated Income Statement
for the year ended 31 December 2014**

		2014	*Restated 2013
	Note	\$000	\$000
Revenue	5	34,572	36,737
Cost of sales		(22,707)	(33,664)
Gross profit		11,865	3,073
Administrative expenses		(5,513)	(7,291)
Other operating expenses: impairment of property, plant and equipment	7	-	(159,199)
Operating profit / (loss)		6,352	(163,417)
Interest income		2,010	861
Finance costs		(48)	(633)
Other gains and losses		(226)	269
Profit / (loss) on ordinary activities before taxation		8,088	(162,920)
Income tax (expense) / income	6	(2,333)	34,892
Profit / (loss) for the year		5,755	(128,028)
Earnings /(loss) per ordinary share (cents)			
Basic and diluted		1.8c	(39.9)c

* As restated. See Note 4.

**Consolidated Statement of Comprehensive Income
for the year ended 31 December 2014**

	2014	*Restated 2013
	\$000	\$000
Profit / (loss) for the year	5,755	(128,028)
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Equity – foreign currency translation	(62,451)	(7,985)
Total other comprehensive expense	(62,451)	(7,985)
Total comprehensive expense for the year	(56,696)	(136,013)

* As restated. See Note 4.

**Consolidated Balance Sheet
at 31 December 2014**

	Note	2014 \$000	*Restated 2013 \$000	*Restated 2012 \$000
Assets				
Non-current assets				
Intangible assets		48	144	65
Property, plant and equipment	7	35,267	73,699	235,898
Trade and other receivables		1,309	5,953	7,014
Corporation tax receivable		305	-	-
Deferred tax asset	11	20,413	35,094	3,169
		57,342	114,890	246,146
Current assets				
Inventories	8	2,099	3,872	7,620
Trade and other receivables		3,436	8,785	17,161
Corporation tax receivable		-	768	374
Cash and cash equivalents	9	31,836	25,084	28,453
		37,371	38,509	53,608
Total assets		94,713	153,399	299,754
Liabilities				
Current liabilities				
Trade and other payables		(1,929)	(3,484)	(3,805)
		(1,929)	(3,484)	(3,805)
Net current assets		35,442	35,025	49,803
Non-current liabilities				
Provision for decommissioning	10	(255)	(810)	(6,776)
Defined benefit liability		(120)	-	-
Deferred tax liability		-	-	(4,055)
		(375)	(810)	(10,831)
Total liabilities		(2,304)	(4,294)	(14,636)
Net assets		92,409	149,105	285,118
Equity				
Called up share capital		28,115	28,115	28,115
Share premium account		555,090	555,090	555,090
Foreign exchange reserve		(69,017)	(6,566)	1,419
Other reserves		4,273	4,273	4,273
Accumulated losses		(426,052)	(431,807)	(303,779)
Total equity		92,409	149,105	285,118

* As restated. See Note 4.

**Consolidated Statement of Changes in Equity
at 31 December 2014**

					* Restated	* Restated	
	Called up share capital \$000	Share premium account \$000	Merger reserve \$000	Capital contributions \$000	Foreign exchange reserve** \$000	Accumulated losses \$000	Total equity \$000
As at 1 January 2013	28,115	555,090	(3,204)	7,477	1,419	(303,779)	285,118
Loss for the year	-	-	-	-	-	(128,028)	(128,028)
Other comprehensive expense							
- exchange differences	-	-	-	-	(7,985)	-	(7,985)
Total comprehensive expense	-	-	-	-	(7,985)	(128,028)	(136,013)
As at 31 December 2013	28,115	555,090	(3,204)	7,477	(6,566)	(431,807)	149,105

	Called up share capital \$000	Share premium account \$000	Merger reserve \$000	Capital contributions \$000	Foreign exchange reserve** \$000	Accumulated losses \$000	Total equity \$000
As at 1 January 2014	28,115	555,090	(3,204)	7,477	(6,566)	(431,807)	149,105
Profit for the year	-	-	-	-	-	5,755	5,755
Other comprehensive expense							
- exchange differences	-	-	-	-	(62,451)	-	(62,451)
Total comprehensive expense	-	-	-	-	(62,451)	5,755	(56,696)
As at 31 December 2014	28,115	555,090	(3,204)	7,477	(69,017)	(426,052)	92,409

* As restated. See Note 4.

** Predominantly as a result of exchange differences on intra-group loans and other retranslations, where the subsidiaries' functional currency is not the US Dollar.

**Consolidated Cash Flow Statement
for the year ended 31 December 2014**

		2014	*Restated 2013
	Note	\$000	\$000
Operating activities			
Cash from operations	12	19,562	21,934
Taxation paid		(849)	(1,921)
Interest received		1,979	861
Net cash from operating activities		20,692	20,874
Investing activities			
Purchase of property, plant and equipment		(5,485)	(24,700)
Purchase of intangible assets		(3)	(103)
Proceeds from sale of property, plant and equipment		22	891
Net cash used in investing activities		(5,466)	(23,912)
Net increase / (decrease) in cash and cash equivalents		15,226	(3,038)
Cash and cash equivalents at beginning of year		25,084	28,453
Effect of foreign exchange rate changes		(8,474)	(331)
Cash and cash equivalents at end of year	9	31,836	25,084

* As restated. See Note 4.

Notes forming part of the financial information

1. Statutory Accounts

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2014 or 2013, but is derived from those accounts. The Auditor has reported on those accounts; its reports were unqualified, but did contain an emphasis of matter in respect of the political and economic environment in Ukraine (further details are available in the Operational Environment, Principal Risks and Uncertainties section above and Note 2 below). The Auditor's Report did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

The statutory accounts for 2014 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

While the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to distribute the full financial statements that comply with IFRS in June 2015.

2. Operating Environment

Regal Petroleum plc (the "Company") and its subsidiaries (the "Group") is a gas, condensate and LPG production group.

Regal Petroleum plc is a company quoted on the AIM Market of the London Stock Exchange plc and incorporated in England and Wales under the Companies Act 2006. The Company's registered office is at 16 Old Queen Street, London SW1H 9HP and its registered number is 4462555. The principal activities of the Group and the nature of the Group's operations are set out in the Directors' Report.

As of 31 December 2014 and 2013 the Company's immediate parent company was Energiees Management Limited, which is 100% owned by Pelidona Services Limited, which is 100% owned by Lovitia Investments Ltd, which is 100% owned by Mr V Novinskiy. Accordingly, the Company was ultimately controlled by Mr V Novinskiy.

The Group's gas and condensate extraction facilities are located in Ukraine. The major events that have taken place in Ukraine during the year, including the change of the Government and civil unrest, have meant that there has been, and continues to be, a great deal of uncertainty about the political and economic outlook in Ukraine. Further details of these risks relating to Ukraine, can be found within the Operational Environment, Principal Risks and Uncertainties section.

For the reasons outlined in the Operational Environment, Principal Risks and Uncertainties section, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future regarded as at least 12 months after the date of signing of the Financial Statements. Accordingly, the going concern basis has been adopted in preparing its consolidated financial statements for the year ended 31 December 2014. The use of this basis of accounting takes into consideration the Company's and the Group's current and forecast financing position, additional details of which are provided in the "Going concern risk" section.

3. Critical Accounting Estimates and Assumptions

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

(a) Recoverability of Development and Production Assets in Ukraine

According to the Group's accounting policies, costs capitalised as assets are assessed for impairment at each balance sheet date. In assessing whether an impairment loss has occurred, the carrying value of the asset is compared to its recoverable amount, which IAS 36 Impairment of Assets defines as the higher of fair value less costs of disposal and value in use. Management does not believe it possible to measure fair value reliably, due to both the absence of an active market in which to sell the asset and the current political and economic climate in Ukraine. Therefore, as in previous years, management has used value in use, using a discounted cash flow model to measure its recoverable amount. The cash flows in the model are projected in real terms, i.e. they do not take into account the impact on cash flows of the estimated inflation during the period of projection. The discount rate is adjusted accordingly and represents a real terms discount rate.

The valuation method used for determination of recoverable value in use is based on unobservable market data, which is within Level 3 of the fair value hierarchy.

The estimate of value in use requires judgment in the following areas:

- (i) *Sales price* – As outlined in the Finance Review and Operational Environment, Principal Risks and Uncertainties sections, the Ukraine gas price was significantly lower during the first quarter of 2014 but increased substantially in subsequent quarters. Nevertheless, there continues to be a level of uncertainty in forecasting the Ukraine gas price due to the current political and economic climate in Ukraine. The estimate used in the calculation is based on International Monetary Fund (“IMF”) imported gas price forecasts for Ukraine.
- (ii) *Reserves* – Management's estimate of reserves is based on a third party reserves report which relies on a combination of technical and operational data and independent reservoir interpretations.
- (iii) *Production levels* – Management's estimate of production levels is derived from the field development plan, which in turn is related to the estimate of recoverable reserves.
- (iv) *Capital expenditures* – Management's estimate of capital expenditures is based on the assessments of internal technical experts and market data about prices for projected types and volumes of expenditures. The prices are obtained from tender offers as well as different public sources. The part of capital expenditures which is pegged to the US Dollar is recalculated using the expected USD/UAH exchange rates based on the forecasts of independent external financial institutions. A capital expenditure allowance of \$500,000 per year is assumed for maintenance of development and production assets.
- (v) *Discount rate* - Management applies an expected weighted average cost of capital as a discount rate, which reflects both the time value of money and its assessment of the risk associated with development and producing oil and gas assets in Ukraine. Due to the recent events in Ukraine, there is an increased level of risk associated with operating in Ukraine, and consequently a higher discount rate has been applied. For 2015 and 2016 the discount rate applied was 21% and 16% respectively. From 2017 to 2024 the discount rate gradually decreases from 14% (2017) to 12% (2024 onwards) based on the projected correlation of the country risk premium for investment in Ukraine and the Ukrainian country default swap curve. The discount rates represent a real weighted average cost of capital, i.e. they do not take into account the impact of the estimated inflation during the period of projection.
- (vi) *Life of field* – Management's estimate of recoverable amount is based on recovering reserves beyond the validity of its current production licences. Management believes that the current licences, which are due to expire in July 2024 will be extended under applicable legislation in Ukraine until the end of the economic life of the field, which is assessed to be June 2036. No application for such an extension has been made at the date of this report, however management considers the assumption to be reasonable based on its intention to seek such an extension in due course and that the Group is legally entitled to request an extension.

The impairment assessment carried out at 31 December 2014 has not resulted in an impairment loss.

Further details of this assessment, including the sensitivity to the above assumptions, are set out in Note 7.

(b) Decommissioning

The Group has decommissioning obligations in respect of its Ukrainian asset. The full extent to which the provision is required depends on the legal requirements at the time of decommissioning, the costs and timing of any decommissioning works and the discount rate applied to such costs.

Starting from 2013 a detailed assessment of gross decommissioning cost was undertaken on a well-by-well basis using local data on day rates and equipment costs. The discount rate applied on the decommissioning cost provision at 31 December 2014 was 14.20% (31 December 2013: 7.88% as restated, see Note 4). The discount rate is calculated based on the yield to maturity of Ukrainian Government bonds denominated in the currency in which the liability is expected to be settled and with the settlement date that approximates the timing of settlement of decommissioning obligations.

The change in estimate during 2014 reflects a combination of a revision in the estimated costs (reduction of \$120,601) and the discount rate applied (increase of \$324,125).

The decommissioning costs are estimated to be incurred by June 2036, which is the end of the economic life of the field. As outlined in (a)(vi) above, management believes that the current licences, which are due to expire in July 2024, will be extended until June 2036.

(c) Depreciation of Development and Production Assets

Development and production assets held in property, plant and equipment are depreciated on a unit of production basis at a rate calculated by reference to proven and probable reserves and incorporating the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions about the number of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs, together with assumptions on oil and gas realisations, and are revised annually. The reserves estimates used are determined using estimates of gas in place, recovery factors, future hydrocarbon prices and also take into consideration the Group's latest development plan for the associated development and production asset. Additionally, as outlined in (a)(vi) above, the latest development plan and therefore the inputs used to determine the depreciation charge, assume that the current licences which are due to expire in July 2024, can be extended until June 2036.

(d) Timing of recovery of purchase tax receivable

The Group has significant receivables from the State Budget of Ukraine relating to reimbursement of purchase tax arising on purchases of goods and services from external service and product providers. The Group recognises recoverable purchase tax only to the extent that it is probable that the purchase tax payable arising on the sales of gas, condensate and LPG production will be sufficient to offset the purchase tax due from the State within a reasonable period. Estimating the recoverability, net present value and classification (current asset versus non-current asset) of purchase tax receivable requires management to make an estimate of the timing of future revenues in order to calculate the amount and timing of the purchase tax payable available for offset.

(e) Recoverability of materials inventory

The majority of the Group's materials inventory balance comprises items to be used in the Ukraine drilling programme. Where there is uncertainty whether the materials will be realised through the drilling programme, or through sale, the materials are recorded at selling price, less any associated costs. Where materials inventory is intended for sale, management uses current market rates to estimate the recoverable amount through sale.

A full review of the Group's materials inventory was undertaken at 31 December 2013 following the revision to the field development plan, which reduced the number and phasing of new wells in the fields from 27 to 10. The reduced drilling activity has meant that the Group has a reduced short-term

requirement for drilling materials. The reduction in future utilisation of this inventory, coupled with unsuccessful attempts during the year to sell unwanted items, has led to the write down of the materials inventory balance at 31 December 2013, as outlined in Note 8.

Further review of the Group's materials inventory was undertaken at 31 December 2014 and has not led to a write down of the materials inventory at the balance sheet date.

(f) Recognition of deferred tax asset

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. This requires judgment for forecasting future profits.

Further details of the deferred tax assets recognised can be found in Note 11.

(g) Functional currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates. If a foreign entity conducts significant amounts of business in more than one underlying currency, management's judgment will be required to determine the functional currency in which financial results are measured with the greatest degree of relevance and reliability.

4. Correction of Prior Period Errors and Changes in Accounting Policies and Classification

During the preparation of the consolidated financial statements for the year ended 31 December 2014, the Group became aware of matters related to the preparation of the consolidated financial statements for the years ended 31 December 2013 and 31 December 2012 that require restatement.

The errors, changes in accounting policies and changes in classification were corrected and treated in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" by restating comparative amounts. The effect and nature of these restatements are detailed below.

(a) Change in the estimates used for calculation of decommissioning provision

In the 2013 consolidated financial statements, the Group incorrectly used a US Dollar denominated discount rate for calculation of the decommissioning provision as at 31 December 2013. Had the Ukrainian Hryvnia denominated discount rate been used, the liability would have reduced by \$821,000 (discount rate of 7.88% vs 4.57%).

Correction of the error resulted in a decrease in the decommissioning provision and a corresponding decrease in property, plant and equipment as at 31 December 2013 of \$821,000.

(b) Deferred tax asset and functional currency for tax basis

With effect from 1 January 2013, the functional currency of two of the Group's subsidiaries was changed from US Dollars to Ukrainian Hryvnia. The change was triggered by the increasing influence of the Ukrainian Hryvnia on the subsidiaries' operations, compared to previous years. However, management did not change the functional currency in the tax accounting, with US Dollars remaining the currency used for the deferred income tax calculation in 2013.

Correction of the error resulted in a decrease in the deferred tax asset of \$1,259,000 in the consolidated Balance Sheet and a corresponding increase in the income tax charge of \$865,000 in the consolidated Income Statement and an increase in the foreign exchange reserve of \$394,000 in the consolidated Statement of Comprehensive Income as at 31 December 2013.

(c) Reclassification of materials inventory related to development and producing assets to property, plant and equipment

In 2014, the Group corrected an error leading to a change in its accounting policy in respect of the initial recognition of inventory purchased with the intention to be used in future capital investment projects. The change of the accounting policy was applied retrospectively resulting in a decrease of the long-term inventory and a corresponding increase in property, plant and equipment of \$1,115,000 as at 31 December 2013 and \$2,390,000 as at 31 December 2012.

(d) Reclassifications of the consolidated Cash Flow Statement as a result of discussions with the Financial Reporting Council's Conduct Committee in respect of its review of the 2012 Annual Report and Accounts

(i) Reclassification of purchase tax paid relating to purchase of property, plant and equipment

In 2014, the Group changed its accounting policy and reclassified purchase tax paid relating to the purchase of property, plant and equipment as cash flows from operating activities for the year ended 31 December 2014. The comparative figures for the year ended 31 December 2013 have been restated to reflect the reclassification of the purchase tax paid. The reclassification resulted in a decrease in the net cash used in investing activities, and a corresponding decrease in the net cash from operating activities of \$4,765,000 for the year ended 31 December 2013.

(ii) Reclassification of the proceeds from sale of materials inventory and purchase of materials inventory relating to development and producing assets

A change in the Group's accounting policy in respect of materials inventory relating to development and producing assets resulted in the reclassification of cash flows related to the sale and purchase of materials inventory in the consolidated Cash Flow Statement for the year ended 31 December 2013. The reclassification resulted in a decrease in the purchase of materials inventory relating to development and producing assets and an increase in the purchase of property, plant and equipment of \$5,701,000, as well as a decrease in the proceeds from sale of materials inventory and an increase in the proceeds from sale of property, plant and equipment of \$706,000.

(e) Reclassification of the consolidated Cash Flow Statement as a result of a change in accounting policy

The Group reclassified equipment rental income from investing activities to operating activities for the year ended 31 December 2013 to reflect current year changes in accounting policy. The reclassification resulted in a decrease in the net cash used in investing activities, and a corresponding increase in the net cash from operating activities of \$209,000 for the year ended 31 December 2013.

The effect of the restatements on the consolidated Balance Sheet is presented below:

		31 December 2013 as reported	Adjustment	31 December 2013 as restated	31 December 2012 as reported	Adjustment	31 December 2012 as restated
	Comment	\$000	\$000	\$000	\$000	\$000	\$000
Non-current assets							
Property, plant and equipment	(a),(c)	73,405	294	73,699	233,508	2,390	235,898
Inventories	(c)	1,115	(1,115)	-	2,390	(2,390)	-
Deferred tax	(b)	36,353	(1,259)	35,094	3,169	-	3,169
Total non-current assets		116,970	(2,080)	114,890	246,146	-	246,146
Total assets		155,479	(2,080)	153,399	299,754	-	299,754
Non-current liabilities							
Provision for decommissioning	(a)	(1,631)	821	(810)	(6,776)	-	(6,776)
Total non-current liabilities		(1,631)	821	(810)	(10,831)	-	(10,831)
Total liabilities		(5,115)	821	(4,294)	(14,636)	-	(14,636)
Net assets		150,364	(1,259)	149,105	285,118	-	285,118
Equity							
Foreign exchange reserve	(b)	(6,172)	(394)	(6,566)	1,419	-	1,419
Accumulated losses	(b)	(430,942)	(865)	(431,807)	(303,779)	-	(303,779)
Total equity		150,364	(1,259)	149,105	285,118	-	285,118

The effect of the restatements on the consolidated Income Statement and consolidated Statement of Comprehensive Income is presented below:

		2013 as reported \$000	Adjustment \$000	2013 as restated \$000
	Comment			
Income tax (charge)/credit	(b)	35,757	(865)	34,892
Loss for the year		(127,163)	(865)	(128,028)
Equity – foreign currency translation	(b)	(7,591)	(394)	(7,985)
Total comprehensive expense for the period		(134,754)	(1,259)	(136,013)

The effect of the restatements on loss per share is presented below:

	As reported	As restated
Loss per ordinary share (cents)		
Basic and diluted	(39.7)c	(39.9)c

The effect of the restatements on the consolidated Cash Flow Statements is presented below:

	Comment	2013 as reported \$000	Adjustment \$000	2013 as restated \$000
Operating activities				
Cash from operations	(d)(i)	26,490	(4,556)	21,934
Taxation paid		(1,921)	-	(1,921)
Interest received		861	-	861
Net cash from operating activities		25,430	(4,556)	20,874
Investing activities				
Purchase of property, plant and equipment	(d)(ii)	(18,999)	(5,701)	(24,700)
Increase in related purchase tax receivable	(d)(i)	(4,765)	4,765	-
Purchase of intangible assets		(103)	-	(103)
Purchase of materials inventory relating to development and producing assets	(d)(ii)	(5,701)	5,701	-
Proceeds from sale of materials inventory	(d)(ii)	706	(706)	-
Equipment rental income		209	(209)	-
Proceeds from sale of property, plant and equipment	(d)(ii)	185	706	891
Net cash used in investing activity		(28,468)	4,556	(23,912)
Net decrease in cash and cash equivalents		(3,038)	-	(3,038)
Cash and cash equivalents at the beginning of the year		28,453	-	28,453
Effect of foreign exchange rate changes		(331)	-	(331)
Cash and cash equivalents at the end of the year		25,084	-	25,084

5. Segmental Information

In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who review internal monthly management reports, budget and forecast information as part of this process. Accordingly, the Board of Directors is deemed to be the Chief Operating Decision Maker within the Group.

The Group's only class of business activity is oil and gas exploration, development and production. The Group's operations are located in Ukraine, with its head office in the United Kingdom. These geographical regions are the basis on which the Group reports its segment information. The segment results as presented represent operating profit / (loss) before depreciation, amortisation and impairment loss.

	Ukraine	United Kingdom	Total
	2014	2014	2014
	\$000	\$000	\$000
Turnover			
Gas sales	20,201	-	20,201
Condensate sales	11,171	-	11,171
Liquefied Petroleum Gas sales	3,200	-	3,200
Total sales	34,572	-	34,572
Segment result	18,282	(3,078)	15,204
Depreciation and amortisation	-	-	(8,852)
Operating profit			6,352
Segment assets	72,680	22,033	94,713
Capital additions*	4,320	5	4,325

There are no inter-segment sales within the Group and all products are sold in the geographical region in which they are produced. Gas sales to the Group's largest customer in 2014 amounted to \$18,094,000 (2013: \$25,980,000).

	Restated*		
	Ukraine	United Kingdom	Total
	2013	2013	2013
	\$000	\$000	\$000
Turnover			
Gas sales	28,034	-	28,034
Condensate sales	8,664	-	8,664
Liquefied Petroleum Gas sales	39	-	39
Total sales	36,737	-	36,737
Segment result	14,559	(1,232)	13,327
Depreciation and amortisation			(17,545)
Impairment loss			(159,199)
Operating loss			(163,417)
Segment assets	127,783	25,616	153,399
Capital additions**	24,000	4	24,004

* As restated. See Note 4.

**Comprises additions to property, plant and equipment (Note 7).

6. Taxation

a) Analysis of expense / (income) in period:

	2014 \$000	*Restated 2013 \$000
<i>Current tax</i>		
Overseas – current year	1,232	1,358
Overseas – prior year	(253)	124
<i>Deferred tax (Note 11)</i>		
UK - current year	1,354	(36,100)
UK - prior year	-	(274)
	2,333	(34,892)

The effect of the restatements described in Note 4 is presented below:

	As reported 2013 \$000	Restatement \$000	As restated 2013 \$000
<i>Current tax</i>			
Overseas – current year	1,358	-	1,358
Overseas – prior year	124	-	124
<i>Deferred tax (Note 11)</i>			
UK - current year	(36,965)	865	(36,100)
UK - prior year	(274)	-	(274)
	(35,757)	865	(34,892)

b) Factors affecting tax charge for the year:

The tax assessed for the year is different than the blended rate of corporation tax in the UK of 21.5%. The expense / (income) for the year can be reconciled to the profit / (loss) as per the Income Statement as follows:

	2014 \$000	*Restated 2013 \$000
Profit/ (loss) before tax from continuing operations	8,088	(162,920)
Tax charge / (credit) at UK tax rate of 21.50% (2013: 23.25%)	1,739	(37,879)
Tax effects of:		
Lower foreign corporate tax rates in Ukraine (2014: 18%, 2013: 19%)	4	(689)
Disallowed expenses and non-taxable income	(14,957)	4,334
Recognition of deferred tax assets on historical losses	-	(4,638)
Recognition of deferred tax on decommissioning	-	(332)
Losses not recognised as deferred tax assets	15,800	-
Adjustment for reduction in UK corporate tax rate	-	4,462
Prior year adjustments	(253)	(150)
Tax expense / (income) for the year	2,333	(34,892)

	As reported 2013 \$000	Restatement \$000	As restated 2013 \$000
Loss before tax from continuing operations	(162,920)	-	(162,920)
Tax credit at UK tax rate of 21.50% (2013: 23.25%)	(37,879)	-	(37,879)
Tax effects of:			
Lower foreign corporate tax rates in Ukraine (18%)	(689)	-	(689)
Disallowed expenses and non-taxable income	3,249	1,085	4,334
Recognition of deferred tax assets on historical losses	(4,638)	-	(4,638)
Recognition of deferred tax on decommissioning	(332)	-	(332)
Adjustment for reduction in UK corporate tax rate	4,682	(220)	4,462
Prior year adjustments	(150)	-	(150)
Tax credit for the year	(35,757)	865	(34,892)

7. Property, Plant and Equipment

Group	2014			2013 (*Restated)		
	Development and Production assets Ukraine \$000	Other fixed assets \$000	Total \$000	Development and Production assets Ukraine \$000	Other fixed assets \$000	Total \$000
Cost						
At beginning of year	277,014	1,272	278,286	263,563	1,133	264,696
Additions	3,995	330	4,325	23,451	452	23,903
Change in decommissioning provision	(204)	-	(204)	(6,274)	-	(6,274)
Disposals	(924)	(330)	(1,254)	(1,241)	(285)	(1,526)
Exchange differences	(131,627)	(288)	(131,915)	(2,485)	(28)	(2,513)
At end of year	148,254	984	149,238	277,014	1,272	278,286
Accumulated depreciation and impairment						
At beginning of year	203,784	803	204,587	27,949	849	28,798
Charge for year	8,727	104	8,831	17,312	214	17,526
Impairment loss	-	-	-	159,199	-	159,199
Impairment materials inventory related to development and producing assets	-	-	-	539	-	539
Disposals	(37)	(193)	(230)	(126)	(242)	(368)
Exchange differences	(98,960)	(257)	(99,217)	(1,089)	(18)	(1,107)
At end of year	113,514	457	113,971	203,784	803	204,587
Net book value at beginning of year	73,230	469	73,699	235,614	284	235,898
Net book value at end of year	34,740	527	35,267	73,230	469	73,699

In accordance with the Group's accounting policies, oil and gas development and producing assets are tested for impairment at each balance sheet date. In assessing whether an impairment loss has occurred, the carrying amount of the asset is compared to the value in use. The Group estimates value in use of its development and producing assets using a discounted cash flow model.

As there was no drilling in 2014, the reserves report prepared by ERC Equipoise Limited in London as of 31 December 2013 is still effective and was not updated as of 31 December 2014.

The impairment assessment carried out at 31 December 2014 has not resulted in an impairment loss.

The calculation of value in use is most sensitive to the following assumptions, the bases of which are set out in Note 3(a):

- (i) *Commodity prices* – the model assumes gas prices of \$300/Mm³ (UAH6,600/Mm³) in 2015 increasing to \$340/Mm³ (UAH8,000/Mm³) during 2016 - 2019 and onwards. The prices were estimated on the basis of International Monetary Fund imported gas price forecasts for Ukraine.
- (ii) *Discount rate* - reflects the current market assessment of the time value of money and risks specific to the Group. The discount rate has been determined as the weighted average cost of capital based on observable inputs and inputs from third party financial analysts. For 2015 and 2016 the discount rate applied was 21% and 16% respectively. From 2017 to 2024 the discount rate gradually decreases from 14% (2017) to 12% (2024 onwards) based on the projected correlation of the country risk premium for investment in Ukraine and the Ukrainian country default swap curve. The discount rates represent a real weighted average cost of capital, i.e. they do not take into account the impact of the estimated inflation during the period of projection.
- (iii) *Production levels and Reserves* – production levels are based on the data included in the third party reserves report. This report includes estimated production volumes, including from new wells, over the remaining useful life of the MEX-GOL and SV gas and condensate fields in Ukraine. The estimated production is based on the Group's current development programme, which includes the drilling of six new wells (2013: ten new wells), and the workover of existing currently non-producing wells, which will recover the same reserves with lower capital expenditure.
- (iv) *Production taxes* - management assumed production tax rates of 55% for gas and 45% for condensate extracted from deposits up to depths of 5,000 metres and 28% for gas and 21% for condensate extracted from deposits deeper than 5,000 metres. These rates were introduced by the Government as an emergency measure in 2014 and have been extended through to 31 December 2015. From 1 January 2016, the Group has assumed that these rates will reduce to normalised levels of 28% for gas extracted from deposits up to depths of 5,000 metres and 15% for gas extracted from deposits deeper than 5,000 metres. For condensate, the rates assumed remain the same for 2015 and thereafter.
- (v) *Capital expenditures* - management assumed that most capital expenditures are to be incurred during 2016 - 2021. A capital expenditure allowance of \$500,000 per year is assumed for maintenance of the development and producing assets. The proportion of capital expenditures which is pegged to the US Dollar is recalculated using the forecast \$/UAH exchange rates based on the long-term projections of the International Monetary Fund.
- (vi) *Life of field* - the current licences, which are due to expire in July 2024, can be extended under applicable legislation in Ukraine until the end of the economic life of the field, which is assessed to be June 2036 on the basis of the reserves report. No application for such an extension has been made at the date of this report, but management consider the assumption to be reasonable based on their intention to seek such an extension in due course and that the Group is legally entitled to request an extension. However, if the extension were not granted, it would result in a further reduction of \$18,400,000 in the carrying value.

The Group's discounted cash flow model in Ukrainian Hryvnia, flexed for sensitivities, produced the following results:

	Recoverable amount	Net book value	Headroom / (Shortfall)
	\$000	\$000	\$000
31 December 2014	80,223	34,740	45,483

Sensitivities:

1. \$25/Mm ³ reduction in gas price	69,233	34,740	34,493
2. \$25/Mm ³ increase in gas price	91,239	34,740	56,499
3. Breakeven gas price \$230/Mm ³	34,436	34,740	(304)
4. Breakeven flow rates 29 Mm ³ /day for all new wells	35,133	34,740	393
5. Assuming no reduction in production tax rates from 2016	50,734	34,740	15,994
6. Breakeven discount rate 24%	35,006	34,740	266

According to the results of the impairment test performed, there is no impairment of development and production assets at 31 December 2014.

The effect of the restatements described in Note 4 is presented below:

Group	Development and Production assets Ukraine 2013 As reported \$000	Restatement \$000	Development and Production assets Ukraine 2013 As restated \$000
Cost			
At beginning of year	261,173	2,390	263,563
Additions	23,451	-	23,451
Disposals	(505)	(736)	(1,241)
Change in decommissioning provision	-	(6,274)	(6,274)
Exchange differences	(7,938)	5,453	(2,485)
At end of year	276,181	833	277,014
Accumulated depreciation and impairment			
At beginning of year	27,949	-	27,949
Charge for year	17,312	-	17,312
Impairment loss	159,199	-	159,199
Impairment materials inventory related to development and producing assets	-	539	539
Disposals	(126)	-	(126)
Exchange differences	(1,089)	-	(1,089)
At end of year	203,245	539	203,784
Net book value at end of year	72,936	294	73,230

8. Inventories

	Group	
	2014	2013
	\$000	\$000
Current		
Materials	1,951	3,729
Condensate stock	148	143
	2,099	3,872

Non-current inventory presented by inventory purchased with the intention to be used in future capital investment projects was restated at 31 December 2013 and 31 December 2012 due to an error leading to a change of accounting policy as described in Note 4. The change of accounting policy was applied retrospectively resulting in a decrease in the long-term inventory and a corresponding increase in property, plant and equipment of \$1,115,000 as at 31 December 2013 and \$2,390,000 as at 31 December 2012.

A full review of the Group's materials inventory balance was undertaken at 31 December 2013 following the revision to the field development plan, which reduced the number and phasing of new wells in the field. The reduction in future utilisation of this inventory, coupled with unsuccessful attempts during the year to sell unwanted items, has led to the write down of the materials inventory balance.

The majority of the Group's materials inventory is held at written down value, due to historic impairment charges, and the write down following the review of the materials inventory referred to above. The cumulative total write down as at 31 December 2014 on the balance above was \$4,809,000 (2013: \$4,809,000).

9. Cash and Cash Equivalents

	Group		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Cash at bank and on hand	23,403	9,939	14,061	7,820
Short-term deposits	8,433	15,145	-	9,072
	31,836	25,084	14,061	16,892

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The terms and conditions upon which the Group's short-term deposits are made allow immediate access to all cash deposits, with no significant loss of interest.

However, the significant pressures on the Ukrainian banking system, with high risks in the capital strength, liquidity and creditworthiness of a number of Ukrainian banks, may affect the terms and conditions upon which the Group's short-term deposits are made. More details of such risks are set out in Notes 13 and 14.

10. Provision for Decommissioning

	2014	2013 (Restated)
	\$000	\$000
Group		
At beginning of year	810	6,776
Amounts provided	-	90
Unwinding of discount	46	520
Change in estimate	(204)	(6,364)
Exchange differences	(397)	(212)
At end of year	255	810

The Company did not have provisions balances at 31 December 2014 and 31 December 2013.

The provision for decommissioning is based on the net present value of the Group's estimated liability for the removal of the Ukraine production facilities and well site restoration at the end of production life. In 2013, detailed assessment of the gross decommissioning cost was undertaken on a well-by-well basis using local data on day rates and equipment costs, as compared to previous years, where the same cost was assumed for each well. The change in estimate during 2013 reflects a combination of this revision in the estimated costs and the discount rate applied. These costs are expected to be incurred by 2036 (2013: by 2036), although if the costs were to be incurred at the current expiry of the production licences in 2024, the provision for decommissioning at 31 December 2014 would be \$1,257,000 (31 December 2013: \$2,012,000).

The provision for decommissioning was restated at 31 December 2013 due to the change of discount rate as described in Note 4. The effect of the restatements is presented below:

	Provision for decommissioning 2013 as reported \$000	Restatement \$000	Provision for decommissioning 2013 as restated \$000
Group			
At beginning of year	6,776	-	6,776
Amounts provided / (utilised)	180	(90)	90
Unwinding of discount	520	-	520
Change in estimate	(5,633)	(731)	(6,364)
Exchange differences	(212)	-	(212)
At end of year	1,631	(821)	810

11. Deferred Tax

Company

	2014 \$000	*Restated 2013 \$000
Deferred tax recognised on tax losses		
At beginning of year	7,807	3,169
Credited to Income Statement - current year	54	4,638
At end of year	7,861	7,807

Group

	2014 \$000	2013 \$000
Deferred tax recognised relating to development and production asset		
At beginning of year	27,287	(4,055)
(Charged) / credited to Income Statement - current year	(1,408)	31,462
Credited to Income Statement - prior year	-	274
Effect of exchange difference	(13,327)	(394)
At end of year	12,552	27,287

At 31 December 2014 the Group recognised a deferred tax asset of \$7,861,000 in relation to UK tax losses carried forward (31 December 2013:\$7,807,000). There was a further \$66 million (31 December

2013: \$57 million) of unrecognised UK tax losses carried forward for which no deferred tax asset has been recognised. These losses can be carried forward indefinitely, subject to certain rules regarding capital transactions and changes in the trade of the Company. The Directors consider it appropriate to recognise deferred tax assets resulting from accumulated tax losses at 31 December 2014 to the extent that it is probable that there will be sufficient future taxable profits.

The deferred tax asset relating to the Group's development and producing asset at 31 December 2014 was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and producing asset in Ukraine, and its tax base. This is deemed recoverable on the projected future profits generated by the Group's operations in Ukraine. The forecast profits are based on the current field development plan, and are determined using data from the same cash flow model which was used for impairment review of the Group's development and production asset in Ukraine, as outlined in Note 7. Based on these projections, the deferred tax asset recognised will be recovered by 2020. However, should future field development not result in additional production, only \$3 million of the \$12 million deferred tax recognised would be recoverable based on forecast profits available from the Group's existing wells.

Losses accumulated in a Ukrainian subsidiary service company of UAH952,365,000 (\$60,391,000) at 31 December 2014 and UAH41,364,000 (\$5,175,000) at 31 December 2013 mainly originated as foreign exchange differences on inter-company loans and for which no deferred tax asset was recognised as this subsidiary is not expected to have taxable profits to utilise these losses in the future.

Factors affecting future tax charge

On 1 January 2014, the main rate of corporation tax in Ukraine was reduced from 19% to 18%. The UK corporation tax rate has reduced from 23% to 21% from 1 April 2014, giving a blended average rate for the year of 21.5%, and further reduced from 21% to 20% effective from 1 April 2015. These rate changes were substantively enacted on 2 July 2013. The deferred tax assets at 31 December 2013 have been updated to reflect the reduction in the tax rates. These rate changes are not expected to have a further material effect on the Group's tax balances.

12. Reconciliation of Operating Profit / (Loss) to Operating Cash Flow

	2014	*Restated 2013
	\$000	\$000
Group		
Operating profit / (loss) from continuing operations	6,352	(163,417)
Depreciation, amortisation and impairment charges	8,852	176,744
Write down of inventory (Note 8)	-	3,045
Reversal of write down of inventory	-	(313)
Movement in provisions	79	(499)
(Increase) / decrease in operating stock	(99)	164
Decrease in debtors	4,812	5,905
(Decrease) / increase in creditors	(434)	305
Cash from operations	19,562	21,934
	2014	2013
	\$000	\$000
Company		
Operating loss	(2,981)	(195,032)
Depreciation and amortisation	9	39
Movement in provisions (including against subsidiary loans)	-	191,542
(Increase) / decrease in debtors	(157)	2,326
(Decrease) / increase in creditors	22	(409)
Cash used in operations	(3,107)	(1,534)

13. Financial Instruments

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines its capital as equity. The primary source of the Group's liquidity has been cash generated from operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The capital structure of the Group consists of equity attributable to the equity holders of the parent, comprising issued share capital, share premium, reserves and retained deficit.

There are no capital requirements imposed on the Group.

The Group's financial instruments comprise cash and cash equivalents and various items such as debtors and creditors that arise directly from its operations. The Group has bank accounts denominated in British Pounds, US Dollars, Euros, Canadian Dollars and Ukrainian Hryvnia. The Group does not have any borrowings. The main future risks arising from the Group's financial instruments are currently currency risk, interest rate risk, liquidity risk and credit risk.

The Group's financial assets and financial liabilities, measured at amortised cost, which approximates their fair value comprise the following:

Financial Assets

	2014	2013
	\$000	\$000
Group		
Cash and cash equivalents	31,836	25,084
Trade and other receivables	740	85
	32,576	25,169

At 31 December 2014, \$17,456,000 of Group cash and cash equivalents were held with a related party bank, Unex Bank, see Note 14 for details (31 December 2013: \$7,915,000).

	2014	2013
	\$000	\$000
Company		
Cash and cash equivalents	14,061	16,892
Trade and other receivables	327	56
	14,388	16,948

Financial Liabilities

	2014	2013
	\$000	\$000
Group		
Trade and other payables	7	545
Accruals	204	720
	211	1,265

	2014	2013
	\$000	\$000
Company		
Trade and other payables	-	70

Accruals	260	168
	260	238

All assets and liabilities of the Group where fair value is disclosed are level 2 in the fair value hierarchy and valued using the current cost accounting technique.

Currency Risk

The functional currencies of the Group's entities are US Dollars and Ukrainian Hryvnia. The following analysis of net monetary assets and liabilities shows the Group's currency exposures. Exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the relevant entity.

Currency	2014	2013
	\$000	\$000
Canadian Dollars	2	3
British Pounds	2,441	295
Euros	166	1,783
United States Dollars	-	43
Ukrainian Hryvnia	-	-
Net monetary assets less liabilities	2,609	2,124

Foreign Currency Sensitivity Analysis

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2014	At 31 December 2013
	After tax impact on	After tax impact on profit or
	profit or loss	loss
	\$000	\$000
EUR strengthening by 30% (2013: 20%)	50	356
GBP strengthening by 30% (2013: 20%)	732	594

A positive number above indicates a decrease in loss / increase in profit where the indicated currency strengthens against the functional currency. For a weakening of the indicated currency against the functional currency, there would be an equal and opposite impact on the loss / profit, and the balances above are shown negative. The Group holds currencies to match the currencies of future capital and operational expenditure.

Interest Rate Risk Management

The Group is not exposed to interest rate risk on financial liabilities as none of the entities in the Group have any external borrowings. The Group does not use interest rate forward contracts and interest rate swap contracts as part of its strategy.

The Group is exposed to interest rate risk on financial assets as entities in the Group hold money market deposits at floating interest rates. The risk is managed by fixing interest rates for a period of time when indications exist that interest rates may move adversely.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section below.

Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on exposure to interest rates for non-derivative instruments at the balance sheet date. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

If interest rates earned on money market deposits had been 0.5% higher / lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2014 would increase by \$105,000 in the event of 0.5% higher interest rates and decrease by \$105,000 in the event of 0.5% lower interest rates (2013: decrease of loss for the year ended 31 December 2013 by \$40,000 in the event of 0.5% higher interest rates and increase by \$40,000 in the event of 0.5% lower interest rates). This is mainly attributable to the Group's exposure to interest rates on its money market deposits; and
- other equity reserves would not be affected (2013: not affected).

Interest payable on the Group's liabilities would have an immaterial effect on the profit or loss for the year.

Liquidity Risk

The Group's objective throughout the year has been to ensure continuity of funding. Operations have primarily been financed through revenue from Ukrainian operations.

Details of the Group's cash management policy are explained in Note 9.

Liquidity risk for the Group is further detailed under the "Going concern risk" section.

Credit Risk

Credit risk principally arises in respect of the Group's cash balance. In the UK, where \$14.2 million of the overall cash is held (31 December 2013: \$16.9 million), the Group only deposits cash surpluses with major banks of high quality credit standing. The remaining balance of \$17.6 million was held in Ukraine (31 December 2013: \$8.2 million). The political and economic turmoil in Ukraine, as outlined in the Operational Environment, Principal Risks and Uncertainties section above, caused Standard & Poor's to downgrade Ukraine's sovereign credit rating in December 2014 to "CCC- with a negative outlook". There is no international credit rating information available for the specific banks in Ukraine where the Group currently holds its cash and cash equivalents.

The significant devaluation of the Ukrainian Hryvnia has resulted in the National Bank of Ukraine, among other measures, imposing comprehensive restrictions on the processing of client payments by banks, on the purchase of foreign currency on the inter-bank market and on the remittance of funds outside Ukraine. These restrictions, and the many other economic issues in Ukraine, have put great strain on the Ukrainian banking system, with increasing risks in the capital strength, liquidity and creditworthiness of a large number of Ukrainian banks, and very high rates in the wholesale and overnight markets. In addition, there have been significant deposit outflows from the banking system and widespread restructuring of bank clients' maturing liabilities. Furthermore, as a result of recommendations from the International Monetary Fund, significant reforms to the Ukrainian banking sector are being implemented, which are intended to strengthen the capitalisation of the Ukrainian banks.

In light of the deterioration in the banking sector in Ukraine, the Group has started to diversify its banking arrangements between a number of banks in Ukraine. These steps are designed to spread the risks associated with each bank's creditworthiness, but the Ukrainian banking sector remains weakly capitalised and so the risks associated with the banks in Ukraine remain significant, including in relation to the banks with which the Group operates bank accounts. Further details are set out in the Operational Environment, Principal Risks and Uncertainties section above and in Note 14 in relation to the Group's cash deposits with Unex Bank.

None of the Group's trade receivables are past due or impaired. All trade receivables are considered to be of high credit quality.

Interest Rate Risk Profile of Financial Assets

The Group had the following cash and cash equivalent balances which are included in financial assets as at 31 December 2014 with an exposure to interest rate risk:

Currency	Total 2014 \$000	Floating rate financial assets 2014 \$000	Fixed rate financial assets 2014 \$000	Total 2013 \$000	Floating rate financial assets 2013 \$000	Fixed rate financial assets 2013 \$000
Canadian Dollars	2	2	-	3	3	-
Euros	166	166	-	1,783	1,783	-
British Pounds	2,441	2,441	-	477	477	-
Ukrainian Hryvnia	17,496	17,496	-	7,888	7,888	-
US Dollars	11,731	11,731	-	14,933	14,933	-
	31,836	31,836	-	25,084	25,084	-

Cash deposits included in the above balances comprise short term deposits.

Interest Rate Risk Profile of Financial Liabilities

The Group had no interest bearing financial liabilities at the year end (2013: \$nil).

Maturity of Financial Liabilities

The maturity profile of financial liabilities, on an undiscounted basis, is as follows:

	2014	2013
	\$000	\$000
Group		
In one year or less	211	1,265
	211	1,265
	2014	2013
	\$000	\$000
Company		
In one year or less	260	238
	260	238

Borrowing Facilities

The Group did not have any borrowing facilities available to it at the year end (2013: \$nil).

Fair Value of Financial Assets and Liabilities

The fair value of all financial instruments is not materially different from the book value.

14. Related Party Disclosures

Key management personnel of the Group are considered to comprise only the Directors.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	2014	2013
	\$000	\$000
Sale of goods / services	86	1,976
Purchase of goods / services	172	885
Amounts owed by related parties	44	19
Amounts owed to related parties	12	4

All related party transactions were with subsidiaries of the ultimate Parent Company. The amounts outstanding were unsecured and will be settled in cash.

As of 31 December 2014, the Company's immediate parent company was Energiees Management Limited, which is 100% owned by Pelidona Services Limited, which is 100% owned by Lovitia Investments Ltd, which is 100% owned by Mr V Novinskiy. Accordingly, the Company was ultimately controlled by Mr V Novinskiy.

The Group operates bank accounts in Ukraine with a related party bank, Unex Bank, which is ultimately controlled by Mr V Novinskiy. There were the following transactions and balances with Unex Bank during the year:

	2014	2013
	\$000	\$000
Interest income	1,987	812
Bank charges	14	17
Cash held at end of year	17,456	7,915

Cash held with Unex Bank in Ukraine is held on similar terms to the remainder of the Group's cash balances in Ukraine (see Note 9). The political and economic turmoil in Ukraine, as outlined in the Operational Environment, Principal Risks and Uncertainties section above, caused Standard & Poor's to downgrade Ukraine's sovereign credit rating in December 2014 to "CCC- with a negative outlook".

The significant strains affecting the Ukrainian banking system, which are detailed in the Operational Environment, Principal Risks and Uncertainties section above and in Note 13, have caused the Group to start to diversify its banking arrangements between a number of banks in Ukraine. These steps are designed to spread the risks associated with each bank's creditworthiness.

The Group holds a significant proportion of its Ukrainian Hryvnia cash deposits in Unex Bank, but is taking steps to rebalance its cash holdings between other banks in Ukraine.

In the meantime, the Group has obtained additional assurances regarding the security of its cash deposits in Unex Bank, including a representation letter from Unex Bank advising that it continues to fulfil all regulatory requirements of the National Bank of Ukraine, as well as a guarantee and security over another asset from companies within the Smart Holding Group in support of the Group's cash deposits in Unex Bank.

At the date of this report, none of the Company's controlling parties prepares consolidated financial statements available for public use.

15. Post Balance Sheet Events

Revision to Tax Code. In late December 2014, the Ukrainian Government enacted a law which significantly revised the tax code effective from 1 January 2015. The most significant changes are:

- Revised corporate tax computation rules, whereby the basis for calculating corporation tax is now adjusted accounting profit, rather than a separate calculation of taxable income and deductible expenses;
- Revisions to the rules governing the payment of VAT, which require output VAT to be paid to the tax authorities based on the supply of the good or service, net of input VAT if this VAT is determined to have been paid to the tax authorities by the Group's suppliers;
- A new real estate (property) tax to be levied based on the floor area of the Group's buildings (subject to certain reliefs).

Management expects that the VAT revision and new property tax will increase its tax payments in 2015 but cannot yet determine by how much. Management does not believe the new corporate tax rules will significantly change its corporate profit taxes.

Transfer pricing. On 25 December 2014, the Ukrainian Government passed the first reading on changes to transfer pricing ("TP") regulations. The main changes, which are likely to apply from 2015, are:

- Introduction of the arm's length principle replacing market price. If the price or profitability for the controlled transactions does not fall within the arm's length range, TP adjustments will be made to a median level (not the lower/upper limit of the range as is currently allowed);
- The definitions of related parties and controlled transactions are expanded;
- The criteria for recognition of controlled transactions have been separated for corporate profit tax and VAT purposes;
- Reduction of the threshold for controlled transactions to UAH1 million or 3% of the taxpayer's revenue with one counterparty;
- The priority of "official sources" of information will no longer apply;
- Increased penalties for non-reporting of controlled transactions and for not providing TP documentation;
- Penalties for non-provision of TP documentation changed to 3% of the amount of the controlled transaction.

Management is currently evaluating the impact of the changes to the TP legislation on the Group's activities.

Currency restriction. On 4 March 2015, the National Bank of Ukraine strengthened currency control restrictions and introduced the following additional restrictions:

- The threshold for service payments to non-residents, which require price expertise of the Foreign Markets Monitoring Centre, was decreased from €50,000 to €25,000 per year with one counterparty;
- In order to purchase or transfer foreign currency abroad under import transactions, clients are obliged to provide to the servicing bank a Certificate from the State Fiscal Service of Ukraine on the absence of tax debt;
- Companies cannot purchase foreign currency if they have more than \$10,000 on their current and deposit accounts in all banks;

- A ban on remitting funds to foreign investors through payment of dividends on securities traded on the stock exchange and a decrease in the charter capital or the exit of foreign investors from legal entities.

The currency restrictions have significantly affected the Group's ability to purchase foreign currency and to remit funds outside Ukraine, which has affected the Group's treasury and currency management.

Since the beginning of 2015, the Parliament and the Cabinet of Ministers of Ukraine have passed for approval a number of changes to various legislative acts in respect of the Ukrainian gas market and procedure of obtaining licences for gas extraction. Management is currently assessing the possible impact of these changes on the Group.

As a result of the continuing geopolitical and economic upheaval in Ukraine, there has been a significant devaluation of the Ukrainian Hryvnia against the US Dollar which is likely to affect the carrying value of the Group's assets in the future. Since 1 January 2015, the Ukrainian Hryvnia has devalued against the US Dollar from UAH15.8/\$1.00 to UAH20.7/\$1.00 on 22 May 2015.

The significant strains affecting the Ukrainian banking system, which are detailed in the Operational Environment, Principal Risks and Uncertainties section above and in Note 13, have caused the Group to take steps to diversify its banking arrangements between a number of banks in Ukraine. The Group currently holds a significant proportion of its Ukrainian Hryvnia cash deposits in a related party bank, Unex Bank, but is currently taking steps to rebalance its cash holdings between other banks in Ukraine. In the meantime, the Group has obtained additional assurances regarding the security of its cash deposits in Unex Bank, including a representation letter from Unex Bank advising that it continues to fulfil all regulatory requirements of the National Bank of Ukraine, as well as a guarantee and security over another asset from companies within the Smart Holding Group in support of the Group's cash deposits in Unex Bank.

In April 2015, it was announced that the imported gas price calculated under the longstanding gas supply agreement between Russia and Ukraine was to be \$248/Mm³ for the second quarter of 2015, reflecting the recent decrease in global oil commodity prices.

The maximum industrial gas price set by the National Commission for State Energy and Public Utilities Regulation with effect from 1 May 2015 is \$324/Mm³ (UAH 6,810/Mm³ using the exchange rate at 30 April 2015 of UAH21.0/\$1.00).