



Regal Petroleum plc

*Annual Report and Financial Statements
for the year ended 31 December 2015*

Regal Petroleum plc is an independent oil and gas company, quoted on the AIM market of London Stock Exchange plc and focused on gas and condensate field development in Ukraine.

Inside this Report

STRATEGIC REPORT	
Principal Developments	1
Chairman's Review	2
Operations Review	4
Finance Review	6
Operational Environment, Principal Risks and Uncertainties	9
GOVERNANCE	
Board of Directors	14
Corporate Governance Statement	15
Directors' Report	16
Independent Auditors' Report	18
FINANCIALS	
Consolidated Income Statement	20
Consolidated Statement of Comprehensive Income	21
Company Statement of Comprehensive Income	21
Consolidated Balance Sheet	22
Consolidated Statement of Changes in Equity	23
Consolidated Cash Flow Statement	24
Company Balance Sheet	25
Company Statement of Changes in Equity	26
Company Cash Flow Statement	27
Notes forming part of the financial statements	28



PRINCIPAL DEVELOPMENTS

STRATEGIC REPORT

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 2015 of 144,783 m³/d of gas, 44 m³/d of condensate and 21 m³/d of LPG (1,274 boepd in aggregate) (2014: 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG (1,370 boepd in aggregate))

During the second half of 2015, the Group purchased 4,723,010 m³ of "wet" gas and following treatment of this gas, produced 2,945,021 m³ of gas, 778 m³ of condensate and 5,957 m³ of LPG (49,473 boe in aggregate)

Well SV-6 recommenced production in late November 2015 following a successful workover, boosting production levels

FINANCE

Revenue for the year to 31 December 2015 of \$23.4 million (2014: \$34.6 million)

Loss for the year to 31 December 2015 of \$1.0 million (2014: \$5.8 million profit)

Foreign exchange translation loss for the year of \$22.4 million (2014: \$62.5 million loss) due to devaluation of the Ukrainian Hryvnia against the US Dollar

Cash generated from operations during the year of \$8.8 million (2014: \$19.6 million)

Average realised gas, condensate and LPG prices in Ukraine for the year to 31 December 2015 of \$318/Mm³ (UAH6,906/Mm³), \$64/bbl and \$69/bbl respectively (2014: \$362/Mm³ (UAH4,297/Mm³) gas, \$95/bbl condensate and \$94/bbl LPG)

Cash and cash equivalents at 31 December 2015 of \$19.9 million (31 December 2014: \$31.8 million), with cash and cash equivalents at 30 May 2016 of \$22.2 million, held as to \$11.1 million equivalent in Ukrainian Hryvnia and the balance of \$11.1 million equivalent predominately in US Dollars and Sterling

Short-term investments at 31 December 2015 of \$13.1 million following reclassification of cash and cash equivalents held with Unex Bank.

OUTLOOK

Due to the geopolitical situation in Ukraine, the economic impact of the devaluation of the Ukrainian Hryvnia, the decline in worldwide hydrocarbon prices and the uncertainty in the gas sales price, a limited development programme is planned for 2016

Focus during 2016 on continued geological, geophysical and well performance studies to improve understanding of the sub-surface at MEX-GOL and SV fields and commencement of drilling of MEX-109 well

Funding of 2016 development programme anticipated to be from existing cash and cash equivalents and operational revenues

Geopolitical and economic outlook in Ukraine remains uncertain

CHAIRMAN'S REVIEW

STRATEGIC REPORT

The Group is continuing with the development of its Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivska ("SV") gas and condensate fields in north-eastern Ukraine, which are held under 100% owned and operated production licences.

The major events that have taken place in Ukraine since late 2013, 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 have continued to be relatively unaffected by the ongoing events in Ukraine, 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 2015, 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 2015, the Ukrainian Hryvnia devalued significantly against the US Dollar, falling from UAH15.8/\$1.00 on 1 January 2015 to UAH24.0/\$1.00 on 31 December 2015, which resulted in a substantial foreign exchange translation loss of \$24.8 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 presentation 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 to the capital strength, liquidity and creditworthiness of a number of banks, and very high interest 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 and short-term investments in Ukrainian Hryvnia remaining at high levels during the year.

In light of the stresses in the banking sector in Ukraine, further details of which are set out under the heading Risks relating to the Ukrainian banking sector in the Operational Environment,

Principal Risks and Uncertainties section below, the Group has taken steps 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 PJSC Unex Bank ("Unex Bank"), which is part of the PJSC Smart-Holding Group (the "Smart Holding Group"), which is ultimately controlled by Mr Vadim Novinskiy, who also controls an indirect majority shareholding in the Group. As a result, Unex Bank is a related party to the Group.

Given the situation in Ukraine and its impact on the banking sector, in May 2015 the Group obtained a guarantee from Pelidona Services Limited and a share pledge over a 100% interest in Prom-Energo Product LLC, which are companies within the Smart Holding Group, in support of the Group's cash deposits in Unex Bank. As a result of a reassessment of the risks and limited liquidity associated with these cash deposits, which amounted to \$13.1 million (held in Ukrainian Hryvnia) as at 31 December 2015, the Group considered it appropriate to reclassify such cash deposits as short-term investments (with a carrying value equal to the cash deposits), rather than cash or cash equivalents. At the end of February 2016, the duration of the guarantee and share pledge was extended until the end of August 2016.

The Group is currently engaged in negotiations with the Smart Holding Group and Unex Bank to seek a resolution of this situation.

There has been a great deal of volatility in the gas price in Ukraine, due not only to the geopolitical situation but also the fall in European gas prices during the year. The prevailing industrial gas price in Ukraine, which is set in Ukrainian Hryvnia, was broadly related to the US Dollar denominated imported price of gas, but with effect from 1 October 2015, the Ukrainian Government enacted legislation to deregulate the gas supply market. The implementation of this new legislation has now been effected and the market gas price now broadly correlates to the imported gas price.

During the period from August 2014 to the end of 2015, the Ukrainian Government imposed significantly increased subsoil taxes on oil and gas production in Ukraine, which had the effect of nearly doubling the taxes payable on the Group's gas production. However, with effect from 1 January 2016, the subsoil taxes on gas production reverted to substantially the same levels that were in effect prior to the introduction of the increase. The increase in subsoil taxes negatively impacted the Group's cost of sales and, in turn, the Group's financial results for the 2015 financial year.



As regards the Group's financial performance in the year ended 31 December 2015, a loss of \$1.0 million (2014: \$5.8 million profit) was made, mainly due to lower realised gas prices and increased subsoil taxes, and the devaluation of the Ukrainian Hryvnia against the US Dollar which resulted in a significant foreign exchange loss in the foreign exchange reserve. Cash generated from operations during the year was positive at \$8.8 million (2014: \$19.6 million).

On operational matters, in late 2014, the Group entered into an agreement with Pryodni Resursy, the operator of the adjacent Lutsenky field, under which the Group agreed to purchase "wet" gas and treat it through the Group's gas processing facilities to strip out and sell the liquids. During the first half of the year, the necessary pipeline infrastructure was installed and commissioning commenced in early July 2015. In the second half of 2015, the Group purchased 4,723,010 m³ of "wet" gas and following treatment of this gas, produced 2,945,021 m³ of gas, 778 m³ of condensate and 5,957 m³ of LPG (49,473 boe in aggregate).

Also in late 2014, the Group entered into an agreement with NJSC Nadra, the State-owned gas producer, for the lease of the SV-6 well, which was a suspended well owned by NJSC Nadra within the Group's SV licence area. Under this agreement, the Group agreed to undertake workover operations on the well, which were successful, with the well being brought into production at the end of November 2015.

Average production from the MEX-GOL and SV fields for the year ended 31 December 2015 was 144,783 m³/d of gas, 44 m³/d of condensate and 21 m³/d of LPG (1,274 boepd in aggregate), which was lower compared to 2014 predominately as a result of normal production decline (2014: 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG (1,370 boepd in aggregate)). However, following the commencement of production from the SV-6 well, average production for December 2015 increased to 191,098 m³/d of gas, 46 m³/d of condensate and 21 m³/d of LPG (1,574 boepd in aggregate).

The geopolitical upheaval, the volatility in the gas price and the Ukrainian Hryvnia, and the fiscal and economic uncertainty in Ukraine since the end of 2013, have meant that the Group considered it necessary to reduce its planned capital investment programme. The revised programme during the year was limited to installation of the Lutsenky "wet" gas treatment infrastructure referred to above, undertaking workover operations on the SV-6 well, improvements to the Group's gas processing facilities and pipeline network, and performing remedial work on existing wells.

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 2016, we plan to continue with further geological, geophysical and well performance studies, aimed at improving the understanding of the sub-surface within the MEX-GOL and SV licences, as well as commencing the drilling of the MEX-109 well, the possible workover of the GOL-2 and/or MEX-102 wells, the installation of additional compression equipment, continued investment in the Group's gas processing facilities and pipeline network, and performing remedial work on existing wells.

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

STRATEGIC REPORT

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.

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 licences were granted in July 2004 and have a duration of 20 years.

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 from the MEX-GOL and SV fields over the year ended 31 December 2015 was 144,783 m³/d of gas, 44 m³/d of condensate and 21 m³/d of LPG, which equates to a combined total oil equivalent of 1,274 boepd (2014: 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG (1,370 boepd in aggregate).

Production was boosted by the commencement of production from the SV-6 well at the end of November 2015, with average gas, condensate and LPG production for December 2015 at 191,098 m³/d of gas, 46 m³/d of condensate and 21 m³/d of LPG (1,574 boepd in aggregate).

The Group’s average production for the period from 1 January 2016 to 30 May 2016 was 169,649 m³/d of gas, 42 m³/d of condensate and 20 m³/d of LPG, which equates to a combined total oil equivalent of 1,406 boepd.

Since the Group commenced the treatment of “wet” gas from the adjacent Lutsenky field at the beginning of July 2015, the Group has purchased 4,723,010 m³ of “wet” gas and following treatment of this gas, produced 2,945,021 m³ of gas, 778 m³ of condensate and 5,957 m³ of LPG (49,473 boe in aggregate).

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 2015, meant that the Group considered it necessary to reduce its planned capital investment programme.

The revised programme during the year was limited to installation of the Lutsenky “wet” gas treatment infrastructure, undertaking workover operations on the SV-6 well, improvements to the Group’s gas processing facilities and pipeline network, and performing remedial work on existing wells.

The Lutsenky “wet” gas treatment project arose from an agreement with Pryrodni Resursy, the operator of the adjacent Lutsenky field, under which the Group has agreed to purchase “wet” gas and treat it through the Group’s gas processing facilities to strip out and sell the liquids. This has not only created an additional revenue stream for the Group, but also improved environmental emissions from the Lutsenky field.

The workover of the SV-6 well was undertaken after the Group 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, located within the Group’s SV licence area. Successful workover operations were performed during the year, and the well was brought onto production at the end of November 2015.



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. During the period from 1 January 2014 to 31 December 2015, the Group has produced 0.97 MMboe.

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

STRATEGIC REPORT

The Group's loss for the year ended 31 December 2015 was \$1.0 million (2014: \$5.8 million profit). Revenue in 2015, derived from the sale of the Group's Ukrainian gas, condensate and LPG production, was lower at \$23.4 million (2014: \$34.6 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 2015, the Ukrainian Hryvnia has significantly devalued against major world currencies, including against the US Dollar, where it has fallen from UAH15.8/\$1.00 on 1 January 2015 to UAH24.0/\$1.00 on 31 December 2015. Due to the translation of two of the Group's subsidiaries from their functional currency of Ukrainian Hryvnia to the Group's presentation 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. A foreign exchange translation loss for the year of \$24.8 million (2014: \$62.5 million loss) was made as a result of the devaluation of the Ukrainian Hryvnia against the US Dollar.

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.

The deterioration in the banking sector in Ukraine has caused the Group to take steps to diversify its banking arrangements between a number of banks in Ukraine. These measures 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 remained at a high level during the year. Further details are set out in the Operational Environment, Principal Risks and Uncertainties section.

Cash generated from operations during the year was \$8.8 million (2014: \$19.6 million), which was substantially lower due to the devaluation of the Ukrainian Hryvnia against the US Dollar, lower production volumes, lower gas prices and increased subsoil taxes.

For the year ended 31 December 2015, the average realised gas, condensate and LPG prices were \$318/Mm³ (UAH6,906/Mm³), \$64/bbl and \$69/bbl respectively (2014: \$362/Mm³ (UAH4,297/Mm³) gas, \$95/bbl condensate and \$94/bbl LPG).

During the first four months of 2016, the average realised gas, condensate and LPG prices were \$221/Mm³ (UAH5,667/Mm³), \$36/bbl and \$38/bbl respectively. The current realised gas price is \$190/Mm³ (UAH4,765/Mm³).

The gas supply market in Ukraine was regulated and gas prices were generally benchmarked against the industrial gas price set by the National Commission for State Energy and Public Utilities Regulation which was broadly related to the imported price of gas from Russia. However, with effect from 1 October 2015, the Ukrainian Government introduced legislation to deregulate the gas supply market in Ukraine. Since then the market price for gas has broadly correlated to the imported gas price, which has trended lower during recent months, reflecting the decrease in European gas prices.



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, such as the Group. 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 during the 2015 year.

Although the Order expired on 28 February 2015, the gas supply market did not return to normal, with a number of industrial organisations continuing to source their gas requirements from Naftogaz rather than the general gas supply market. In addition, declines in industrial consumption resulting from the economic issues in Ukraine have contributed to weakness in demand and gas price in the gas supply market.

During the period from 1 August 2014 to the end of 2015, 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 2014, the increases continued throughout 2015. However, with effect from 1 January 2016, the subsoil taxes on gas production reverted to substantially the same levels that were in effect prior to the introduction of the temporary increase in 2014. The new subsoil tax rates are 29% for gas produced from deposits at depths above 5,000 metres and 14% for gas produced from deposits below 5,000 metres, and 45% for condensate produced from deposits above 5,000 metres and 21% for condensate produced from deposits below 5,000 metres. The increases in subsoil taxes negatively impacted cost of sales during 2015, and also negatively impact the Group's financial results for the 2015 year.

Cost of sales for the year ended 31 December 2015 was lower at \$19.8 million (2014: \$22.7 million), mainly due to lower production volumes and exchange rate fluctuations, and notwithstanding the increased subsoil taxes.

Administrative expenses for the year were lower at \$4.0 million (2014: \$5.5 million), primarily due to the devaluation of the Ukrainian Hryvnia against the US Dollar.

The tax charge for the year of \$2.6 million (2014: \$2.3 million) comprises a current tax charge of \$1.3 million (2014: \$1.0 million) and a deferred tax charge of \$1.3 million (2014: \$1.3 million).

The Group has recognised a deferred tax asset of \$14.4 million at 31 December 2015 (31 December 2014: \$20.4 million). This comprises a deferred tax asset of \$4.4 million (31 December 2014: \$7.8 million) in relation to UK tax losses carried forward, and \$10.0 million (31 December 2014: \$12.6 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 2015 is primarily due to foreign exchange translation losses caused by the devaluation of the Ukrainian Hryvnia against the US Dollar and Euro and a reduction in future corporation tax rates in the UK.

Capital investment of \$2.3 million predominately reflects investment in the Group's oil and gas development and production asset for the year (2014: \$4.3 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 2015 were lower at \$19.9 million (31 December 2014: \$31.8 million), principally due to \$13.1 million, held in Ukrainian Hryvnia at Unex Bank, being reclassified as short-term investments (with an equal carrying value).

The Group's cash and cash equivalents balance at 30 May 2016 was \$22.2 million, held as to \$11.1 million equivalent in Ukrainian Hryvnia and the balance of \$11.1 million equivalent predominantly in US Dollars and Sterling.

FINANCE REVIEW continued

STRATEGIC REPORT

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. At present, the Group holds a significant proportion of its Ukrainian Hryvnia cash deposits in Unex Bank. In May 2015, the Group obtained a guarantee from Pelidona Services Limited and a share pledge over a 100% interest in Prom-Energo Product LLC, which are companies within the Smart Holding Group, in support of the Group's cash deposits in Unex Bank. As a result of a reassessment of the risks associated with these cash deposits, which amounted to \$13.1 million (held in Ukrainian Hryvnia) as at 31 December 2015, the Group considered it appropriate to reclassify such cash deposits as short-term investments (with a carrying value equal to the cash deposits), rather than cash or cash equivalents due to the limited liquidity of the asset.

The Group is currently engaged in negotiations with the Smart Holding Group and Unex Bank to seek a resolution of this situation.

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 2016 development programme.

The Group manages its revenue, cash from operations and production volumes as key performance indicators. The achieved results for 2015 were revenue of \$23.4 million, cash from operations of \$8.8 million and daily production volumes of 144,783 m³/d of gas, 44 m³/d of condensate and 21 m³/d of LPG, equating to a combined total oil equivalent of 1,274 boepd (2014: 152,744 m³/d of gas, 52 m³/d of condensate and 21 m³/d of LPG (1,370 boepd in aggregate)). Aggregate production volumes from the MEX-GOL and SV fields for the 2015 year were 52,845,895 m³ of gas, 16,014 m³ of condensate and 7,620 m³ of LPG, equating to a combined total oil equivalent of 464,886 boe (2014: 55,751,626 m³ of gas, 18,841 m³ of condensate and 7,687 m³ of LPG (500,095 boe in aggregate)).

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



OPERATIONAL ENVIRONMENT, PRINCIPAL RISKS AND UNCERTAINTIES

STRATEGIC REPORT

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, illiquidity on capital markets, high inflation and a substantial depreciation of the Ukrainian Hryvnia against major foreign currencies. This caused the ratings of Ukrainian sovereign debt to be downgraded by international rating agencies, but in late 2015, the ratings improved following the restructuring of part of Ukraine's sovereign debt. During 2015, Ukraine's GDP decreased by 10.4% and annual inflation rose to 43.3% (2014: GDP decreased 6.8%; inflation increased by approximately 25%).

As a result of protests in late 2013 and early 2014, there was a change in the President and Government of Ukraine, which led to a deterioration in relations with Russia. In late February 2014, Russian troops occupied Crimea, and in April and May 2014, pro-Russian groups in the Donetsk and Lugansk regions demanded autonomy from Ukraine, which led to armed conflict with Ukrainian Government forces. In February 2015, a 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 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.

On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. The Russian Government reacted to this event by implementing a trading embargo on many key Ukrainian export products. In response, the Ukrainian Government implemented similar measures against Russian products.

During 2015, the Ukrainian Hryvnia has devalued significantly against major world currencies, including against the US Dollar, where it has fallen from UAH15.8/\$1.00 on 1 January 2015 to UAH24.0/\$1.00 on 31 December 2015. 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 banking system is fragile due to its weak levels of capital, its weakening asset quality caused by the economic situation, currency depreciation, and the general economic situation in Ukraine.

The Ukrainian Government has continued to work with the United States, European Union and International Monetary Fund in order to maintain financing and avoid defaulting on its loans. On 11 March 2015, a funding package from the International Monetary Fund amounting to \$17.5 billion over a four year period was agreed. The terms of this new funding package stipulates a number of fiscal and economic reforms, including reforms in the banking and energy sectors. During 2015, Ukraine received the first and second tranches under the funding programme of \$5 billion and \$1.7 billion respectively. In October 2015, Ukraine reached an agreement with the majority of its creditors for the restructuring of part of the national external debt in the amount of \$15 billion. The restructuring extends the maturities of the restructured debt to 2019-2027, fixing annual interest rates at 7.75% and includes the exchange of 20% of the debt into GDP warrants at a par value of \$2.9 billion. However, there remains a significant portion of outstanding debt for which a restructuring was not agreed. Further disbursements of International Monetary Fund tranches depend on the implementation of Ukrainian Government reforms, and other economic, legal and political factors.

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

OPERATIONAL ENVIRONMENT, PRINCIPAL RISKS AND UNCERTAINTIES continued

STRATEGIC REPORT

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. 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 Energees 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 financial statements, 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 instability in Ukraine has led to a significant deterioration of Ukraine's finances, volatility in financial markets, illiquidity on capital 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, with particular restrictions on operations with foreign currency including temporary bans on the payment of dividends in foreign currency and the early repayment of debts to non-residents and the mandatory sale of 75% of revenue in foreign currency. 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 taken steps to diversify its banking arrangements between a number of banks in Ukraine. These measures 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 remaining at a high level 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. In May 2015, the Group entered into 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 Group has reclassified such cash deposits as short-term investments, rather than cash or cash equivalents due to their limited liquidity. Notwithstanding the security provided by the Smart Holding Group in support of the cash deposits in Unex Bank, there are significant risks associated with the recovery of such cash deposits and/or enforcement of the security.

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 2016 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, and as a result, the Group's cash holdings of Ukrainian Hryvnia in Ukraine have remained at a high level over the past year.

OPERATIONAL ENVIRONMENT, PRINCIPAL RISKS AND UNCERTAINTIES continued

STRATEGIC REPORT

Furthermore, during 2015, the Ukrainian Hryvnia significantly devalued against major world currencies, including against the US Dollar, where it has fallen from UAH15.8/\$1.00 on 1 January 2015 to UAH24.0/\$1.00 on 31 December 2015. As at 31 May 2016, the Ukrainian Hryvnia was trading at UAH25.2/\$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, with particular restrictions on operations with foreign currency including temporary bans on the payment of dividends in foreign currency and the early repayment of debts to non-residents and the mandatory sale of 75% of revenue in foreign currency. 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, which was not resolved until mid-2011. In 2013, new rules relating to the updating of production licences led to further challenges being raised by the Ukrainian authorities to the production licences held by independent oil and gas producers in Ukraine, including the Group, which may result in requirements for remediation work, financial penalties and/or the suspension of such licences, which, in turn, may adversely affect the Group's operations and financial position. All such challenges affecting the Group have thus far been successfully defended through the Ukrainian legal system. However, the business environment is such that these type of challenges may arise at any time 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 has been an amount of volatility in gas prices in Ukraine during 2015, arising from the major political events that have taken place in Ukraine during the year, as well as reflecting a global decline in oil commodity prices. In addition, there is a continuing dispute between Russia and Ukraine as to the interpretation of the gas pricing calculation under their longstanding gas supply agreement.

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, such as the Group. 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 2015 financial year. Whilst the Order was not extended beyond 28 February 2015, similar regulations may be imposed in the future.



During 2015, the Ukrainian Government implemented a number of reforms to the internal gas market in Ukraine. With effect from 1 April 2015, the previously State-subsidised domestic gas price began to converge with the industrial gas price, and with effect from 1 October 2015, the gas supply market was deregulated. Since then, the market price for gas has generally correlated to the imported gas price, which has decreased in recent months, reflecting the decline in European gas prices.

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 until the end of 2015. With effect from 1 January 2016, the subsoil tax rates relating to gas production reverted to substantially the same levels as prior to the temporary increases, but it is possible that similar significant increases to subsoil tax rates may be implemented 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.

Strategic Report Approval

The Strategic Report incorporates the Principal Developments, the Chairman's Review, the Operations Review, the Finance Review and the Operational Environment, Principal Risks and Uncertainties.

By Order of the Board

Keith Henry

Executive Chairman
31 May 2016

BOARD OF DIRECTORS

Keith Henry

Executive Chairman

Keith Henry was appointed as Non-Executive Chairman in April 2008, and took on the role of Executive Chairman in September 2010. Mr Henry has 40 years experience in the development, financing, design, construction and management of projects in the oil and gas, process and energy industries, during which time he was Chief Executive of National Power plc, a FTSE100 company, Kvaerner Engineering and Construction Limited, and Brown & Root Limited. Mr Henry is currently Chairman of Greenko Group plc, the senior independent Director of Sterling Energy plc, and non-executive Director of KSK Power Ventur plc. As a non-executive director within the energy sector, Mr Henry previously served as Chairman of Mediterranean Oil and Gas plc, Chairman of Burren Energy plc, Chairman of Helius Energy plc, Chairman of Petrojarl ASA, Deputy Chairman of Petroleum Geo-Services ASA, senior independent Director of Emerald Energy plc, and Director of First Calgary Petroleum Limited and Enterprise Oil plc. Mr Henry is a Fellow of the Royal Academy of Engineering and a chartered civil engineer with a BSc degree from London University and a MSc from the University of Birmingham.

Sergei Glazunov

Finance Director

Sergei Glazunov was appointed as Finance Director in November 2014, having previously been a Non-Executive Director since February 2012 as a nominee of Regal's majority shareholder, Energiees Management Limited. He is currently the Chief Executive Officer of LLC Smart Energy. Prior to joining the Smart Holding Group, Mr Glazunov held positions as Deputy Chief Executive Officer at JSC Concern AVEC & Co and Vice President at JP Morgan Chase and Bank One Investment Management Group. He also has extensive teaching and academic research experience working at Wayne State and Michigan State Universities. Mr Glazunov is a Chartered Financial Analyst and holds a MSc in Mathematics from Kiev State University, a MSc in Statistics from Michigan State University and a MBA from Wayne State University.

Dr Alastair Graham

Non-Executive Director

Alastair Graham was appointed as Non-Executive Director in January 2010. Dr Graham has over 30 years experience in the oil and gas industry having held a number of senior management roles with BP plc ("BP"), including UK Business Development Manager, Upstream Mergers and Acquisitions Manager, V-P of OAO Sidanco in Russia, leader of BP's Southern North Sea gas production business, V-P of BP Exploration Alaska and, most recently, leader of BP's Russia business unit and its shareholder representative for the TNK-BP joint venture. Since retirement from BP in March 2009, Dr Graham has provided consultant advisory services in the oil

and gas sector. He holds a PhD in Geology from the University of Edinburgh, a MBA from the University of Strathclyde and a MA in Natural Sciences from the University of Cambridge.

Adrian Coates

Non-Executive Director

Adrian Coates was appointed as Non-Executive Director in July 2008. Mr Coates has many years experience in the investment banking industry, having held senior positions with HSBC Bank plc for 10 years, latterly as Global Sector Head, Resources and Energy Group, Global Banking and Markets Division. He has also held senior roles in UBS, Warrior International and Credit Suisse First Boston, with a specialisation in the natural resources sector. His City experience is extensive and he has advised on many substantial corporate transactions. He has previously served as senior independent Director of Polyus Gold International Limited. Mr Coates holds a MA(Econ) from the University of Cambridge and a MSc(MBA) from London Business School

Alexey Pertin

Non-Executive Director

Alexey Pertin was appointed as Non-Executive Director in April 2011 and is a nominee of Regal's majority shareholder, Energiees Management Limited. He is currently a Director of Energiees Management Limited, Chief Executive Officer of PJSC Smart-Holding, Deputy Chairman of the Supervisory Board of Metinvest B.V., and Chairman of the Strategic & Investment Committee of the Supervisory Board of Metinvest B.V.. He also holds Director positions with Adeona Holdings Limited, Lovitia Investments Limited and Smart Holding N.V.. Mr Pertin previously held positions as Strategy and Corporate Development Director and Chairman of the Supervisory Board of PJSC Smart-Holding. Prior to joining the Smart Holding Group, he held various management positions at JSC Severstal-Group, including the positions of Deputy Chief Executive Officer for Business Development at JSC Severstal-Group and Chief Executive Officer of CJSC Izhora Pipe Plant. Mr Pertin graduated from Cherepovets State University and Saint Petersburg State Technical University with qualifications in financial management, and he also holds a MBA from Newcastle Business School, England.

Yuliia Kirianova

Non-Executive Director

Yuliia Kirianova was appointed as a Non-Executive Director in May 2016 and is a nominee of Regal's majority shareholder, Energiees Management Limited. Ms Kirianova is currently the First Deputy Chief Executive Officer and Chief Financial Officer of PJSC Smart-Holding. Prior to joining the Smart Holding Group, Ms Kirianova held positions at ING Bank Ukraine, JSC System Capital Management and LLC DCH Investment Management. Ms Kirianova holds a degree in Finance from the National Academy of Management, Kiev and a MBA from the Open University.



CORPORATE GOVERNANCE STATEMENT

Companies on the AIM Market of London Stock Exchange plc are not required to comply with the UK Corporate Governance Code and due to its size the Company is not in full compliance. The Directors however, support high standards of corporate governance and will progressively adopt best practices in line with the UK Corporate Governance Code, so far as is practicable.

The Board

The Board of the Company consists of an Executive Chairman, a Finance Director and four Non-Executive Directors. The Finance Director and two of the Non-Executive Directors are nominees of Energiees Management Limited, the majority shareholder of the Company. The composition of the Board ensures that no one individual or group dominates the decision-making process.

The Board is responsible to the shareholders for setting the direction of the Company through the establishment of strategic objectives and key policies. The Board meets regularly and considers issues of strategic direction, approves major capital expenditure, appoints and monitors senior management and any other matters having a material effect on the Company.

All Directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively.

Furthermore, all Directors are entitled to seek independent professional advice concerning the affairs of the Company, at its expense. All Directors are subject to election by shareholders at the first opportunity following their appointment. In addition, Directors will retire by rotation and stand for re-election by shareholders at least once every three years in accordance with the Company's Articles of Association.

At the date of this report, no Directors have interests in the ordinary shares of the Company.

Remuneration Committee

The Remuneration Committee, comprising of two independent Non-Executive Directors and the Executive Chairman, is responsible for establishing and developing the Company's general policy on executive and senior management remuneration and determining specific remuneration packages for Executive Directors.

The Remuneration Committee presently comprises Alastair Graham (Chairman), Adrian Coates and Keith Henry.

Audit Committee

The Audit Committee, comprising of two independent Non-Executive Directors and the Executive Chairman, meets not less than twice a year and considers the Company's financial reporting (including accounting policies) and internal financial controls.

Meetings are normally attended, by invitation, by the Finance Director and a representative of the auditors.

The Audit Committee presently comprises Adrian Coates (Chairman), Alastair Graham and Keith Henry.

Nomination Committee

The Directors do not consider that, given the size of the Board, it is appropriate to have a Nomination Committee. The appropriateness of such a committee, will however be kept under regular review by the Company.

Internal Control

The Directors are responsible for the Group's system of internal control and reviewing its effectiveness. Any such system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal controls and business risks were monitored in the course of 2015 through regular Board meetings.

Code of Conduct

The Group maintains an Anti-Bribery and Corruption Policy in relation to its compliance with the Bribery Act 2010, which sets out the high ethical standards required of the Group's staff in the course of carrying out the Group's business activities regarding dealing with gifts, hospitality, corruption, fraud, the use of inside information and whistle-blowing.

Communication with Shareholders

The Board recognises that it is accountable to shareholders for the performance and activities of the Company and the Group.

The annual general meeting of the Company will provide an opportunity for the Directors to present to the shareholders a report on current operations and developments and enable the shareholders to express their views about the Company's business.

The Annual Report and Financial Statements together with other information about the Group is available on the Group's website at www.regalpetroleum.com.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2015.

Likely Future Events

The future developments relating to the Group are described in the Strategic Report.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2014: \$nil).

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in Note 22. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association of the Company and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles of Association themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement.

Directors and Directors' Interests

The Directors who held office during the year and up to the date hereof were as follows:

Keith Henry
Adrian Coates
Alastair Graham
Alexey Timofeyev (resigned 6 May 2016)
Alexey Pertin
Sergei Glazunov
Yuliia Kirianova (appointed 6 May 2016)

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Company or any other Group companies.

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year.

Directors' Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Political Contributions

During the year the Group did not make any political contributions (2014: \$nil).

Financial Risk Management

The Group's financial risk management is disclosed in the Strategic Report.

Post Balance Sheet Events

Details of significant events since the Balance Sheet date are contained in Note 29.

Substantial Shareholders

At 30 May 2016, the Company had been notified of the following interests of 3% or more in its issued share capital:

Substantial Shareholder	Number of shares	% of issued ordinary share capital
Energiees Management Limited*	173,128,587	54.00%
CTF Holdings Limited	78,337,879	24.43%
Pope Asset Management	25,658,991	8.00%

* Energiees Management Limited is 100% owned by Pelidona Services Limited, which is 100% owned by Lovitia Investments Ltd, which is 100% owned by Mr V Novinskiy.

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that



period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 as applicable to companies using IFRS. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the persons who is a Director at the date of approval of this report confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with IFRSs, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Statement of Disclosure to Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all steps required to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the next annual general meeting.

On behalf of the Board

Keith Henry

Executive Chairman
31 May 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REGAL PETROLEUM PLC

Report on the financial statements

Our opinion

In our opinion:

- Regal Petroleum plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2015 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – political and economic uncertainties in Ukraine

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the operations of the Group, and those of other entities in Ukraine, having been affected and may continue to be affected for the foreseeable future by the continuing political and economic uncertainties in Ukraine. Our opinion is not modified in respect of this matter.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2015;
- the Consolidated Income Statement and the Consolidated and Company Statements of Comprehensive Income for the year then ended;
- the Consolidated and Company Cash Flow Statements for the year then ended;
- the Consolidated and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.



Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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

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

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

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

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

Alison Baker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 May 2016

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015

	Note	2015 \$000	2014 \$000
Revenue	4	23,438	34,572
Cost of sales	5	(19,779)	(22,707)
Gross profit		3,659	11,865
Administrative expenses	6	(4,006)	(5,513)
Other operating gains and losses (net)	10	66	118
Operating (loss)/profit		(281)	6,470
Interest income		1,981	2,010
Finance costs	9	(26)	(48)
Other gains and losses (net)		(73)	(344)
Profit on ordinary activities before taxation		1,601	8,088
Income tax expense	11	(2,581)	(2,333)
(Loss)/profit for the year		(980)	5,755
(Loss)/earnings per ordinary share (cents)			
Basic and diluted	13	(0.3c)	1.8c

The Notes set out below are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	2015 \$000	2014 \$000
(Loss)/profit for the year	(980)	5,755
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Equity – foreign currency translation	(24,767)	(62,451)
<i>Items that will not be subsequently reclassified to profit or loss:</i>		
Remeasurements of post-employment benefit obligations	(71)	–
Total other comprehensive expense	(24,838)	(62,451)
Total comprehensive expense for the year	(25,818)	(56,696)

STRATEGIC REPORT

GOVERNANCE

FINANCIALS

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	2015 \$000	2014 \$000
Loss for the year	(24,637)	(5,766)
Total comprehensive expense for the year	(24,637)	(5,766)

The Notes set out below are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2015

	Note	2015 \$000	2014 \$000
Assets			
Non-current assets			
Intangible assets		63	48
Property, plant and equipment	14	18,503	35,267
Trade and other receivables	17	–	1,309
Corporation tax receivable		200	305
Deferred tax asset	21	14,433	20,413
		33,199	57,342
Current assets			
Inventories	16	1,458	2,099
Trade and other receivables	17	2,055	3,436
Other short-term investments	28	13,067	–
Cash and cash equivalents	18	19,920	31,836
		36,500	37,371
Total assets		69,699	94,713
Liabilities			
Current liabilities			
Trade and other payables	19	(1,521)	(1,859)
Corporation tax payable		(592)	(70)
		(2,113)	(1,929)
Net current assets		34,387	35,442
Non-current liabilities			
Provision for decommissioning	20	(831)	(255)
Defined benefit liability		(164)	(120)
		(995)	(375)
Total liabilities		(3,108)	(2,304)
Net assets		66,591	92,409
Equity			
Called up share capital	22	28,115	28,115
Share premium account		555,090	555,090
Foreign exchange reserve		(93,784)	(69,017)
Other reserves	23	4,273	4,273
Accumulated losses		(427,103)	(426,052)
Total equity		66,591	92,409

The Notes set out below are an integral part of these consolidated financial statements.

The financial statements of Regal Petroleum plc, company number 4462555, on pages 20 to 56 were approved by the Board of Directors on 31 May 2016 and signed on its behalf by:

Keith Henry

Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

at 31 December 2015

	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

	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 2015	28,115	555,090	(3,204)	7,477	(69,017)	(426,052)	92,409
Loss for the year	-	-	-	-	-	(980)	(980)
Other comprehensive expense							
- exchange differences	-	-	-	-	(24,767)	-	(24,767)
- re-measurements of post- employment benefit obligations	-	-	-	-	-	(71)	(71)
Total comprehensive expense	-	-	-	-	(24,767)	(1,051)	(25,818)
As at 31 December 2015	28,115	555,090	(3,204)	7,477	(93,784)	(427,103)	66,591

* Predominantly as a result of exchange differences on non-monetary assets and liabilities where the subsidiaries' functional currency is not the US Dollar.

The Notes set out below are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015

	Note	2015 \$000	2014 \$000
Operating activities			
Cash generated from operations	25	8,795	19,562
Taxation paid		(679)	(849)
Interest received		1,956	1,979
Net cash inflow from operating activities		10,072	20,692
Investing activities			
Purchase of property, plant and equipment		(2,150)	(5,485)
Purchase of intangible assets		(4)	(3)
Proceeds from sale of property, plant and equipment		5	22
Other short-term investment	18	(13,067)	–
Net cash outflow from investing activities		(15,216)	(5,466)
Net (decrease)/increase in cash and cash equivalents		(5,144)	15,226
Cash and cash equivalents at beginning of year		31,836	25,084
Effect of foreign exchange rate changes		(6,772)	(8,474)
Cash and cash equivalents at end of year	18	19,920	31,836

The Notes set out below are an integral part of these consolidated financial statements.



COMPANY BALANCE SHEET

at 31 December 2015

	Note	2015 \$000	2014 \$000
Assets			
Non-current assets			
Investments	15	17,279	17,279
Loans to subsidiary undertakings	15	48,311	67,598
Deferred tax	21	4,470	7,861
		70,060	92,738
Current assets			
Trade and other receivables	17	526	414
Cash and cash equivalents	18	11,913	14,061
		12,439	14,475
Total assets		82,499	107,213
Liabilities			
Current liabilities			
Trade and other payables	19	(183)	(260)
		(183)	(260)
Net current assets		12,256	14,215
Total liabilities		(183)	(260)
Net assets		82,316	106,953
Equity			
Called up share capital	22	28,115	28,115
Share premium account		555,090	555,090
Accumulated losses		(500,889)	(476,252)
Total equity		82,316	106,953

The Notes set out below are an integral part of these consolidated financial statements.

The financial statements of Regal Petroleum plc, company number 4462555, on pages 20 to 56 were approved by the Board of Directors on 31 May 2016 and signed on its behalf by:

Keith Henry

Director

COMPANY STATEMENT OF CHANGES IN EQUITY

at 31 December 2015

	Share capital \$000	Share premium account \$000	Accumulated losses \$000	Total equity \$000
As at 1 January 2014	28,115	555,090	(470,486)	112,719
Loss for the year	–	–	(5,766)	(5,766)
As at 31 December 2014	28,115	555,090	(476,252)	106,953

	Share capital \$000	Share premium account \$000	Accumulated losses \$000	Total equity \$000
As at 1 January 2015	28,115	555,090	(476,252)	106,953
Loss for the year	–	–	(24,637)	(24,637)
As at 31 December 2015	28,115	555,090	(500,889)	82,316

The Notes set out below are an integral part of these consolidated financial statements.



COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2015

	Note	2015 \$000	2014 \$000
Operating activities			
Cash used in operations	25	(2,025)	(3,107)
Interest received		25	460
Net cash outflow from operating activities		(2,000)	(2,647)
Investing activities			
Repayment of loans from Group companies	15	–	91
Issue of loans to Group companies	15	(89)	–
Net cash inflow/(outflow) investing activities		(89)	91
Net decrease in cash and cash equivalents		(2,089)	(2,556)
Cash and cash equivalents at beginning of year		14,061	16,892
Effect of foreign exchange rate changes		(59)	(275)
Cash and cash equivalents at end of year	18	11,913	14,061

The Notes set out below are an integral part of these consolidated financial statements.

NOTES

forming part of the financial statements

1. 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, United Kingdom 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 2015 and 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's gas, condensate and LPG extraction and production facilities are located in Ukraine. The recent political and economic instability in Ukraine has continued in 2015 and has led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the Ukrainian currency against major foreign currencies.

In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. Further, in 2014 armed separatist forces obtained control over parts of the Donetsk and Lugansk regions in eastern Ukraine. The relationships between Ukraine and Russia worsened and remain strained. On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. The Russian Government reacted to this event by implementing a trading embargo on many key Ukrainian export products. In response, the Ukrainian Government implemented similar measures against Russian products.

As at 31 May 2016, the official exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH 25.2/\$1.00, compared to UAH24.0/\$1.00 as at 31 December 2015 (31 December 2014: UAH15.8/\$1.00). To constrain further devaluation of the Ukrainian Hryvnia, the National Bank of Ukraine has imposed a number of restrictions on operations with foreign currency including a temporary ban on payment of dividends in foreign currency, a temporary ban on early repayment of debts to non-residents, mandatory sale of 75% of revenue in foreign currency and other restrictions on cash and non-cash operations. The National Bank of Ukraine prolonged these restrictions several times during 2015 and the current restrictions are effective until 8 June 2016.

Devaluation of the Ukrainian currency has also created pressure on the consumer price index. The official inflation rate in Ukraine for 2015 reached 43.3%.

On 11 March 2015, the International Monetary Fund approved a four-year funding programme for Ukraine amounting to \$17.5 billion. During 2015, Ukraine received the first and second tranches under the funding programme of \$5 billion and \$1.7 billion respectively. In October 2015, Ukraine reached an agreement with the majority of its creditors for the restructuring of part of the national external debt in the amount of \$15 billion. The restructuring extends the maturities of the restructured debt to 2019-2027, fixing annual interest rates at 7.75% and includes the exchange of 20% of the debt into GDP warrants at a par value of \$2.9 billion. However, there remains a significant portion of outstanding debt for which a restructuring was not agreed.

After reaching the above restructuring agreement on external debt with the majority of its creditors, the credit rating of Ukraine has improved.

Further disbursements of International Monetary Fund tranches depend on the implementation of Ukrainian Government reforms, and other economic, legal and political factors.

The Ukrainian banking system is fragile due to its weak level of capital, its weakening asset quality caused by the economic situation, currency depreciation, and the general economic situation in Ukraine.



1. Operating Environment continued

The final resolution and the ongoing effects of the political and economic situation are difficult to predict but they are likely to have further severe effects on the Ukrainian economy and the Group's business.

Further details of risks relating to Ukraine, can be found within the Operational Environment, Principal Risks and Uncertainties section of the Strategic Report.

For the reasons outlined in the Operational Environment, Principal Risks and Uncertainties section of the Strategic Report, 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 these financial statements. Accordingly, the going concern basis has been adopted in preparing its consolidated financial statements for the year ended 31 December 2015. 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 of the Strategic Report.

2. Accounting Policies

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

Basis of Preparation

The Group has prepared its consolidated financial statements ("the financial statements") under International Financial Reporting Standards ("IFRSs") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC"), as adopted by the European Union. The financial statements have been prepared in accordance with Companies Act 2006 as applicable to companies using IFRS.

The financial statements are prepared on the historical cost basis as modified by the initial recognition of financial instruments based on fair value.

New standards, amendments and interpretations adopted by the Group

The Group has applied the Annual improvements to IFRSs 2011-2013 Cycle for the first time for their annual reporting period commencing 1 January 2015. The improvements relate to the following areas:

- IFRS 3 'Business Combinations', the amendment clarifies that IFRS 3 does not apply to the accounting for the formation of joint arrangements in the financial statements of the joint arrangement itself.
- IFRS 13 'Fair Value Measurement', the amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 of IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.
- IAS 40 'Investment Property', the amendment clarifies the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

No other new standards, amendments and interpretations were adopted by the Group for the first time for the annual reporting period commencing 1 January 2015.

NOTES

forming part of the financial statements continued

2. Accounting Policies *continued*

New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted subject to EU endorsement. The Group is yet to assess IFRS 9's full impact.
- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Group is assessing the impact of IFRS 15.
- IFRS 16 'Leases' replaces the current guidance in current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from contracts with customers', is also applied, subject to EU endorsement. The Group is yet to assess IFRS 16's full impact.

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group.

There are no other IFRSs or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.



2. Accounting Policies continued

Basis of Consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 December each year. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Subsidiaries

The acquisition of subsidiaries is accounted for using the acquisition method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill, and any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the Income Statement in the period of acquisition. The results of subsidiaries acquired or disposed of during the year are included in the consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Segment reporting

The Group's only class of business activity is oil and gas exploration, development and production. The Group's primary operations are located in Ukraine, with its head office in the United Kingdom. The geographical segments are the basis on which the Group reports its segment information to management. Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors.

Commercial Reserves

Proved and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The proved and probable reserves conform to the definition approved by the Petroleum Resources Management System.

Oil and Gas Development and Producing Assets

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources".

All licence acquisition, exploration and evaluation costs are initially capitalised as intangible assets in cost centres by field or by exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities, as are finance costs to the extent they are directly attributable to financing development projects. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

If prospects are deemed to be impaired ('unsuccessful') on completion of the evaluation, the associated costs are charged to the Income Statement. If the field is determined to be commercially viable, the attributable costs are transferred to development/producing assets within property, plant and equipment in single field cost centres.

Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. Gains and losses on disposals of development/producing assets are determined by comparing proceeds from sale with the appropriate portion of the net capitalised costs of the asset and are recognised in the Income Statement for the year.

NOTES

forming part of the financial statements continued

2. Accounting Policies *continued*

Depreciation, Depletion and Amortisation

All expenditure carried within each field is amortised from the commencement of commercial production on a unit of production basis, which is the ratio of gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs necessary to bring the reserves into production.

Impairment

At each balance sheet date, the Group reviews the carrying amount of development and producing assets to determine whether there is any indication that those assets have suffered an impairment loss. This includes exploration and appraisal costs capitalised which are assessed for impairment in accordance with IFRS 6. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

For development/producing assets, the recoverable amount is the greater of fair value less costs to dispose and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an expected weighted average cost of capital. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Should an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Decommissioning Provision

Where a material liability for the removal of existing production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The cost of the relevant property, plant and equipment is increased with an amount equivalent to the provision and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset. The unwinding of the discount on the decommissioning provision is included within finance costs.

Property, Plant and Equipment other than Oil and Gas Assets

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost of assets on a straight-line basis over their useful lives as follows:

	Useful lives in years
Buildings and constructions	10 to 20 years
Machinery and equipment	2 to 5 years
Vehicles	5 years
Office and other equipment	4 to 12 years

Inventory purchased with the intention to be used in future capital investment projects is recognised as development and production assets within the property, plant and equipment.



2. Accounting Policies continued

Inventories

Inventories typically consist of materials, spare parts and hydrocarbons, and are stated at the lower cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Revenue Recognition

Revenue from sale of goods represents amounts invoiced in respect of sales of gas, condensate and LPG exclusive of indirect taxes and excise duties and is recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. To the extent that revenue arises from test production during an evaluation programme, an amount is charged from intangible exploration assets to cost of sales so as to reflect a zero net margin.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currencies

The Group's consolidated financial statements and those of the Company are presented in US Dollars. The functional currency of the subsidiaries which operate in Ukraine is Ukrainian Hryvnia. The remaining entities have US Dollars as their functional currency.

The functional currency of individual companies is determined by the primary economic environment in which the entity operates, normally the one in which it primarily generates and expends cash. In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items which are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on balances which are considered long term investments where the changes in fair value are recognised directly in other comprehensive income.

On consolidation, the assets and liabilities of the Group's subsidiaries which do not use US Dollars as their functional currency are translated into US Dollars as follows:

- (a) assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- (b) income and expenses for each Income Statement are translated at average monthly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in Other Comprehensive Income.

The principal rates of exchange used for translating foreign currency balances at 31 December 2015 were \$1:UAH24.0 (2014: \$1:UAH15.8), \$1:£0.7 (2014: \$1:£0.6), \$1:€0.9 (2014: \$1:€0.8).

NOTES

forming part of the financial statements continued

2. Accounting Policies *continued*

Pensions

The Group contributes to a local government pension scheme in Ukraine and defined benefit plans. The Group has no further payment obligations towards the local government pension scheme once the contributions have been paid.

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group companies participate in a mandatory Ukrainian State-defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The early pension benefit (in the form of a monthly annuity) is payable by employers only until the employee has reached the statutory retirement age (60 – for males and females). The pension scheme is based on a benefit formula which depends on each individual member's average salary, his/her total length of past service and total length of past service at specific types of workplaces ("list II" category). The employer is responsible for 100% for "list II" categories of early pensioners. The amount of attributed pension payments depends on the employees' respective lengths of service at the Group in specific types of positions/workplaces during the last 12.5/10 years – for males and females respectively.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. Since Ukraine has no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the Income Statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements. Past-service costs are recognised immediately in the Income Statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the Income Statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable/receivable under operating leases are charged/credited to the Income Statement on a straight-line basis over the term of the relevant lease. Benefits received or given as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which



2. Accounting Policies *continued*

deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates which are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Other taxes which include recoverable value added tax, sales tax and custom duties represent the amounts receivable or payable to local tax authorities in the countries where the Group operates.

Financial Instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group does not currently utilise derivative financial instruments.

Trade Receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For the financial assets carried at amortised cost the evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated Income Statement.

Investments and Loans to Subsidiaries

Investments in subsidiaries and loans issued to subsidiaries for subsequent finance of the business are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

NOTES

forming part of the financial statements continued

2. Accounting Policies *continued*

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity Instruments

Ordinary shares are classified as equity. Equity instruments issued by the Company and the Group are recorded at the proceeds received, net of direct issue costs. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments which are readily convertible to a known amount of cash with no significant loss of interest.

Other Short-term Investments

Other short-term investments include current accounts and deposits held at banks, which do not meet cash and cash equivalents definition. Other short-term investments are measured initially at fair value and subsequently carried at amortised cost using the effective interest method.

Reclassification of Expenses

For the year ended 31 December 2015, the Group reclassified expenses related to changes in the VAT provision and other operating costs, such as recovery of assets and rental income, from other gains and losses (net) to other operating gains and losses (net). The Group believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change has been made retrospectively and comparatives have been amended accordingly. For the year ended 31 December 2014, other gains and losses (net) reclassified to other operating gains and losses (net) amounted to \$118,000.

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.



3. Critical Accounting Estimates and Assumptions *continued*

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

- (i) *Sales price* – The estimate used in the calculation is based on the World Bank and Economist Intelligence Unit natural gas price forecast for Europe.
- (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 \$1,000,000 per year (2014: \$500,000) 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. For 2016 and onwards the discount rate applied was 15%. 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 2015 has not resulted in an impairment loss.

Further details of this assessment, including the sensitivity to the above assumptions, are set out in Note 14.

(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 2015 was 7.17% (31 December 2014: 14.20%). 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 2015 reflects a combination of a revision in the estimated costs (increase of \$83,000) and the discount rate applied (increase of \$515,000).

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.

NOTES

forming part of the financial statements continued

3. Critical Accounting Estimates and Assumptions continued

(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) 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.

(e) 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 21.

(f) 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. 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 2015 \$000	United Kingdom 2015 \$000	Total 2015 \$000
Revenue			
Gas sales	14,784	–	14,784
Condensate sales	5,622	–	5,622
Liquefied Petroleum Gas sales	3,032	–	3,032
Total revenue	23,438	–	23,438
Segment result	9,247	(1,858)	7,389
Depreciation and amortisation			(7,670)
Operating loss			(281)
Segment assets	52,340	17,359	69,699
Capital additions*	2,279	–	2,279

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 two largest customers in 2015 amounted to \$2,894,000 and \$2,469,000 (2014: gas sales to the Group's largest customer amounted to \$18,094,000).

	Ukraine 2014 \$000	United Kingdom 2014 \$000	Total 2014 \$000
Revenue			
Gas sales	20,201	–	20,201
Condensate sales	11,171	–	11,171
Liquefied Petroleum Gas sales	3,200	–	3,200
Total revenue	34,572	–	34,572
Segment result	18,400	(3,078)	15,322
Depreciation and amortisation	–	–	(8,852)
Operating profit			6,470
Segment assets	72,680	22,033	94,713
Capital additions*	4,320	5	4,325

* Comprises additions to property, plant and equipment (Note 14).

NOTES

forming part of the financial statements continued

5. Cost of Sales

	2015 \$000	2014 \$000
Production taxes	8,083	8,602
Depreciation of development and producing asset (Note 14)	7,599	8,727
Staff costs (Note 8)	1,222	1,938
Cost of purchased gas	1,171	–
Cost of inventories recognised as an expense	661	810
Rent expenses (Note 24)	45	75
Geological services	43	531
Workover costs	–	879
Other expenses	955	1,145
	19,779	22,707

6. Administrative Expenses

	2015 \$000	2014 \$000
Staff costs (Note 8)	2,423	3,531
Consultancy fees	613	315
Rent expenses (Note 24)	302	480
Auditors' remuneration	259	349
Depreciation of other assets (Note 14)	59	104
Amortisation of intangible assets	12	21
Other expenses	338	713
	4,006	5,513

	2015 \$000	2014 \$000
Audit of the Company and subsidiaries	179	216
Audit related assurances services – interim review	52	62
Total assurance services	231	278
Tax compliance services	28	54
Tax advisory services	–	–
Corporate finance services	–	17
Total non-audit services	28	71
Total audit and other services	259	349

Total remuneration of the Group auditors, PricewaterhouseCoopers LLP, and other member firms of PricewaterhouseCoopers in 2015 amounted to \$259,000, including \$231,000 payable for the audit and related assurance services and \$28,000 payable for tax compliance services.

Total remuneration of the Group auditors, PricewaterhouseCoopers LLP, and other member firms of PricewaterhouseCoopers in 2014 amounted to \$254,000, including \$229,000 payable for the audit and related assurance services and \$25,000 payable for tax compliance services. Total remuneration of Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited in 2014 amounted to \$95,000, including \$49,000 payable for the audit and related assurance services for the year 2013 and \$46,000 payable for non-audit services.



7. Remuneration of Directors

	2015 \$000	2014 \$000
Directors' emoluments	764	793

The emoluments of the individual Directors were as follows:

	Total emoluments 2015 \$000	Total emoluments 2014 \$000
Keith Henry	382	412
Sergei Glazunov	129	85
Adrian Coates	69	74
Alastair Graham	69	74
Alexey Pertin	69	74
Alexey Timofeyev	46	74
	764	793

The emoluments include base salary and fees. According to the register of Directors' interests, no rights to subscribe for shares in or debentures of the Group companies were granted to any of the Directors or their immediate families during the financial year, and there were no outstanding options to Directors.

8. Staff Numbers and Costs

The average monthly number of employees on a full time equivalent basis during the year (including Executive Directors) was as follows:

Group	Number of employees	
	2015	2014
Management/operational	101	103
Administrative support	52	54
	153	157

The aggregate staff costs of these employees were as follows:

	2015 \$000	2014 \$000
Wages and salaries	3,054	4,381
Other pension costs	534	991
Social security costs	57	97
	3,645	5,469

9. Finance Costs

	2015 \$000	2014 \$000
Unwinding of discount on decommissioning provision (Note 20)	26	46
Other finance costs	-	2
	26	48

NOTES

forming part of the financial statements continued

10. Other operating gains and losses (net)

	2015 \$000	2014 \$000
Reversal of impairment/(impairment) of VAT receivables and related balances	225	(77)
Gain on sales of current assets	165	–
Rental income	15	40
(Loss)/income from write off/recovery of non-current assets	(333)	91
Other operating (expense)/income (net)	(6)	64
	66	118

Other operating gains and losses (net) for the year ended 31 December 2015 include income from the reversal of the provision on VAT receivables of \$335,000 related to Regal Petroleum Corporation Limited. Since the VAT receivable mostly relates to capital expenditures, in prior periods it was uncertain that the amount provided for would be offset against VAT payable on future sales. In 2015, the provision for VAT receivable was reversed as the Group was able to offset its VAT receivable balance against VAT payable.

In addition, other operating gains and losses (net) for the year ended 31 December 2015 include impairment of VAT receivables of \$110,000 related to another Group company, Regal Petroleum Corporation (Ukraine) Limited. This amount was written off as uncollectable due to the inability of the Group to offset this amount against VAT payable or utilise it in any other way.

Also, other operating gains and losses (net) for the year ended 31 December 2015 include expenses of \$333,000 relating to the write-off of preparatory works in respect of wells SV-67 and MEX-122 located on the SV and MEX-GOL gas and condensate fields. The decision to abort these drilling projects was made in 2015 following reconsideration of the chances of success of these wells, and the associated costs were written off in the 2015 year.

11. Taxation

(a) Income tax expense:

	2015 \$000	2014 \$000
<i>Current tax</i>		
Overseas – current year	1,279	1,232
Overseas – prior year	15	(253)
<i>Deferred tax (Note 21)</i>		
UK – current year	3,658	1,354
UK – prior year	(2,371)	–
Income tax expense	2,581	2,333

(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 20.25%. The expense/(income) for the year can be reconciled to the profit/(loss) as per the Income Statement as follows:

	2015 \$000	2014 \$000
Profit on ordinary activities before taxation	1,601	8,088
Tax charge at UK tax rate of 20.25% (2014: 21.50%)	324	1,739
Tax effects of:		
Lower foreign corporate tax rates in Ukraine (18%)	1	4
Disallowed expenses and non-taxable income	(9,891)	(14,957)
Losses not recognised as deferred tax assets	12,922	15,800
Adjustment for reduction in UK corporate tax rate	1,628	–
Realisation of previously unrecognised deferred tax assets on provision for unused vacations	(47)	–
Adjustments in respect of prior periods	(2,356)	(253)
Tax expense for the year	2,581	2,333



12. Loss for the Financial Year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Income Statement in these financial statements. The Group loss for the year includes a Parent Company loss after tax of \$24,637,000 for the year ended 31 December 2015. For the year ended 31 December 2014, the Group profit included a Parent Company loss after tax of \$5,766,000.

13. (Loss)/Earnings per Share

The calculation of basic profit or loss per ordinary share has been based on the profit or loss for the year and 320,637,836 (2014: 320,637,836) ordinary shares, being the weighted average number of shares in issue for the year. There are no dilutive instruments.

14. Property, Plant and Equipment

Group	2015			2014		
	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	148,254	984	149,238	277,014	1,272	278,286
Additions	2,199	80	2,279	3,995	330	4,325
Change in decommissioning provision	640	–	640	(204)	–	(204)
Disposals	(857)	(21)	(878)	(924)	(330)	(1,254)
Exchange differences	(50,982)	(324)	(51,306)	(131,627)	(288)	(131,915)
At end of year	99,254	719	99,973	148,254	984	149,238
Accumulated depreciation and impairment						
At beginning of year	113,514	457	113,971	203,784	803	204,587
Charge for year	7,599	59	7,658	8,727	104	8,831
Disposals	(430)	(15)	(445)	(37)	(193)	(230)
Exchange differences	(39,569)	(145)	(39,714)	(98,960)	(257)	(99,217)
At end of year	81,114	356	81,470	113,514	457	113,971
Net book value at beginning of year	34,740	527	35,267	73,230	469	73,699
Net book value at end of year	18,140	363	18,503	34,740	527	35,267

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 and 2015, 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 2015.

The impairment assessment carried out at 31 December 2015 has not resulted in an impairment loss.

NOTES

forming part of the financial statements continued

14. Property, Plant and Equipment *continued*

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 \$260/Mm³ (UAH6,500/Mm³) in 2016 increasing to \$300/Mm³ (UAH7,500/Mm³) during 2017 – 2025 and onwards. The prices were estimated based on World Bank and Economist Intelligence Unit natural gas price forecast for Europe.
- (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 2016 and onwards the discount rate applied was 15%. 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 (2014: six 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 29% for gas and 45% for condensate extracted from deposits up to depths of 5,000 metres and 14% for gas and 21% for condensate extracted from deposits deeper than 5,000 metres. These rates are based on the Ukrainian Tax Code that became effective from 1 January 2016.
- (v) *Capital expenditures* – management assumed that most capital expenditures are to be incurred during 2016 - 2021. A capital expenditure allowance of \$1,000,000 per year is assumed for maintenance of the development and producing assets.
- (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 \$19,735,000 in the recoverable amount.

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

	Recoverable amount \$000	Net book value \$000	Headroom/ (Shortfall) \$000
31 December 2015	43,901	18,503	25,398
Sensitivities:			
1. \$25/Mm ³ reduction in gas price	35,203	18,503	16,700
2. \$25/Mm ³ increase in gas price	52,603	18,503	34,100
3. Breakeven gas price \$227/Mm ³	18,220	18,503	(283)
4. Breakeven flow rates 32 Mm ³ /day for all new wells	18,778	18,503	275
5. Breakeven discount rate 25%	19,024	18,503	521

According to the results of the impairment test performed, there is no impairment of development and production assets at 31 December 2015.



15. Investments and Loans to Subsidiaries

Company	Shares in subsidiary undertakings \$000	Loans to subsidiary undertakings \$000	Total \$000
Cost			
At 1 January 2014	17,279	70,707	87,986
Additions including accrued interest	–	6,376	6,376
Disposals	–	(1,871)	(1,871)
Exchange differences	–	(7,614)	(7,614)
At 31 December 2014	17,279	67,598	84,877
Cost			
At 1 January 2015	17,279	67,598	84,877
Additions including accrued interest	–	6,557	6,557
Impairment of loans to subsidiary	–	(19,027)	(19,027)
Disposals	–	–	–
Exchange differences	–	(6,817)	(6,817)
At 31 December 2015	17,279	48,311	65,590

In accordance with the Company's accounting policies, loans to subsidiaries have been reviewed to assess recoverability. The Company recognised the impairment of \$19,027,000 against the carrying value of loans at 31 December 2015 to reflect the significant decrease in the carrying value of the Ukrainian assets due to devaluation of Ukrainian Hryvnia (2014: \$nil).

Subsidiary undertakings

At 31 December 2015, the Company's subsidiary undertakings, all of which are included in the consolidated financial statements, were:

	Country of incorporation	Country of operation	Principal activity	% of shares held
Regal Petroleum Corporation Limited	Jersey	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum Corporation (Ukraine) Limited	Ukraine	Ukraine	Service Company	100%
Refin Limited	Ukraine	Ukraine	Service Company	100%
Regal Petroleum (Jersey) Limited	Jersey	United Kingdom	Holding Company	100%
Regal Group Services Limited	United Kingdom	United Kingdom	Service Company	100%

The Parent Company, Regal Petroleum plc, holds direct interests in 100% of the share capital of Regal Petroleum (Jersey) Limited and Regal Group Services Limited, with all other companies owned indirectly by the Parent Company. Regal Petroleum Corporation Limited is controlled through its 100% ownership by Regal Petroleum (Jersey) Limited. Regal Petroleum Corporation (Ukraine) Limited is controlled through its 100% ownership by Regal Petroleum (Jersey) Limited and Regal Group Services Limited, and Refin Limited is controlled through its 100% ownership by Regal Petroleum (Jersey) Limited and Regal Petroleum Corporation (Ukraine) Limited.

Regal Group Services Limited, company number 5252958, has adopted the subsidiary audit exemption allowed under section 479A of the Companies Act 2006 for the year ended 31 December 2015.

NOTES

forming part of the financial statements continued

16. Inventories

	Group	
	2015 \$000	2014 \$000
Current		
Materials	1,337	1,951
Condensate stock	121	148
	1,458	2,099

There was no write down of materials inventory as at 31 December 2015 (2014: nil).

17. Trade and Other Receivables

	Group		Company	
	2015 \$000	2014 \$000	2015 \$000	2014 \$000
Non-current				
VAT receivable	–	1,309	–	–
	–	1,309	–	–
Current				
Trade receivables	1,005	740	–	–
VAT receivable	616	2,236	29	57
Prepayments and accrued income	193	241	47	30
Other receivables	241	219	450	327
	2,055	3,436	526	414

Due to the short-term nature of the current trade and other receivables, their carrying amount is assumed to be the same as their fair value. None of the Group's trade receivables are past due or impaired. All trade receivables are considered to be of high credit quality.

No impairment provision was charged against trade and other receivables during 2015 (2014: \$nil).

At 31 December 2015, the Group's total trade receivables amounted to \$1,005,000 and 100% were denominated in Ukrainian Hryvnia (31 December 2014: \$740,000 and 100% were denominated in Ukrainian Hryvnia). Further description of financial receivables is disclosed in Note 26.

Current VAT receivable in respect of the Group includes \$616,000 (2014: \$2,236,000) relating to capital expenditure in Ukraine which is expected to be recovered via an offset against VAT payable on future sales in that country. At 31 December 2014 there was an additional \$1,309,000 of VAT receivable which was included within non-current trade and other receivables as, based on the Group's future sales projections which are derived from the assumptions in the value in use model outlined in the notes, it was not expected to be recoverable within one year. The Group expects to offset the total amount of VAT receivable at 31 December 2015 during the 2016 year, and therefore no VAT receivable was included within non-current trade and other receivables.



18. Cash and Cash Equivalents

	Group		Company	
	2015 \$000	2014 \$000	2015 \$000	2014 \$000
Cash at bank and on hand	19,920	23,403	11,913	14,061
Short-term deposits	–	8,433	–	–
	19,920	31,836	11,913	14,061

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.

The decrease in cash and cash equivalents at 31 December 2015 is due to \$13,067,000 held in Ukrainian Hryvnia at Unex Bank, being reclassified as short-term investments (with an equal carrying value) as a result of a reassessment of the risks and limited liquidity associated with this cash balance. Further details are set out in Notes 26 and 28.

The credit quality of cash and cash equivalents balances may be summarised based on Moody's ratings as follows at 31 December 2015:

	Cash at bank and on hand 2015 \$000	Short-term deposits 2015 \$000	Total 2015 \$000	Cash at bank and on hand 2014 \$000	Short-term deposits 2014 \$000	Total 2014 \$000
A- to A+ rated	12,255	–	12,255	14,227	–	14,227
Unrated	7,665	–	7,665	9,176	8,433	17,609
	19,920	–	19,920	23,403	8,433	31,836

19. Trade and Other Payables

	Group		Company	
	2015 \$000	2014 \$000	2015 \$000	2014 \$000
Taxation and social security	773	920	–	–
Accruals and deferred income	553	677	183	260
Advances received	193	255	–	–
Trade payables	2	7	–	–
	1,521	1,859	183	260

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature. Description of financial payables is disclosed in Note 26.

NOTES

forming part of the financial statements continued

20. Provision for Decommissioning

Group	2015 \$000	2014 \$000
At beginning of year	255	810
Amounts provided	42	–
Unwinding of discount (Note 9)	26	46
Change in estimate	598	(204)
Exchange differences	(90)	(397)
At end of year	831	255

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. The change in estimate during 2015 reflects a combination of a revision in the estimated costs (increase of \$83,000) and the discount rate applied (increase of \$515,000). The discount rate applied on the decommissioning cost provision at 31 December 2015 was 7.17% (31 December 2014: 14.20%). The decrease of the discount rate at 31 December 2015 came as a result of a Ukrainian Eurobonds' yield decrease and a respective decrease of Country Risk Premium. These costs are expected to be incurred by 2036 (2014: 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 2015 would be \$1,908,000 (31 December 2014: \$1,257,000).

21. Deferred Tax

Deferred tax recognised on tax losses – Company and Group	2015 \$000	2014 \$000
At beginning of year	7,861	7,807
(Charged)/credited to Income Statement - current year	(3,391)	54
At end of year	4,470	7,861

Deferred tax recognised relating to development and production asset – Group	2015 \$000	2014 \$000
At beginning of year	12,552	27,287
Charged to Income Statement – current year	(267)	(1,408)
Charged to Income Statement – prior year	2,371	–
Effect of exchange difference	(4,693)	(13,327)
At end of year	9,963	12,552

At 31 December 2015 the Group recognised a deferred tax asset of \$4,470,000 in relation to UK tax losses carried forward (31 December 2014: \$7,861,000). There was a further \$73 million (31 December 2014: \$66 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 2015 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 production asset at 31 December 2015 of \$9,963,000 (31 December 2014: \$12,552,000) was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and production 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 14. 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 \$10 million deferred tax recognised would be recoverable based on forecast profits available from the Group's existing wells.



21. Deferred Tax continued

The impact of the UK losses surrendered to the Ukrainian operating subsidiary in relation to losses was \$9,467,000 for 2014 and \$4,649,000 for 2015 respectively.

Losses accumulated in a Ukrainian subsidiary service company of UAH 2,061,576,860 (\$85,897,000) at 31 December 2015 and UAH 952,365,000 (\$60,391,000) at 31 December 2014 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.

UK Corporation tax change

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main tax rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. As the change to 17% had not been substantially enacted at the balance sheet date, its effects are not included in these financial statements. The overall effect of that change, if it had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional \$598,000 and increase the tax expense for the period by \$859,000.

22. Called Up Share Capital

	2015		2014	
	Number	\$000	Number	\$000
Allotted, called up and fully paid				
Opening balance at 1 January	320,637,836	28,115	320,637,836	28,115
Issued during the year	–	–	–	–
Closing balance at 31 December	320,637,836	28,115	320,637,836	28,115

There are no restrictions over ordinary shares issued.

23. Other Reserves

Other reserves, the movements in which are shown in the statements of changes in equity, comprise the following:

Capital contributions reserve

The capital contributions reserve is non-distributable and represents the value of equity invested in subsidiary entities prior to the Company listing.

Merger reserve

The merger reserve represents the difference between the nominal value of shares acquired by the Company and those issued to acquire subsidiary undertakings. This balance relates wholly to the acquisition of Regal Petroleum (Jersey) Limited and that company's acquisition of Regal Petroleum Corporation Limited during 2002.

Foreign exchange reserve

Exchange reserve movement for the year attributable to currency fluctuations. This balance predominantly represents the result of exchange differences on non-monetary assets and liabilities where the subsidiaries' functional currency is not the US Dollar.

NOTES

forming part of the financial statements continued

24. Operating Lease Arrangements

The Group as Lessee

	Group		Company	
	2015 \$000	2014 \$000	2015 \$000	2014 \$000
Minimum lease payments under operating leases recognised as an expense for the year	347	555	181	297

Minimum lease payments under operating leases recognised as an expense for the year ended 31 December 2015 are mainly represented by the rentals of office properties in Ukraine and the UK of \$302,000 (2014: \$480,000) and the leases of land and well SV-6 of \$45,000 (2014: \$75,000).

At the balance sheet date, the Group had outstanding off-balance sheet commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

Group and Company	Land and buildings	
	2015 \$000	2014 \$000
Amounts payable due:		
– Within one year	136	218
	136	218

Operating lease payments represent rentals payable by the Group for office properties, which were negotiated and fixed for an average of one year.

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

Group	2015 \$000	2014 \$000
Operating (loss)/profit	(281)	6,470
Depreciation, amortisation and impairment charges	7,670	8,852
Gain on sales of current assets, net	(165)	–
Loss/(gain) from write off of non-current assets	333	(91)
(Reversal of impairment)/impairment of VAT receivables and related balances	(225)	77
Movement in provisions	(50)	79
Decrease/(increase) in inventory	45	(99)
Decrease in receivables	1,260	4,708
Decrease/(increase) in payables	208	(434)
Cash generated from operations	8,795	19,562

Company	2015 \$000	2014 \$000
Operating loss	(20,863)	(2,981)
Depreciation and amortisation	–	9
Movement in provisions (including impairment of subsidiary loans)	19,027	–
Increase in receivables	(112)	(157)
(Decrease)/increase in payables	(77)	22
Cash used in operations	(2,025)	(3,107)



26. Financial Instruments

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's and the Company'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

Group	2015 \$000	2014 \$000
Cash and cash equivalents	19,920	31,836
Other short-term investments	13,067	–
Trade and other receivables	1,074	740
	34,061	32,576

At 31 December 2015, \$13,067,000 of Group other short-term investments were held with a related party bank, Unex Bank, see Note 28 for details (31 December 2014: \$17,456,000).

Company	2015 \$000	2014 \$000
Cash and cash equivalents	11,913	14,061
Trade and other receivables	398	327
	12,311	14,388

Financial Liabilities

Group	2015 \$000	2014 \$000
Trade and other payables	2	7
Accruals	242	204
	244	211

Company	2015 \$000	2014 \$000
Trade and other payables	–	–
Accruals	183	260
	183	260

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.

NOTES

forming part of the financial statements continued

26. Financial Instruments *continued*

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	2015 \$000	2014 \$000
Canadian Dollars	2	2
British Pounds	(849)	2,689
Euros	96	166
US Dollars	(40)	–
Net monetary assets less liabilities	(791)	2,857

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 2015 After tax impact on profit or loss \$000	At 31 December 2014 After tax impact on profit or loss \$000
EUR strengthening by 30% (2014: 30%)	29	50
GBP strengthening by 30% (2014: 30%)	(254)	807

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. A negative number above indicates an increase in loss/decrease 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 positive. 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.



26. Financial Instruments *continued*

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 2015 would increase by \$92,000 in the event of 0.5% higher interest rates and decrease by \$92,000 in the event of 0.5% lower interest rates (2014: increase of profit for the year ended 31 December 2014 by \$75,000 in the event of 0.5% higher interest rates and decrease by \$75,000 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 (2014: 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 18.

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

Credit Risk

Credit risk principally arises in respect of the Group's cash balance. In the UK, where \$12.3 million of the overall cash is held (31 December 2014: \$14.2 million), the Group only deposits cash surpluses with major banks of high quality credit standing (Note 18). The remaining balance of \$7.6 million was held in Ukraine (31 December 2014: \$17.6 million). In December 2015 Standard & Poor's upgraded Ukraine's sovereign credit rating to "B-/B". 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 taken steps to diversify its banking arrangements between a number of banks in Ukraine. These measures 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 Strategic Report and in Note 28 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.

NOTES

forming part of the financial statements continued

26. Financial Instruments continued

Interest Rate Risk Profile of Financial Assets

The Group had the following cash and cash equivalent and other short-term investments balances which are included in financial assets as at 31 December 2015 with an exposure to interest rate risk:

Currency	Total	Floating rate	Fixed rate	Total	Floating rate	Fixed rate
	2015	financial	financial	2014	financial	financial
	\$000	assets	assets	\$000	assets	assets
		2015	2015		2014	2014
		\$000	\$000		\$000	\$000
Canadian Dollars	2	2	–	2	2	–
Euros	91	38	53	166	53	113
British Pounds	596	596	–	2,441	2,441	–
Ukrainian Hryvnia	20,679	–	20,679	17,496	–	17,496
US Dollars	11,619	11,619	–	11,731	11,731	–
	32,987	12,255	20,732	31,836	14,227	17,609

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 (2014: \$nil).

Maturity of Financial Liabilities

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

Group	2015	2014
	\$000	\$000
In one year or less	244	211
	244	211
Company	2015	2014
	\$000	\$000
In one year or less	183	260
	183	260

Borrowing Facilities

The Group did not have any borrowing facilities available to it at the year end (2014: \$nil).

Fair Value of Financial Assets and Liabilities

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

27. Capital Commitments

Amounts contracted in relation to the Group's 2015 investment programme in the MEX-GOL and SV gas and condensate fields in Ukraine, but not provided for in the financial statements at 31 December 2015, were \$319,000 (2014: \$171,000).



28. Related Party Disclosures

Key management personnel of the Group are considered to comprise only the Directors. Details of Directors' remuneration are disclosed in Note 7.

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

	2015	2014
	\$000	\$000
Sale of goods/services	469	86
Purchase of goods/services	120	172
Amounts owed by related parties	57	44
Amounts owed to related parties	9	12

All related party transactions were with subsidiaries of the ultimate Parent Company, and primarily relate to the rental of office facilities and a vehicle and the sale of equipment. The amounts outstanding were unsecured and will be settled in cash.

As of 31 December 2015, 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:

	2015	2014
	\$000	\$000
Interest income	1,829	1,987
Bank charges	3	14
Other short-term investments	13,067	–
Cash held at end of year	–	17,456

The Group currently holds a significant proportion of its Ukrainian Hryvnia cash deposits in Unex Bank. In May 2015, the Group obtained a guarantee and security over another asset from the Smart Holding Group in support of the Group's cash deposits in Unex Bank. The Group considered it appropriate to reclassify its cash holdings in Unex Bank, which amounted to \$13,067,000 as at 31 December 2015, as short-term investments (with an equal carrying value), rather than cash or cash equivalents due to the limited liquidity of the asset.

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

NOTES

forming part of the financial statements

29. Post Balance Sheet Events

Revision to Tax Code

In late December 2015, the Ukrainian Government enacted a law which significantly revised the tax code effective from 1 January 2016. The most significant changes are:

- Cancellation of advance payment of corporate profit tax which was based on taxable profit of the previous period
- Decrease of the rate of unified social contribution tax accrued on employee benefits from standard rates of 37%-50% in previous years (depending on companies' accident risk level; lower rates could be applied in 2015 subject to companies' compliance with certain criteria) to 22% from 2016 onwards
- Reduction of the subsoil tax rates to 29% and 14% (2015: 55% and 28% respectively) for gas extraction from the depth above 5000 metres and below 5000 metres respectively
- Basis for subsoil tax calculation for gas based on average import gas price rather than industrial gas price set by the National Commission for State Energy and Public Utilities Regulation. Base period of taxation is a month rather than a quarter in previous version of the Tax code
- No reduction coefficient is applied for subsoil tax calculation on new wells (2015: coefficient 0.55 for new wells)

The Directors expect that the reduction of the subsoil tax rates will significantly decrease the Group's tax payments in 2016 and increase gross margin. The Directors do not believe the new corporate tax rules will significantly change its corporate profit taxes.

Currency Restriction

Temporary capital controls established by the National Bank of Ukraine in 2014 remain in place as an attempt by the Ukrainian Government to safeguard the economy and protect foreign exchange reserves in the short term.

On 5 March 2016, these restrictions were extended until 8 June 2016.

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.



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GLOSSARY

bbl	barrel	MMboe	million barrels of oil equivalent
boe	barrels of oil equivalent	%	per cent
Bscf	thousands of millions of scf	scf	standard cubic feet measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
boepd	barrels of oil equivalent per day	\$	United States Dollar
HSES	health, safety, environment and security	UAH	Ukrainian Hryvnia
km	kilometres		
km²	square kilometres		
LPG	liquefied petroleum gas		
m³	cubic metres		
m³/d	cubic metres per day		
Mm³	thousand cubic metres		
Mtonnes	thousand tonnes		
MMbbl	million barrels		

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