Regal Petroleum plc

Annual Report and Accounts
for the year ended **31 December 2013**

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

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UKRAINE OPERATIONS

- Despite current events in Ukraine, the Group has been able to operate normally, although the change of Government has resulted in volatility in the Ukrainian Hryvnia exchange rates and uncertainty in the gas sales price
- Average production over the year to 31 December 2013 of 185,677 m³/d of gas and 42 m³/d of condensate (1,422 boepd in aggregate) compared to 2012: 201,002 m³/d of gas and 45 m³/d of condensate (1,539 boepd in aggregate)
- Well SV-59 on production testing since January 2014, but wells MEX-105 and SV-53 unsuccessful
- Upgrade of gas processing facility to improve efficiency and quality of gas produced and provide for recovery of LPG completed
- Average LPG production of 20 m³/d from 1 January 2014 to 30 March 2014, providing new revenue stream
- Independent report commissioned to assess the Group's Reserves and Resources as at 31 December 2013 resulting in a reduction in Proved + Probable (2P) remaining Reserves from 31.6 MMboe to 11.7 MMboe

FINANCE

- Revenue for the year from continuing operations of $36.7 million (2012: $41.1 million)
- Loss for the year from continuing operations of $127.2 million (2012: $13.0 million profit), principally due to impairment loss of $159.2 million (2012: $nil) on the Group's oil and gas development and producing asset in Ukraine
- Cash generated from operations of $26.5 million (2012: $33.1 million)
- Average realised 2013 gas and condensate prices in Ukraine of $415/Mm³ and $91/bbl respectively (2012: $420/Mm³ and $99/bbl respectively)
- Cash and cash equivalents at 31 December 2013 of $25.1 million (31 December 2012: $28.5 million), with cash balance at 30 March 2014 of $24.0 million

OUTLOOK

- Focus on continued geophysical studies to improve understanding of the sub-surface at MEX-GOL and SV fields
- Plan to commence drilling of MEX-109 well, workover of SV-61 well and undertake hydraulic fracturing of MEX-120 and MEX-105 wells
- Funding of planned 2014 development programme anticipated to be from existing cash and cash equivalents and operational revenues

CHAIRMAN'S REVIEW
STRATEGIC REPORT

The Group is continuing with the development of our 100% owned and operated Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields in Ukraine. I am pleased to be able to report we continued to operate safely during the period, with no Lost Time Incidents or Restricted Work Cases.

The major events that have taken place in Ukraine during recent months, including the change of Government, have meant that there has been a great deal of uncertainty about the political and economic outlook in Ukraine.

Despite the upheaval, the Group has been able to operate normally, although the change of Government has resulted in volatility in the Ukrainian Hryvnia exchange rates and uncertainty in our realised gas sales price in Ukraine. The internal gas price is generally related to the imported price of gas from Russia, but the previous Government had negotiated a significant discount to the imported gas price. This resulted in a reduction in the internal gas price during the first quarter of 2014, but the Ukrainian authorities have announced that the internal gas price will be increased with effect from 1 April 2014.

As regards the Group's financial performance, a substantial loss was recorded in 2013, primarily as a result of 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. However cash generated from operations was positive at $26.5 million (2012: $33.1 million).

An updated assessment of our remaining Reserves and Contingent Resources attributable to the Group's MEX-GOL and SV fields, as at 31 December 2013, was announced on 25 March 2014. In summary, the Proved (1P) Reserves reduced from 7.7 MMboe to 1.9 MMboe and the Proved and Probable (2P) Reserves reduced from 31.6 MMboe to 11.7 MMboe. This reduction in Reserves resulted in the recognition of the impairment loss, and is explained in more detail in the Operations Review below.

Operationally during 2013, we undertook a capital investment programme at our Ukrainian fields, which involved completing the drilling and/or testing of three new wells, undertaking well workover and hydraulic fracturing operations, upgrading the gas processing facility, installing LPG recovery equipment, upgrading methanol facilities and installing compression equipment.

We completed the hook-up and testing of the SV-53 and MEX-105 wells during the first half of 2013, but unfortunately neither well delivered the anticipated levels of production. The SV-53 well did produce at modest rates, using compression, and underwent a hydraulic fracturing programme but this programme did not improve flow rates, and the well has now ceased producing. The MEX-105 well did not produce hydrocarbons on test and has undergone a well stimulation programme, which included hydraulic jet perforation, but this programme was unsuccessful, and accordingly a hydraulic fracturing programme is being developed to be carried out during 2014.

In the second half of the year, drilling of the SV-59 well was completed and after initial testing, the well was hooked up to the gas processing facility and its performance was monitored during a production testing programme. Flow rates averaged approximately 10,700 m^3/d of gas and 15 m^3/d of condensate (158 boepd in aggregate) during the production testing period, and the well continues to produce at similar flow rates.

The upgrades to the Group's gas processing facility, designed to improve the facility's overall efficiency, incorporate compression equipment, provide for LPG recovery and stabilise condensate production, have been completed, as has the upgrade of methanol equipment at two existing wells and the installation of compression equipment in the field.

With the installation of the LPG recovery equipment, production of LPG commenced at the very end of 2013, and for the period from 1 January 2014 to 30 March 2014, LPG production rates have averaged 20 m^3/d (87 boepd).

The Group continues to be supported by Energees Management Limited ("Energees"; part of the Smart Holding Group "Smart"), which has maintained its 54% shareholding in the Company's issued share capital and continues its support of the Group and its operations in Ukraine.

Business Review and Outlook

In light of the mixed results from the new wells, the Group is undertaking further geophysical studies and has revised its field development plan to reduce the number of new wells and to slow the phasing of its drilling programme. The revision of the field development plan has resulted in a reduction of both the Reserves and the carrying value of the Group's oil and gas development and producing asset in Ukraine, and a consequent impairment charge in the accounts for the year ended 31 December 2013.

Our focus during 2014 will be to continue the geophysical studies to improve our understanding of the sub-surface within our licences, as well as commencing the drilling of the MEX-109 well, working over the SV-61 well and undertaking hydraulic fracturing of the MEX-120 and MEX-105 wells. Successful completion of these activities, together with continuing analysis of our geological and geophysical data to provide a better understanding of the MEX-GOL and SV reservoirs and their performance, is expected to ultimately help enable us to improve our daily production.

The upgrades to our gas processing facility have improved the efficiency of our gas processing and production, improved the quality of the gas produced and enabled us to recover and sell LPG. Based on our current production, and the resultant revenue we receive for our gas, condensate and LPG sales, we anticipate that our planned 2014 development programme will be funded from existing cash and cash equivalents and operational revenues.

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 recent months.

Keith Henry
Executive Chairman

OPERATIONS REVIEW
STRATEGIC REPORT

Health, Safety, Environment and Security ("HSES")

The Group is committed to maintaining the highest standards of HSES 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.

During 2013, the Group continued to operate safely and did not experience any Lost Time Incidents or Restricted Work Cases.

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 assets and extend over a combined area of 269 km^2, approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field.

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

Production

The Group's average production over the year ended 31 December 2013 was 185,677 m^3/d of gas and 42 m^3/d of condensate, which equates to a combined total oil equivalent of 1,422 boepd.

The Group's average production for the period from 1 January 2014 to 30 March 2014 was 156,335 m^3/d of gas and 55 m^3/d of condensate, which equates to a combined total oil equivalent of 1,321 boepd.

With the installation of the LPG recovery equipment, production of LPG commenced at the very end of 2013, and for the period from 1 January 2014 to 30 March 2014, LPG production rates have averaged 20 m^3/d (87 boepd).

Operations

The SV-53 and MEX-105 wells, which were spudded in February 2012 and April 2012 respectively, were completed and tested during the first half of 2013, and another new well, SV-59, was spudded in February 2013. The objective of all three wells was the B-Sands. The new wells were drilled by local Ukrainian drilling contractors, with the Ukrainian drilling rigs being supplemented by the use of selected western technology and equipment designed to improve the efficiency of drilling operations.

Well SV-53 reached its target depth of 5,450 metres in October 2012. The well was hooked up to the gas processing facility in mid-January 2013, and production testing was undertaken using a variety of choke sizes and operating modes. Although initial flow rates were encouraging, they declined very significantly over the testing period. Compression equipment was utilised for a period, before a hydraulic fracturing programme was undertaken on the well in the fourth quarter of 2013 but unfortunately this did not increase flow rates and the well has ceased producing. It is believed that these results reflect the penetration of good quality reservoir sands but of limited lateral extent and volume.

Well MEX-105 reached a depth of 5,228 metres in February 2013. Drilling was terminated 22 metres short of its original target depth as all targeted B-Sands formations had been encountered. The well underwent a production testing programme during the first half of 2013 but did not produce hydrocarbons on test and has undergone a well stimulation programme, which included hydraulic jet perforation, but this programme was unsuccessful. As a result, a hydraulic fracturing programme is being developed to be carried out during 2014.

Well SV-59 was drilled to a depth of 5,470 metres, completed and, after initial testing, hooked up to the gas processing facility in early 2014. Its performance was monitored during a production testing programme, during which flow rates averaged approximately 10,700 m^3/d of gas and 15 m^3/d of condensate (158 boepd in aggregate), and the well continues to produce at similar flow rates.

A two-phased workover on the GOL-1 well, designed to eliminate the ingress of water was undertaken, but unfortunately, these operations proved unsuccessful and as a result, it has not been possible to bring this well back on production. No further intervention operations are currently planned at this well.

The MEX-120 well, which was intermittently producing small volumes of hydrocarbons, underwent a hydraulic fracturing programme in February 2014, but unfortunately this programme was suspended after equipment failure. It is intended to conclude the programme later in 2014.

The upgrades to the Group's gas processing facility, designed to improve the facility's overall efficiency, incorporate compression equipment, provide for LPG recovery and stabilise condensate production, have been completed, as has the upgrade of methanol equipment at two existing wells and the installation of compression equipment in the field.

2014 Reserves Report

As a result of the mixed results from the new wells on the MEX-GOL and SV licence areas, the Group decided to undertake further geophysical studies in order to improve the understanding of the sub-surface at such licence areas, and to reduce the number and slow the phasing of its new well drilling programme.

In light of the revision of the current field development plan to reduce and slow the well drilling programme, the Group considered it appropriate to undertake a re-assessment of the Reserves and Resources at the MEX-GOL and SV licence areas.

Accordingly, the Group engaged independent petroleum consultants, ERC Equipoise Limited ("ERCE"), to prepare an updated assessment of the remaining Reserves and Contingent Resources attributable to the Group's MEX-GOL and SV fields as at 31 December 2013 (the "ERCE Report").

The ERCE Report, announced on 25 March 2014, is consistent with the Group's revised field development plans, which comprise the drilling of a further 10 wells, and accords with the March 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System standard for classification and reporting.

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 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**

The ERCE Report provides an update on the Group's Reserves and Resources since the previous Reserves estimation undertaken by ERCE as at 31 December 2012 and takes into account information gathered during the drilling of additional wells in the fields since then. The Gas Initially In Place ("GIIP") assessment in the ERCE Report remains the same as previously, demonstrating discovered GIIP in the B-Sands reservoirs of 5816 Bscf, but there has been a material reduction in the Proved (1P) and Proved + Probable (2P) categories of remaining Reserves from the previous ERCE estimates which were 7.7 MMboe and 31.6 MMboe respectively. These reductions reflect a reduction in the number (from 27 to 10) and slowing of the phasing of new wells, production since 1 January 2013 of approximately 0.52 MMboe and the down-grading of a portion of volumes previously booked as Reserves into the Contingent Resources category, reflecting their current immaturity for commercial development. Further evaluation and development of the fields may result in future movement between Contingent Resources and Reserves.

In its Report, ERCE has estimated volumes of discovered gas totalling 1944 Bscf in the deeper T-Sands and D-Sands intervals, but has concluded that there is insufficient information at this time to determine whether the discovered gas is recoverable or not, and hence no Reserves or Contingent Resources have been assigned to these formations. Accordingly, all Reserves and Contingent Resources assessed in the ERCE Report are within the B-Sands reservoirs.

FINANCE REVIEW
STRATEGIC REPORT

The Group's loss from continuing operations for the year ended 31 December 2013 was $127.2 million (2012: $13.0 million profit). This is principally due to the impairment loss of $159.2 million (2012: $nil) on the Group's oil and gas development and producing asset in Ukraine resulting from the revision of the Group's field development plan and the reduction in Reserves and Resources referred to earlier in this Report. The Group's oil and gas development and producing asset in Ukraine was tested for impairment, and in determining the value in use of such asset, a number of assumptions were made. This testing has demonstrated that the residual carrying value of $72.9 million is particularly sensitive to future changes in the gas price and assumptions on discount rate, production levels and successful extension of the production licences until the end of the economic life of the fields, all of which are discussed in more detail in Note 15 to the Accounts.

Revenue from continuing operations, derived from the sale of the Group's Ukrainian gas and condensate production, was $36.7 million (2012: $41.1 million) due to a combination of lower volumes and lower average prices.

Cash generated from operations was positive at $26.5 million (2012: $33.1 million).

For the year ended 31 December 2013, the average realised gas and condensate prices were $415/Mm^3 (UAH3,380 Mm^3) and $91/bbl respectively (2012: $420/Mm^3 and $99/bbl respectively).

From 1 January 2014, our average realised gas price reduced to $339Mm^3 (UAH3,051/Mm^3) resulting from negotiations between Russia and Ukraine over the imported gas price. The maximum internal gas prices within Ukraine are set quarterly by the National Electricity Regulatory Commission ("NERC") and are generally related to the imported price of gas from Russia. The Group's realised gas price is close to the maximum internal gas price set by NERC. In December 2013, the previous Government of Ukraine negotiated a significant discount to the imported gas price calculated under the longstanding agreement between Russia and Ukraine. However, following the recent change of Government, Russian officials have stated that the discount of the imported gas price is to be reconsidered, and as a consequence, it seems probable that the imported gas price will revert to the price calculated under the longstanding agreement between Russia and Ukraine.

It have been announced by NERC that, with effect from 1 April 2014, the internal gas price will increase to $363/Mm^3 (UAH4,020/Mm^3 using the exchange rate at 31 March 2014 of UAH11.09/$1.00) for the second quarter of 2014.

The completion of the upgrade to the gas processing facility in late December 2013 to enable recovery of LPG has provided a new revenue stream, and our average realised price for LPG from 1 January 2014 was $440/m^3.

Cost of sales for the year ended 31 December 2013 was $33.7 million (2012: $21.4 million). This increase was due to a combination of higher depreciation charges of $17.3 million (2012: $11.0 million) due to the revised Reserves base as at 31 December 2013, the new single subsoil tax charge of $7.2 million (2012: $6.1 million), which came into effect from 1 January 2013 and replaced the previous royalty and subsoil tax regime, and a write down of inventory of $3.0 million (2012: $0.7 million). The Ukrainian authorities have announced that the rates for the single subsoil tax are to be increased in the near future.

Included within finance costs, is a charge for the discounting of long-term purchase tax recoverable from the Ukrainian Government of $0.1 million (2012: finance income from the unwinding of the discount of $2.5 million) due to an increase in the forecast recovery period related to the revised well drilling programme.

The tax credit for the period of $35.8 million (2012: charge of $0.1 million) comprises a current tax charge of $1.5 million (2012: charge of $1.7 million) and a deferred tax credit of $37.3 million (2012: credit of $1.6 million). $32.7 million of the deferred tax credit is due to the impairment loss relating to the Group's oil and gas development and producing asset, which has resulted in the carrying value of the asset being significantly lower than its tax base. This has resulted in a reversal of the prior year deferred tax liability and the recognition of a deferred tax asset of $28.6 million deemed recoverable against future taxable profits in Ukraine. However, should future field development not result in additional production, only approximately $3 million of the deferred tax asset would be recovered, as discussed in more detail in Note 23 to the Accounts. The remaining $4.6 million credit is a result of the recognition of previously unrecognised tax losses in the Company, which are projected to be utilised against forecast future profits derived from interest on intra-group loans.

Capital investment in the Group's oil and gas development and producing asset for the period was $23.5 million (2012: $19.2 million) which principally reflects the 2013 drilling programme and upgrades to the gas processing facilities in Ukraine.

Cash and cash equivalents held at 31 December 2013 were $25.1 million (31 December 2012: $28.5 million). The Group's cash and cash equivalents balance at 30 March 2014 was $24.0 million. The movement since 31 December 2013 reflects operational cash generated since that date less capital investment in the asset.

Cash from operations has funded the capital investment during the 2013 year, and the Group's current cash position and positive operating cash flow are the sources from which the Group expects the 2014 capital investment programme will be funded.

With effect from 1 January 2013, the functional currency of two of the Group's Ukrainian subsidiaries has changed from US Dollars to Ukrainian Hryvnia. The change was triggered by the increasing influence of the Ukrainian Hryvnia on the subsidiaries' operations, compared to the prior year. Whilst historically, the majority of the development costs were influenced by US Dollars and Euros, more recently these costs have been predominantly in Ukrainian Hryvnia. In addition, the maximum internal gas price in Ukraine set by NERC, and hence the Group's revenues, have been less influenced by the US Dollar.

The Interim Report announced on 24 September 2013 used US Dollars as the functional currency of these two Ukrainian subsidiaries. As a result, the carrying value of the Group's oil and gas development and producing asset in Ukraine, and also the foreign exchange reserve in equity, were overstated by $4.2 million.

The reporting currency of the Group will remain US Dollars.

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

OPERATIONAL ENVIRONMENT, PRINCIPAL RISKS AND UNCERTAINTIES
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

Since November 2013, Ukraine has been subject to political unrest. On 22 February 2014, the Parliament of Ukraine voted for a reinstatement of the 2004 Constitution and dismissal of the incumbent President. New presidential elections are scheduled for May 2014 and a transitional Government has been formed. On 27 February 2014, pro-Russian factions took control of the parliament of Crimea, an autonomous region of Ukraine, which then voted to hold a referendum on the status of Crimea in March 2014. Following this referendum, Crimea was effectively annexed by the Russian Federation. The Group has no assets in Crimea, nor do its operations rely on sales or costs incurred there.

During 2014, the Ukrainian Hryvnia has devalued against major world currencies and significant external financing is required to maintain the country's economic stability. The National Bank of Ukraine, among other measures, has imposed temporary restrictions on the processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. In February 2014, Ukraine's sovereign rating was downgraded to CCC with a negative outlook. The impact of the escalation of the crisis in Ukraine-Russia relations and its final resolution are unpredictable and are likely to adversely affect the Ukrainian economy.

These events have not affected the Group's operations to date, but further escalations of the political crisis may impact the Group's normal business activities, and increase the risks relating to its business operations, financial status and maintenance of its Ukrainian production licences.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. Whilst 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, as a major shareholder with extensive experience in Ukraine, has helped to mitigate such risks.

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 downgrade in the Group's remaining reserves which has 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, 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.

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 2014 investment programme will be incurred in Hryvnia, thus revenue and costs are largely matched. As with all currencies, the value of the Hryvnia is subject to foreign exchange fluctuations. Currently the Hryvnia does not benefit from the range of currency hedging instruments which are available in more developed economies and, as a result, the Group has adopted a policy that funds not required for use in Ukraine be retained on deposit in the United Kingdom, principally in US Dollars.

During 2014, the Ukrainian Hryvnia has devalued against major world currencies and significant external financing is required to maintain the country's economic stability. The National Bank of Ukraine, among other measures, has imposed temporary restrictions on the processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. In February 2014, Ukraine's sovereign rating was downgraded to CCC with a negative outlook. 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. In addition, further devaluation of the Ukrainian Hryvnia against the US Dollar will affect the carrying value of the Group's assets.

Ukraine Production Licences

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

OPERATIONAL ENVIRONMENT, PRINCIPAL RISKS AND UNCERTAINTIES continued
STRATEGIC REPORT

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.

Recently, there has been significant uncertainty about the future gas price in Ukraine, which has been exacerbated by the major political events that have taken place in Ukraine during recent months. The internal gas price has been generally related to the imported price of gas from Russia, but in December 2013, the previous Government of Ukraine negotiated a significant discount to the imported gas price calculated under the longstanding agreement between Russia and Ukraine, which was expected to result in a reduction in the internal gas price during 2014. However, following the recent change of Government, Russian officials have stated that the discount of the imported gas price is to be reconsidered, in which case it seems likely that the imported gas price will revert to the price calculated under the longstanding agreement between Russia and Ukraine, which is likely to be higher over the immediate future. As a result of the continuing uncertainty regarding the internal gas price, it should be recognised that the internal gas price may increase or decline significantly.

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.

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 counter-parties 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 company of this nature, there is a dependency risk relating to the loss of key individuals.

Going concern risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review and Outlook section of the Chairman's Review. The financial position of the Group, its cash flows and liquidity position are described in the Finance Review. In addition, Note 28 to the Accounts includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, and its exposures to credit risk and liquidity risk.

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

Having reviewed the accounts, budgets and forward plans (including sensitivity analysis), the latest operational results, the risks outlined above, and having taken into account 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 the entering into firm commitments for future drilling operations and the lower committed expenditure in Ukraine, the Directors continue to believe that the Group is well placed 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. Therefore they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Strategic Report Approval

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

By Order of the Board

Keith Henry
Executive Chairman
31 March 2014

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 Mediterranean Oil & Gas plc, Chairman of Greenko Group plc, the senior independent Director of Sterling Energy plc, and non-executive Director of KSK Power Ventur plc and HPR Holdings Limited. As a non-executive director within the energy sector, Mr Henry previously served as 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 Petroleums 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.

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 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 at 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. Mr Coates is currently the senior independent Director of Polyus Gold International Limited. Mr Coates holds a MA (Econ) from Cambridge University and a MSc (MBA) from London Business School.

Alexey Pertin

Non-Executive Director

Alexey Pertin was appointed as a Non-Executive Director in April 2011 and is a nominee of Regal Petroleum plc's majority shareholder, Energees Management Limited. He is currently a Director of Energees Investments Limited and Energees Management Limited and is the Chief Executive Officer of JSC Smart Holding as well as holding Director positions with Adeona Holdings, Smart Holding, Legolas, Metinvest Holding UA and JSC Moldova Steel Works. Previous positions held include CEO of Severstal Emal, and Deputy CEO for Business Development for the Severstal Group. Mr Pertin holds a MBA from Newcastle Business School, England.

Alexey Timofeyev

Non-Executive Director

Alexey Timofeyev was appointed as a Non-Executive Director in March 2011 and is a nominee of Regal Petroleum plc's majority shareholder, Energees Management Limited. Mr Timofeyev is currently the Chief Operating Officer of JSC Smart Holding. Prior to joining the Smart Holding Group, Mr Timofeyev held positions at SJSC Naftogaz Ukrainy (the Ukrainian state oil and gas company), Concern Geo-Alliance UA and SC Ukrgazvydobuvannya, a subsidiary of SJSC Naftogaz Ukrainy. Mr Timofeyev holds a degree in International Economic Relations.

Sergei Glazunov

Non-Executive Director

Sergei Glazunov was appointed as a Non-Executive Director in February 2012 and is a nominee of Regal Petroleum plc's majority shareholder, Energees Management Limited. He is currently the Interim Chief Executive Officer and Chief Financial Officer of Smart Energy LLC. Previous positions held include Director of Corporate Development at JSC Smart Holding, Deputy CEO 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 an MSc in Mathematics from Kiev State University, a MSc in Statistics from Michigan State University and a MBA from Wayne State University.

CORPORATE GOVERNANCE STATEMENT

Companies on the AIM Market of the London Stock Exchange plc are not required to comply with the UK Corporate Governance Code 2012 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 and five Non-Executive Directors. Three of the Non-Executive Directors are nominees of Energees 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 solely of independent Non-Executive Directors and the Executive Chairman who is considered to be independent for this role, 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), Keith Henry and Adrian Coates.

Audit Committee

The Audit Committee, comprising solely of independent Non-Executive Directors and the Executive Chairman who is considered to be independent for this role, 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 Chief Financial Officer (who is not on the Board of Directors) and a representative of the Auditors.

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

During the year the Audit Committee commissioned an audit tender process, which resulted in the re-appointment of Deloitte LLP as the Company's Auditors.

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 2013 through regular Board meetings.

Code of Conduct

The Group complies with the Bribery Act 2010, and maintains high ethical standards in carrying out its 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 twelfth annual 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 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 financial statements for the year ended 31 December 2013.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2012: $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 24. 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 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 "Articles"), the Companies Act 2006 and related legislation. The Articles 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 subsequently were as follows:

Keith Henry
Adrian Coates
Alastair Graham
Alexey Timofeyev
Alexey Pertin
Sergei Glazunov

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 (2012: $nil).

Post Balance Sheet Events

Details of significant events since the balance sheet date are contained in Note 31.

Substantial Shareholders

At 31 March 2014, 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
Energees Management Limited *	173,128,587	54.00%
CTF Holdings Limited	78,337,879	24.43%
Pope Asset Management	25,658,991	8.00%

* Energees 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 audited 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS"s) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records which 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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 Auditor is 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 Auditor is 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.

Auditors

A resolution to re-appoint Deloitte LLP as Auditor will be proposed at the next annual general meeting.

By Order of the Board

Keith Henry
Director
31 March 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REGAL PETROLEUM PLC

We have audited the financial statements of Regal Petroleum plc for the year ended 31 December 2013 which comprise the Group Income Statement, the Group and Parent Company Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related Notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS"s) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditor

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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 Parent 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. 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.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs at 31 December 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent 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.

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.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made: in the Principal Risks and Uncertainties section of the Strategic Report; and in Note 2 Critical Accounting Estimates and Assumptions to the financial statements.

The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable, and represent material uncertainties, and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Graham Hollis ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
31 March 2014

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2013

	Note	2013 $000	2012 $000
Continuing operations			
Revenue	3	**36,737**	41,103
Cost of sales	4	**(33,664)**	(21,407)
Gross profit		**3,073**	19,696
Administrative expenses	4	**(7,291)**	(9,490)
Other operating expenses: impairment of property, plant and equipment	15	**(159,199)**	—
Operating (loss)/profit		**(163,417)**	10,206
Interest income	8	**861**	1,056
Other finance income	8	**—**	2,485
Finance costs	9	**(633)**	(397)
Other gains and losses	5	**269**	(231)
(Loss)/profit on ordinary activities before taxation	4	**(162,920)**	13,119
Income tax credit/(charge)	10	**35,757**	(78)
(Loss)/profit for the year from continuing operations		**(127,163)**	13,041
Discontinued operations			
Loss for the year from discontinued operations	11	**—**	(1,400)
(Loss)/profit for the year		**(127,163)**	11,641
(Loss)/earnings per ordinary share (cents) from continuing operations			
Basic and diluted	13	**(39.7)c**	4.1c
(Loss)/earnings per ordinary share (cents) from total operations			
Basic and diluted	13	**(39.7)c**	3.6c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 $000	*Restated 2012 $000
Equity — foreign currency translation	**(7,591)**	91
Foreign exchange realised on disposal	**—**	1,168
Net (expense)/income recognised directly in equity	**(7,591)**	1,259
(Loss)/profit for the year	**(127,163)**	11,641
Total comprehensive (loss)/profit for the year	**(134,754)**	12,900

* Prior year is restated as in 2012 the historical exchange differences reclassified on the disposal of the Group's subsidiary Regal Petroleum Romania SRL amounting to $1,168,000 (see Note 11), should have been included in the Consolidated Statement of Comprehensive Income.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 $000	2012 $000
(Loss)/profit for the year	**(174,948)**	13,328
Total comprehensive (loss)/profit for the year	**(174,948)**	13,328

CONSOLIDATED BALANCE SHEET

at 31 December 2013

	Note	2013 $000	2012 $000
Assets			
Non-current assets			
Intangible assets	14	**144**	65
Property, plant and equipment	15	**73,405**	233,508
Trade and other receivables	18	**5,953**	7,014
Inventory	17	**1,115**	2,390
Deferred tax	23	**36,353**	3,169
		116,970	246,146
Current assets			
Inventory	17	**3,872**	7,620
Trade and other receivables	18	**9,553**	17,535
Cash and cash equivalents	19	**25,084**	28,453
		38,509	53,608
Total assets		**155,479**	299,754
Liabilities			
Current liabilities			
Trade and other payables	20	**(3,222)**	(3,044)
Provisions	22	**(262)**	(761)
		(3,484)	(3,805)
Net current assets		**35,025**	49,803
Non-current liabilities			
Provisions	22	**(1,631)**	(6,776)
Deferred tax	23	**—**	(4,055)
		(1,631)	(10,831)
Total liabilities		**(5,115)**	(14,636)
Net assets		**150,364**	285,118
Equity			
Called up share capital	24	**28,115**	28,115
Share premium account		**555,090**	555,090
Other reserves	25	**(1,899)**	5,692
Retained deficit		**(430,942)**	(303,779)
Total equity		**150,364**	285,118

The financial statements of Regal Petroleum plc, company number 4462555, were approved by the Board of Directors and authorised for issue on 31 March 2014. They were signed on its behalf by:

Keith Henry
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

at 31 December 2013

	Share capital $000	Share premium account $000	Merger reserve $000	Capital contributions $000	Restated Foreign exchange reserve* $000	Restated Retained deficit* $000	Total $000
At 1 January 2012	28,115	555,090	(3,204)	7,477	160	(315,420)	272,218
Retained profit for the year	—	—	—	—	—	11,641	11,641
Other comprehensive income	—	—	—	—	1,259	—	1,259
At 31 December 2012	28,115	555,090	(3,204)	7,477	1,419	(303,779)	285,118

* Prior year is restated as in 2012 the historical exchange differences reclassified on the disposal of the Group's subsidiary Regal Petroleum Romania SRL amounting to $1,168,000 (see Note 11), should have been included in the Consolidated Statement of Comprehensive Income.

	Share capital $000	**Share premium account $000**	**Merger reserve $000**	**Capital contributions $000**	**Foreign exchange reserve $000**	**Retained deficit $000**	**Total $000**
At 1 January 2013	**28,115**	**555,090**	**(3,204)**	**7,477**	**1,419**	**(303,779)**	**285,118**
Retained loss for the year	**—**	**—**	**—**	**—**	**—**	**(127,163)**	**(127,163)**
Exchange differences	**—**	**—**	**—**	**—**	**(7,591)**	**—**	**(7,591)**
At 31 December 2013	**28,115**	**555,090**	**(3,204)**	**7,477**	**(6,172)†**	**(430,942)**	**150,364**

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2013

	Note	2013 $000	2012 $000
Operating activities			
Cash from operations	27	**26,490**	33,119
Interest paid		**–**	(7)
Taxation paid		**(1,921)**	(2,042)
Interest received		**861**	1,003
Net cash from operating activities		**25,430**	32,073
Investing activities			
Proceeds from sale of discontinued operations		**–**	764
Purchase tax recovery relating to sale of discontinued operation		**–**	2,522
Purchase of property, plant and equipment		**(18,999)**	(19,274)
Increase in related purchase tax receivable		**(4,765)**	(4,511)
Purchase of intangible assets		**(103)**	(197)
Purchase of materials inventory relating to development and producing asset		**(5,701)**	(3,115)
Proceeds from sale of materials inventory		**706**	664
Equipment rental income		**209**	282
Proceeds from sale of property, plant and equipment		**185**	37
Net cash used in investing activities		**(28,468)**	(22,828)
Net (decrease)/increase in cash and cash equivalents		**(3,038)**	9,245
Cash and cash equivalents at beginning of year		**28,453**	19,705
Effect of foreign exchange rate changes		**(331)**	(497)
Cash and cash equivalents at end of year	19	**25,084**	28,453

COMPANY BALANCE SHEET

at 31 December 2013

	Note	2013 $000	2012 $000
Assets			
Non-current assets			
Intangible assets	14	**–**	5
Property, plant and equipment	15	**15**	45
Investments	16	**17,279**	17,279
Loans to subsidiary undertakings	16	**70,707**	244,756
Deferred tax	23	**7,807**	3,169
		95,808	265,254
Current assets			
Trade and other receivables	18	**257**	2,583
Cash and cash equivalents	19	**16,892**	20,999
		17,149	23,582
Total assets		**112,957**	288,836
Liabilities			
Current liabilities			
Trade and other payables	20	**(238)**	(647)
Provisions	22	**–**	(522)
		(238)	(1,169)
Net current assets		**16,911**	22,413
Total liabilities		**(238)**	(1,169)
Net assets		**112,719**	287,667
Equity			
Called up share capital	24	**28,115**	28,115
Share premium account		**555,090**	555,090
Retained deficit		**(470,486)**	(295,538)
Shareholders' funds		**112,719**	287,667

These financial statements of Regal Petroleum plc, company number 4462555, were approved by the Board of Directors and authorised for issue on 31 March 2014. They were signed on its behalf by:

Keith Henry
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

at 31 December 2013

	Share capital $000	Share premium account $000	Retained deficit $000	Total $000
At 1 January 2012	28,115	555,090	(308,866)	274,339
Retained profit for the year	—	—	13,328	13,328
At 31 December 2012	28,115	555,090	(295,538)	287,667

	Share capital $000	**Share premium account $000**	**Retained deficit $000**	**Total $000**
At 1 January 2013	**28,115**	**555,090**	**(295,538)**	**287,667**
Retained loss for the year	**—**	**—**	**(174,948)***	**(174,948)**
At 31 December 2013	**28,115**	**555,090**	**(470,486)**	**112,719**

* See Note 16, which shows the results for the year were affected by the provision against subsidiary loans.

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2013

	Note	2013 $000	2012 $000
Operating activities			
Cash used in operations	27	**(1,534)**	(3,536)
Interest received		**49**	37
Net cash used in operating activities		**(1,485)**	(3,499)
Investing activities			
Purchase of property, plant and equipment		**(4)**	–
Proceeds from sale of discontinued operation		**–**	764
Purchase tax recovery relating to sale of discontinued operation		**–**	2,522
Investment in Group companies	16	**(2,763)**	(2,837)
Repayment of loans to Group companies	16	**–**	11,274
Net cash (used in)/provided by investing activities		**(2,767)**	11,723
Net (decrease)/increase in cash and cash equivalents		**(4,252)**	8,224
Cash and cash equivalents at beginning of year		**20,999**	12,897
Effect of foreign exchange rate changes		**145**	(122)
Cash and cash equivalents at end of year	19	**16,892**	20,999

NOTES
forming part of the financial statements

1. Accounting Policies
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 registered office is 16 Old Queen Street, London, SW1H 9HP and the Company's 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. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Going Concern

The financial statements have been prepared in accordance with the going concern basis of accounting. 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 section of the Directors' Report.

Basis of Preparation

The Group has prepared its financial statements under IFRSs, as adopted by the European Union. The financial statements are prepared on the historical cost basis except for the valuation of financial assets.

Adoption of New Standards and Interpretations

In the current year, the following new and revised Standards and Interpretations have been adopted. Their application has not had any significant impact on the amounts reported or the disclosures in these financial statements.

- Amendments to IFRS 7 on Financial instruments asset and liability offsetting (effective 1 January 2013) — the Group does not have any offsetting arrangements in place.
- IFRS 11 and amendments, Joint Arrangements — the Group does not have any joint arrangements.
- IAS 28 (as revised in 2011), amendments, Investments in Associates and Joint Ventures – the Group does not have any associates.
- IFRS 13, Fair Value Measurements – the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union:

IFRS 10 (amendments)	Consolidated Financial Statements
IFRS 10 and 12	Consolidated Financial Statements and Disclosures of Interests in Other Entities
IAS 27 (amendments)	Investment Entities
IAS 36 (amendments)	Recoverable Amount Disclosures for Non-Financial Assets
IAS 39 (amendments)	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC Interpretation 21	Levies

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 in future periods.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

No new standards or interpretations were early adopted by the Group during the year.

Basis of Consolidation

The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

1. Accounting Policies continued

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, 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.

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 included herein 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/production 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. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

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 oil and 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.

NOTES
forming part of the financial statements continued

1. Accounting Policies continued

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

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.

Intangible Assets other than Oil and Gas Assets

Intangible assets other than oil and gas assets are stated at cost less accumulated amortisation and any provision for impairment. These assets represent intangible computer software. Amortisation is charged so as to write off the cost, less estimated residual value on a straight-line basis of 20-25% per annum.

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, less estimated residual value, of assets on a straight-line basis over their useful lives as follows:

Fixtures, fittings and equipment	: 20-25% per annum straight line
Motor vehicles	: 20-25% per annum straight line
Plant and machinery	: 20-25% per annum straight line
Freehold buildings	: 4% per annum straight line

Non-Current Assets Held for Sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

Inventories

Inventories typically consist of materials and hydrocarbons, and are stated at the lower of weighted average cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1. Accounting Policies continued

Revenue Recognition

Turnover represents amounts invoiced in respect of sales of oil and gas exclusive of indirect taxes and excise duties and is recognised on delivery of product. 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 accounts 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. 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 equity.

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 at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and are recognised in the Group's foreign exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

With effect from 1 January 2013, the functional currency of two of the Group's Ukrainian subsidiaries has changed from US Dollars to Ukrainian Hryvnia. The change was triggered by the increasing influence of the Ukrainian Hryvnia on the subsidiaries' operations. Whilst historically, the majority of the development costs were influenced by US Dollars and Euro, more recently these costs are predominantly in Ukrainian Hryvnia. In addition, the internal gas price in Ukraine is set by the National Electricity Regulatory Commission, and hence the Group's revenues, have been less influenced by the US Dollar than in previous years.

Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

In addition to the defined contribution pension scheme in the United Kingdom, the Group contributes to a local government pension scheme within Ukraine. The Group has no further payment obligations towards the local government pension scheme once the contributions have been paid.

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.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included on the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see below).

NOTES
forming part of the financial statements continued

1. Accounting Policies continued

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 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 does not currently utilise derivative financial instruments.

Trade Receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Trade Payables

Trade payables are not interest bearing and are stated at their nominal value.

Bank Borrowings and Loan Notes

Interest-bearing bank borrowings and loan notes are recorded at the proceeds received, net of direct transaction costs. Direct transaction costs are accounted for on an amortised cost basis in profit and loss using the effective interest method and are added/deducted to/from the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity Instruments

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

1. Accounting Policies continued

Finance Costs and Debt

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Finance costs of debt are allocated to periods over the term of the related debt at the effective interest rate on the carrying amount. Directly attributable transaction costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to the income statement as finance costs over the term of the debt.

All other borrowing costs are expensed as incurred.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short term highly liquid investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2. 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 defines as the higher of fair value less cost to sell 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. This requires judgement in the following areas:

(i) *Sales price* — As outlined in the Finance Review and Principal Risks and Uncertainties sections of the Strategic Report, the Ukraine gas price was significantly lower from 1 January 2014. However, it has been announced by the Ukrainian authorities that the gas price will be increased with effect from 1 April 2014. Nevertheless there continues to be a level of uncertainty in forecasting the Ukraine gas price due to the current political and economic climate in Ukraine. The estimate used in the calculation uses the gas price realised in the first quarter of 2014.

(ii) *Production levels* — Management's estimate is based on a third party reserves report which relies on a combination of technical and operational data and independent reservoir interpretations.

(iii) *Discount rate* — Management applies a pre-tax discount rate which reflects both the time value of money and its assessment of the risk associated with development and producing oil and gas assets in Ukraine. Due to the recent events in Ukraine, there is an increased level of risk associated with operating in Ukraine, and consequently a higher discount rate has been applied.

(iv) *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 2013, has resulted in an impairment loss of $159 million. Further details of this assessment, including the sensitivity to the above assumptions are set out in Note 15.

NOTES

forming part of the financial statements continued

2. Critical Accounting Estimates and Assumptions continued

(b) Decommissioning

The Group has decommissioning obligations in respect of its Ukraine 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.

During 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, compared to previous years where the same cost was assumed for each well.

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)(iv) above, management believes that the current licences, which are due to expire in July 2024, will be extended until June 2036.

(c) Depreciation of Development and Production Assets

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

(d) Timing of recovery of purchase tax receivable

The Group has significant receivables from the State Budget of Ukraine relating to reimbursement of purchase tax arising on purchases of goods and services from external service and product providers. The Group recognises recoverable purchase tax only to the extent that it is probable that the purchase tax payable arising on the sales of gas and condensate production will be sufficient to offset the purchase tax due from the State within a reasonable period. Estimating the recoverability, net present value and classification (current asset versus non-current asset) of purchase tax receivable requires management to make an estimate of the timing of future revenues in order to calculate the amount and timing of the purchase tax payable available for offset. See Note 18 for further details.

(e) Recoverability of materials inventory

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

A full review of the Group's materials inventory was undertaken following the revision to the field development plan, which reduced the number and phasing of new wells in the fields from 27 to 10. The reduced drilling activity has meant that the Group has a reduced short term requirement for drilling materials. The reduction in future utilisation of this inventory, coupled with unsuccessful attempts during the year to sell unwanted items, has led to the write down of the materials inventory balance, as outlined in Note 17.

(f) Recognition of deferred tax asset

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

2. Critical Accounting Estimates and Assumptions continued

A deferred tax asset of $7.8 million has been recognised in respect of the brought forward losses in the Company. Management believes that these can be offset against forecast future profits, which are derived from intra-group loan interest which is taxable in the UK. The forecast is limited to five years, beyond which management do not consider they can reliably forecast the Group funding structure and hence no deferred tax asset has been recognised in respect of losses of approximately $57 million, not anticipated to be utilised in this five year period.

In addition, a deferred tax asset of $28.5 million has also been recognised on the tax effect of the difference between the carrying value of the Group's oil and gas development and production asset, 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 the data from the cash flow model, and therefore sensitive to the same assumptions outlined in (a) above.

Further details of the deferred tax assets recognised can be found in Note 23.

(g) Functional currency

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

With effect from 1 January 2013, the functional currency of two of the Group's Ukrainian subsidiaries has changed from US Dollars to Ukrainian Hryvnia. The change was triggered by the increasing influence of the Ukrainian Hryvnia on the subsidiaries' operations, compared to previous years. Whilst historically, the majority of the development costs were influenced by US Dollars and Euros, more recently these costs have been predominantly in Ukrainian Hryvnia. In addition, the internal gas price in Ukraine set by the National Electricity Regulatory Commission, and hence the Group's revenues, have been less influenced by the US Dollar than in previous years.

3. 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. 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 2013 $000	United Kingdom 2013 $000	Total 2013 $000
Turnover			
Gas sales	**28,034**	**–**	**28,034**
Condensate sales	**8,664**	**–**	**8,664**
Liquefied Petroleum Gas sales	**39**		**39**
Total sales	**36,737**	**–**	**36,737**
Segment result	**14,559**	**(1,232)**	**13,327**
Depreciation and amortisation			**(17,545)**
Impairment loss			**(159,199)**
Operating loss			**(163,417)**
Segment assets	**129,863**	**25,616**	**155,479**
Capital additions*	**24,000**	**4**	**24,004**

NOTES

forming part of the financial statements continued

3. Segmental Information continued

There are no inter-segment sales within the Group and all products are sold in the geographical region in which they are produced. Gas sales to the Group's largest customer amounted to $25,980,000 (2012: two largest customers amounting to $10,833,000 and $4,711,000). Total revenue generated from operating and interest revenue is $37,598,000 (2012: $42,159,000).

	Ukraine 2012 $000	United Kingdom 2012 $000	Total continuing operations 2012 $000	Total discontinued operations† 2012 $000	Total 2012 $000
Turnover					
Gas sales	30,893	—	30,893	213	31,106
Condensate sales	10,210	—	10,210	—	10,210
Total sales	41,103	—	41,103	213	41,316
Segment result	25,240	(3,790)	21,450	(176)	21,274
Depreciation and amortisation			(11,244)	—	(11,244)
Operating profit			10,206	(176)	10,030
Segment assets	272,878	26,876	299,754	—	299,754
Capital additions*	19,433	—	19,433	—	19,433

* Comprises additions to intangible assets (Note 14) and property plant and equipment (Note 15).

† Discontinued operations all relate to operations in Romania, which were sold in 2012 (see Note 11).

4. (Loss)/Profit on Ordinary Activities before Taxation

	2013 $000	2012 $000
(Loss)/profit on ordinary activities before taxation is stated after charging		
Included within cost of sales		
Depreciation of development and producing asset (see Note 15)	**17,312**	11,014
Production based taxes	**7,167**	6,129
Cost of inventories recognised as an expense	**908**	777
Write downs of inventories recognised as an expense (see Note 17)	**3,045**	671
Staff costs (see Note 7)	**2,369**	1,060
Included within administrative expenses		
Auditor's remuneration (see below)	**401**	490
Depreciation of other assets (see Note 15)	**214**	174
Amortisation of intangible assets (see Note 14)	**19**	56
Staff costs (see Note 7)	**4,247**	5,024
Other operating expenses		
Impairment of property, plant and equipment (see Note 15)	**159,199**	—

4. (Loss)/Profit on Ordinary Activities before Taxation continued

	2013 $000	2012 $000
Audit of the Company	**132**	208*
Audit of Company's subsidiaries	**49**	40
Total audit	**181**	248
Audit related assurances services — interim review	**56**	66
Total assurance services	**237**	314
Tax compliance services	**28**	25
Tax advisory services	**54**	27
Corporate finance services	**82**	124
Total non-audit services	**164**	176
Total audit and other services	**401**	490

* Includes $32,000 for the audit of the 2012 accounts, charged in 2013.

All amounts shown as auditor's remuneration were payable to Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited.

5. Other Net Gains/(Losses)

	2013 $000	2012 $000
Losses on disposal of inventory, and properly plant and equipment	**(30)**	(38)
Foreign exchange gains/(losses)	**60**	(718)
Other income	**239**	525
	269	(231)

Foreign exchange gains and losses arise due to the multicurrency nature of the Group's trading activities. The Group holds currencies to match the expected underlying currencies of anticipated capital and operational expenditure. Other income mostly comprises equipment rental income.

6. Remuneration of Directors

	2013 $000	2012 $000
Directors' emoluments	**906**	1,046

The emoluments of the individual Directors were as follows:

	Basic salary and fees 2013 $000	Bonus 2013 $000	Total emoluments 2013 $000	Total emoluments 2012 $000
Keith Henry	**391**	**—**	**391**	499
Alexey Timofeyev	**235**	**—**	**235**	297
Adrian Coates	**70**	**—**	**70**	63
Alastair Graham	**70**	**—**	**70**	63
Alexey Pertin	**70**	**—**	**70**	63
Sergei Glazunov	**70**	**—**	**70**	39
Denis Rudev	**—**	**—**	**—**	22
	906	**—**	**906**	1,046

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 during the financial year, and there were no outstanding options to Directors.

NOTES
forming part of the financial statements continued

7. Staff Numbers and Costs

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

	Number of employees	
Group	**2013**	2012
Management/operational	**102**	105
Administrative support	**53**	57
	155	162

The aggregate staff costs of these employees were as follows:

	2013 $000	2012 $000
Wages and salaries	**5,416**	4,943
Social security costs	**191**	253
Pension costs	**1,009**	888
	6,616	6,084

Total staff costs in 2013 of $6,616,000 (2012: $6,084,000), comprise $2,369,000 recorded within cost of sales, and $4,247,000 recorded in administrative expenses (2012: $1,060,000 and $5,024,000 respectively). The reduction in staff costs recorded in administrative expenses is as a result of these expenses ($523,000) being reallocated to cost of sales, which management believes more accurately reflects the nature of these costs.

8. Finance Income

	2013 $000	2012 $000
Interest income	**861**	1,056
Unwinding of discount on long term receivables (see Note 18)	**—**	2,485
	861	3,541

9. Finance Costs

	2013 $000	2012 $000
Interest on obligations under finance leases	**5**	7
Discounting on long term receivables (see Note 18)	**108**	—
Unwinding of discount on decommissioning provision (see Note 22)	**520**	390
	633	397

10. Taxation

a) Analysis of (credit)/charge in period:

	Continuing operations		**Discontinued operations**		**Total**	
	2013 $000	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Current tax						
Overseas – current year	**1,358**	1,660	**–**	10	**1,358**	1,670
Overseas – prior year	**124**	—	**–**	—	**124**	—
Deferred tax (see Note 23)						
UK — current year	**(36,965)**	(395)	**–**	—	**(36,965)**	(395)
UK — prior year	**(274)**	(1,187)	**–**	—	**(274)**	(1,187)
	(35,757)	78	**–**	10	**(35,757)**	88

b) Factors affecting tax charge for the year:

The charge for the year from continued operations can be reconciled to the (loss)/profit as per the Income Statement as follows:

	2013 $000	2012 $000
(Loss)/profit before tax from continuing operations	**(162,920)**	13,119
Tax (credit)/charge at UK tax rate of 23.25% (2012: 24.50%)	**(37,879)**	3,214
Tax effects of:		
Lower foreign corporate tax rates in Ukraine (19%)	**(689)**	(185)
Disallowed expenses and non-taxable income	**3,249**	4,504
Recognition of deferred tax assets on historical losses	**(4,638)**	(3,169)
Recognition of deferred tax on decommissioning	**(332)**	—
Utilisation of brought forward losses, where no deferred tax asset was previously recognised	**–**	(2,809)
Adjustment for reduction in UK corporate tax rate	**4,682**	(290)
Prior year adjustments	**(150)**	(1,187)
Tax (credit)/charge for the year	**(35,757)**	78

11. Discontinued Operations

In July 2012, the Company completed the sale of its wholly owned Subsidiary Regal Petroleum Romania SRL, which held a 50% non-operated interest in the Suceava concession in Romania. The results of these discontinued operations are shown below:

	2013 $000	2012 $000
Revenue	**–**	213
Expenses	**–**	(136)
Profit/(loss) before tax	**–**	77
Attributable tax expense	**–**	(10)
Other losses*	**–**	(1,467)
Net loss attributable to discontinued operation	**–**	(1,400)

* Includes, *inter alia*, $1,168,000 exchange differences historically recognised in other comprehensive income.

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12. (Loss)/Profit 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 $174,948,000 for the year ended 31 December 2013 (2012: profit of $13,328,000).

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 (2012: 320,637,836) ordinary shares, being the weighted average number of shares in issue for the year. The impact of potentially dilutive instruments is either insignificant or, for the years for which there was a loss, anti-dilutive.

14. Intangible Assets

Group	**2013 Computer Software $000**	2012 Computer Software $000
Cost		
At beginning of year	**438**	401
Additions	**101**	37
Disposals	**(142)**	—
Exchange differences	**(5)**	—
At end of year	**392**	438
Amortisation		
At beginning of year	**373**	317
Charge for year	**19**	56
Disposals	**(142)**	—
Exchange differences	**(2)**	—
At end of year	**248**	373
Net book value at end of year	**144**	65

Company	**2013 Computer Software $000**	2012 Computer Software $000
Cost		
At beginning of year	**279**	279
Disposals	**(142)**	—
At end of year	**137**	279
Amortisation		
At beginning of year	**274**	238
Charge for year	**5**	36
Disposals	**(142)**	—
At end of year	**137**	274
Net book value at end of year	**—**	5

15. Property, Plant and Equipment

Group	2013 Development and Production assets Ukraine $000	2013 Other fixed assets* $000	2013 Total $000	2012 Development and Production assets Ukraine $000	2012 Other fixed assets* $000	2012 Total $000
Cost						
At beginning of year	**261,173**	**1,133**	**262,306**	241,969	1,025	242,994
Additions	**23,451**	**452**	**23,903**	19,204	192	19,396
Disposals	**(505)**	**(285)**	**(790)**	—	(84)	(84)
Exchange differences	**(7,938)**	**(28)**	**(7,966)**	—	—	—
At end of year	**276,181**	**1,272**	**277,453**	261,173	1,133	262,306
Depreciation and impairment						
At beginning of year	**27,949**	**849**	**28,798**	16,935	759	17,694
Charge for year	**17,312**	**214**	**17,526**	11,014	174	11,188
Impairment loss	**159,199**	**—**	**159,199**	—	—	—
Disposals	**(126)**	**(242)**	**(368)**	—	(84)	(84)
Exchange differences	**(1,089)**	**(18)**	**(1,107)**	—	—	—
At end of year	**203,245**	**803**	**204,048**	27,949	849	28,798
Net book value at end of year	**72,936**	**469**	**73,405**	233,224	284	233,508

* Other fixed assets include fixtures, fittings and equipment, motor vehicles and plant and machinery.

In accordance with the Group's accounting policies, oil and gas development and producing assets are tested for an impairment loss at each balance sheet date. In assessing whether an impairment loss has occurred, the carrying amount of the asset is compared to its recoverable amount, which IAS 36 defines as the higher of fair value less cost to sell 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.

Due to mixed drilling results, the Group is undertaking geophysical studies, and has slowed down its field development programme on the Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields in Ukraine. The revision to the field development programme has reduced the number and the phasing of new wells in the fields from 27 to 10. An updated reserves report as of 31 December 2013, prepared by ERC Equipoise Limited in London, based on this revised field development programme, revealed a revised estimate of the Group's 2P reserves of 11.7MMboe, compared to their previous estimate of 31.6MMboe at 31 December 2012. Further details of the updated reserves report are set out in the Operations Review section of the Strategic Report.

This resulted in the recognition of an impairment loss of $159,199,000 (2012: $nil), to match the carrying value of the asset to its recoverable value, based on the revised estimate of value in use. The revised reserves estimate is the basis of the increased development and production asset depreciation charge for the year. It is impracticable to calculate the impact of the revised reserves estimate on the depreciation charge in future periods.

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15. 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 2(a):

(i) Commodity prices – The model assumes gas prices of \$365/Mm^3 (UAH3,020/Mm^3), which was the gas price realised by the Group in the first quarter of 2014. A \$10 decrease in the gas price would result in a further reduction of \$3,735,000 in the carrying value of the asset, whilst a \$10 increase in the gas price would result in an increase of \$3,736,000.

(ii) Discount rate – The Group has estimated the discounted cash flows using a pre-tax discount rate of 17% (2012: 15%). This discount rate is derived from the management assessment of the relevant business risks associated with the MEX-GOL and SV fields. A 1% increase in the discount rate would result in a further reduction of \$3,944,000 in the carrying value, whilst a 1% reduction in the discount rate would result in an increase of \$4,285,000 in the carrying value.

(iii) Production levels – Production levels are based on 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 report and its estimated production, is based on the Group's current development programme, which includes the drilling of ten new wells.

(iv) 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 updated 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 \$9,339,000 in the carrying value.

Company	**2013 Other fixed assets* $000**	2012 Other fixed assets* $000
Cost		
At beginning of year	**173**	173
Additions	**4**	—
Disposals	**(19)**	—
At end of year	**158**	173
Depreciation		
At beginning of year	**128**	88
Charge for year	**34**	40
On disposals	**(19)**	—
At end of year	**143**	128
Net book value at end of year	**15**	45

* Other fixed assets include fixtures, fittings and equipment, motor vehicles and plant and machinery.

16. Fixed Asset Investments

Company	Shares in subsidiary undertakings $000	Loans to subsidiary undertakings $000	Total $000
Cost			
At 1 January 2012	17,279	240,257	257,536
Additions	—	16,610	16,610
Repayments	—	(11,274)	(11,274)
Provision against subsidiary loans	—	(837)	(837)
At 31 December 2012	17,279	244,756	262,035
Cost			
At 1 January 2013	**17,279**	**244,756**	**262,035**
Additions	**—**	**18,015**	**18,015**
Provision against subsidiary loans	**—**	**(192,064)**	**(192,064)**
At 31 December 2013	**17,279**	**70,707**	**87,986**

In accordance with the Company's accounting policies loans to subsidiaries have been reviewed to assess recoverability. As a result of the impairment recognised in the carrying value of the Group's assets in Ukraine (see Note 15), a provision of $192,064,000 was recorded against the carrying value of loans between the Company and its subsidiaries.

Subsidiary undertakings

At 31 December 2013, 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 Ukraine Limited	Ukraine	Ukraine	Dormant	100%
Regal Petroleum (Jersey) Limited	Jersey	United Kingdom	Holding company	100%
Regal Group Services Limited	United Kingdom	United Kingdom	Service Company	100%
Regal Egypt Limited	United Kingdom	Not applicable	Dormant	100%

The Parent Company, Regal Petroleum plc, holds direct interests of 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 and Regal Petroleum Ukraine Limited are controlled through their 100% ownership by Regal Petroleum (Jersey) Limited. Regal Petroleum Corporation (Ukraine) Limited is controlled by its 100% ownership by Regal Petroleum (Jersey) Limited and Regal Group Services Limited, and Refin Limited is controlled by 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 2013.

Regal Egypt Limited was dissolved in January 2014.

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17. Inventories

Non-current	Group 2013 $000	Group 2012 $000
Materials	**1,115**	2,390

Current	Group 2013 $000	Group 2012 $000
Materials	**3,729**	7,467
Condensate stock	**143**	153
	3,872	7,620

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

The majority of the Group's materials inventory is held at written down value, due to historic impairment charges, and the write down following the review of the materials inventory referred to above. The cumulative total write down recorded on the balance above was $4,809,000 (2012: $3,523,000).

The 2013 review of the Group's materials inventory resulted in a write down of $3,045,000, which has been recorded within cost of sales in the income statement (2012: $671,000). During 2013 certain items of material inventory were sold resulting in a $313,000 (2012: $104,000) reversal of a prior year impairment.

Non-current inventory includes material which will not be used in the drilling of the next development well.

18. Trade and Other Receivables

	Group		Company	
Non-current	2013 $000	2012 $000	2013 $000	2012 $000
Purchase tax receivable	**5,953**	7,014	**–**	–
	5,953	7,014	**–**	–

	Group		Company	
Current	2013 $000	2012 $000	2013 $000	2012 $000
Trade receivables	**1**	597	**–**	–
Prepayments and accrued income	**610**	3,952	**118**	329
Corporation tax receivable	**768**	374	**–**	–
Purchase tax receivable	**8,090**	10,538	**83**	180
Other receivables	**84**	2,074	**56**	2,074
	9,553	17,535	**257**	2,583

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

18. Trade and Other Receivables continued

Current purchase tax receivable in respect of the Group includes $7,308,000 (2012: $9,699,000) relating to capital expenditure in Ukraine which is expected to be recovered via an offset against purchase tax payable on future sales in that country. There is an additional $5,953,000 (2012: $7,014,000) which is 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 Note 2(a), it is not expected to be recoverable within one year. The Directors are satisfied that all such amounts are fully recoverable. The balance is shown at net present value, using a discount rate based on an appropriate long term Ukraine Government bond. The revision to the Group's field development programme has slowed the phasing and number of new wells to be drilled in the field, and consequently it will take longer for the purchase tax balances to be recovered from future sales. This resulted in a corresponding finance charge of $108,000 (2012: income of $2,485,000 for unwinding of the discount).

19. Cash and Cash Equivalents

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Cash at bank and on hand	**9,939**	2,506	**7,820**	61
Short-term deposits	**15,145**	25,947	**9,072**	20,938
	25,084	28,453	**16,892**	20,999

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and six months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The Group has immediate access to all cash deposits, with no significant penalty.

20. Trade and Other Payables

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Trade payables	**545**	443	**70**	94
Taxation and social security	**90**	216	**–**	62
Accruals and deferred income	**2,587**	2,385	**168**	491
	3,222	3,044	**238**	647

Management consider that the carrying amount of trade payables approximates to their fair value.

21. Obligations Under Finance Leases

	Group	
	2013 $000	2012 $000
Amounts payable under finance leases:		
Within one year	**–**	11
In the second to fifth years inclusive	**–**	–
	–	11
Less future finance, service and insurance charges	**–**	(3)
Present value of lease obligations	**–**	8
Amount due for settlement within 12 months (shown under current liabilities)	**–**	8
Amount due for settlement after 12 months	**–**	–

The 2012 finance leases relate to motor vehicles in Ukraine. The average lease term was three years and the average effective borrowing rate was 12.94%. The lease term of these motor vehicles ended during 2013.

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22. Provisions for Liabilities and Charges

Group	Provision for decommissioning $000	Other* $000	Total $000
At beginning of year	6,776	761	7,537
Amounts provided/(utilised)	180	(499)	(319)
Unwinding of discount (see Note 9)	520	—	520
Change in estimate	(5,633)	—	(5,633)
Exchange differences	(212)	—	(212)
At end of year	**1,631**	**262**	**1,893**

Company	Other $000	Total $000
At beginning of year	522	522
Amounts utilised	(522)	(522)
At end of year	—	—

* Other items at 31 December 2013 relate to provisions for employees' annual leave.

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Current	**262**	761	**–**	522
Non-current	**1,631**	6,776	**–**	—
	1,893	7,537	**–**	522

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 site restoration at the end of the production life. This year's detailed assessment of the gross decommissioning cost was undertaken on a well-by-well basis using local data on day rates and equipment costs, compared to previous years where the same cost was assumed for each well. The change in estimate during 2013 reflects a combination of this revision in the estimated costs and the discount rate applied. These costs are expected to be incurred by 2036 (2012: by 2029), although if the costs were to be incurred at the current expiry of the licences in 2024, the provision for decommissioning at 31 December 2013 would be $2,789,000.

23. Deferred Tax

Company	2013 $000	2012 $000
Deferred tax recognised on tax losses		
At beginning of year	**3,169**	—
Credited to income statement — current year	**4,638**	3,169
At end of year	**7,807**	3,169

Group	2013 $000	2012 $000
Deferred tax recognised relating to development and production asset		
At beginning of year	**(4,055)**	(2,468)
Credited/(charged) to income statement — current year	**32,327**	(2,774)
Credited to income statement — prior year	**274**	1,187
At end of year	**28,546**	(4,055)

At 31 December 2013 the Group recognised a deferred tax asset of $7,807,000 in relation to UK tax losses carried forward. There was a further $57 million (31 December 2012: $94 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 2013 to the extent that it is probable that there will be sufficient future taxable profits.

The deferred tax asset relating to the Group's development and producing asset at 31 December 2013 was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and producing asset in Ukraine, and its tax base. This is deemed recoverable on the projected future profits generated by the Group's operations in Ukraine. The forecast profits are based on the current field development plan, and are determined using data from the same cash flow model, which was used to determine the carrying value of the Group's development and production asset in Ukraine, as outlined in Note 15. Based on these projections, the deferred tax asset recognised will be recovered by 2022. However, should future field development not result in additional production, only $3 million of the $29 million deferred tax recognised would be recoverable based on forecast profits available from the Group's existing wells.

Factors affecting future tax charge

During 2013 the main rate of corporation tax in Ukraine was 19%. On 1 January 2014, the rate was reduced to 18%, with further planned reductions to 17% in 2015, and 16% during 2016 being the rate substantially enacted on the balance sheet date.

In March 2013, the UK Government announced reductions in the main rate of UK corporation tax to 21% in 2014, and 20% in 2015. This is not expected to have a material effect on the Group's tax balances.

24. Called up Share Capital

	2013		2012	
	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.

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25. 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.

26. Operating Lease Arrangements

The Group as Lessee

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Minimum lease payments under operating leases recognised as an expense for the year	**427**	399	**301**	274

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

	Land and buildings	
Group and Company	**2013 $000**	2012 $000
Amounts payable due:		
— Within one year	**350**	338
— In the second to fifth years inclusive	**–**	–
	350	338

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

The Group as Lessor

There was no property rental income recognised as income from subleasing during the year (2012: $nil).

At the balance sheet date, the Group had contracts with tenants for the following future minimum sublease payments:

	Land and buildings	
Group and Company	**2013 $000**	2012 $000
Amounts receivable due:		
— Within one year	**–**	107
— In the second to fifth years inclusive	**–**	–
	–	107

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

Group	2013 $000	2012 $000
Operating (loss)/profit from continuing operations	**(163,417)**	10,206
Operating loss from discontinued operations	**—**	(176)
Depreciation, amortisation and impairment charges	**176,744**	11,244
Write down of inventory (see Note17)	**3,045**	671
Reversal of write down of inventory	**(313)**	(104)
Movement in provisions	**(499)**	21
Decrease in operating stock	**164**	(79)
Decrease in debtors	**10,461**	10,786
Increase in creditors	**305**	550
Cash from operations	**26,490**	33,119

Company	2013 $000	2012 $000
Operating loss	**(195,032)**	(4,520)
Depreciation and amortisation	**39**	76
Movement in provisions (including against subsidiary loans)	**191,542**	751
Decrease in debtors	**2,326**	148
(Decrease)/increase in creditors	**(409)**	9
Cash used in operations	**(1,534)**	(3,536)

28. Financial Instruments

Capital Risk Management

The Group manages its capital to ensure that it is able to continue as a going concern whilst maximising the return to stakeholders.

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, and Ukraine 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 costs, which approximates their fair value comprise of the following:

Financial Assets

Group	2013 $000	2012 $000
Cash and cash equivalents	**25,084**	28,453
Trade and other receivables	**85**	2,671
	25,169	31,124

NOTES

forming part of the financial statements continued

28. Financial Instruments continued

Company	2013 $000	2012 $000
Cash and cash equivalents	**16,892**	20,999
Trade and other receivables	**56**	2,074
	16,948	23,073

Financial Liabilities

Group	2013 $000	2012 $000
Trade and other payables	**545**	443
Accruals	**720**	1,554
	1,265	1,997

Company	2013 $000	2012 $000
Trade and other payables	**70**	94
Accruals	**168**	296
	238	390

Currency Risk

The functional currency of the Group's entities are in US Dollars and Ukraine 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. As outlined in the Finance Review section of the Strategic Report, with effect from 1 January 2013, the functional currency of two of the Group's Ukrainian subsidiaries has changed from US Dollars to Ukrainian Hryvnia, resulting in no currency exposure to the Ukraine Hryvnia in 2013.

As a result of the recent political and economic upheaval in Ukraine, there has been a significant devaluation of the Ukrainian Hryvnia against the US Dollar which is likely to affect the carrying value of the Group's assets in the future. Since 1 January 2014, the Ukrainian Hryvnia has devalued against the US Dollar by approximately 25%.

Currency	2013 $000	2012 $000
Canadian Dollars	**3**	5
British Pounds	**295**	267
Euros	**1,783**	1,830
United States Dollars	**43**	—
Ukraine Hryvnia	**—**	7,115
	2,124	9,217

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to the currency of Ukraine (Hryvnia), the currency of United Kingdom (Sterling) and the currency of the European Union (Euro).

The following table details the Group's sensitivity to a 20% increase and decrease in the US Dollar against the stated currency. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive number below indicates a decrease in loss/increase in profit and other equity where the US Dollar weakens 20% against the relevant currency. For a 20% strengthening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the loss/profit and other equity, and the balances below are shown negative. The Group holds currencies to match the currencies of future capital and operational expenditure.

28. Financial Instruments continued

	Hryvnia		Sterling		Euro	
	2013 $000	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Profit/(loss)						
— 20% strengthening of USD	**(24,328)**	(1,436)	**594**	(68)	**(356)**	(97)
— 20% weakening of USD	**24,328**	1,436	**(594)**	68	**356**	97
Other equity						
— 20% strengthening of USD	**(1,211)**	(1,436)	**594**	(68)	**(356)**	(97)
— 20% weakening of USD	**1,211**	1,436	**(594)**	68	**356**	97

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 management section below.

Interest Rate Sensitivity Analysis

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

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

- loss for the year ended 31 December 2013 would decrease by $40,000 in the event of 0.5% higher interest rates and increase by $40,000 in the event of 0.5% lower interest rates (2012: increase with higher rate by $127,000, and decrease with lower rate by $76,000). 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 (2012: 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 Ukraine operations.

Details of the Group's cash management are explained in Note 19.

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

Credit Risk

Credit risk principally arises in respect of the Group's cash balance. In the UK, where the majority ($16.9 million) of the overall cash is held, the Group only deposits cash surpluses with major banks of high quality credit standing. The remaining balance of $8.2 million was held in Ukraine. As a result of the political turmoil in Ukraine, as outlined in the Strategic Report, Standard & Poor's downgraded Ukraine's sovereign credit rating in February 2014 to "CCC with a negative outlook". There is no credit rating information available for the specific bank in Ukraine where the Group currently holds its cash and cash equivalents.

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

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28. Financial Instruments continued

Interest Rate Risk Profile of Financial Assets

The Group had the following cash and cash equivalent balances which are included in financial assets as at 31 December 2013 with an exposure to interest rate risk:

Currency	Total 2013 $000	Floating rate financial assets 2013 $000	Fixed rate financial assets 2013 $000	Total 2012 $000	Floating rate financial assets 2012 $000	Fixed rate financial assets 2012 $000
Canadian Dollars	**3**	**3**	**–**	5	5	–
Euros	**1,783**	**1,783**	**–**	483	483	–
British Pounds	**477**	**477**	**–**	339	339	–
Ukraine Hryvnia	**7,888**	**7,888**	**–**	7,184	7,184	–
US Dollars	**14,933**	**14,933**	**–**	20,442	20,442	–
	25,084	**25,084**	**–**	28,453	28,453	–

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

Interest Rate Risk Profile of Financial Liabilities

The Group had no interest bearing financial liabilities at year end (2012: $nil).

Maturity of Financial Liabilities

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

Group	2013 $000	2012 $000
In one year or less	**1,265**	1,997
Within two to five years	**–**	–
In more than five years	**–**	–
	1,265	1,997

Company	2013 $000	2012 $000
In one year or less	**238**	390
Within two to five years	**–**	–
In more than five years	**–**	–
	238	390

Borrowing Facilities

The Group did not have any borrowing facilities available to it at the year end (2012: nil).

Fair Value of Financial Assets and Liabilities

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

29. Capital Commitments

Amounts contracted in relation to the Group's 2013 investment programme in the Mekhediviska-Golotvshinska and Svyrydivske gas and condensate fields in Ukraine, but not provided for in the financial statements at 31 December 2013 were $2,153,000 (2012: $14,579,000).

30. Related Party Disclosures

Key management personnel of the Group are considered to comprise only the Directors. Details of Directors' remuneration are disclosed in Note 6.

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

	2013 $000	2012 $000
Purchase of goods	**760**	—
Sale of goods	**1,873**	—
Services received	**103**	—
Services provided	**125**	140
Amounts owing to related parties at balance sheet date	**19**	—
Amounts owed by related parties at balance sheet date	**4**	—

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

The Group has the following transactions and balances with related party banks, which are subsidiaries of the ultimate Parent Company:

	2013 $000	2012 $000
Interest income	**812**	966
Bank charges	**17**	16
Cash held at end of year	**7,915**	7,186

Cash held with related party banks, is held in Ukraine on similar terms to the remainder of the Group's cash balances (see Note 19). As a result of the political turmoil in Ukraine, as outlined in the Strategic Report, Standard & Poor's downgraded Ukraine's sovereign credit rating in February to "CCC with a negative outlook".

Regal Petroleum plc is 54% owned by Energees Management Limited. Energees Management Limited is 100% owned by Pelidona Services Limited, which is 100% owned by Lovitia Investments Limited, which is 100% owned by Mr V Novinskiy.

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

31. Post Balance Sheet Events

As announced on 25 March 2014, the Company engaged independent petroleum consultants, ERC Equipoise Limited, to prepare an updated assessment of the remaining Reserves and Contingent Resources attributable to the Group's MEX-GOL and SV fields. Further details are included in the Operations Review section of the Strategic Report.

As a result of the recent political and economic upheaval in Ukraine, there has been a significant devaluation of the Ukrainian Hryvnia against the US Dollar which is likely to affect the carrying value of the Group's assets in the future. Since 1 January 2014, the Ukrainian Hryvnia has devalued against the US Dollar by approximately 25%.

From 1 January 2014, the Group's average realised gas price in Ukraine was $339/Mm^3 (UAH3,051/Mm^3). The Group's realised gas price is close to the maximum internal gas price set by the National Electricity Regulatory Commission of Ukraine ("NERC"). It has been announced by NERC that, with effect from 1 April 2014, the internal gas price will increase to $363/Mm^3 (UAH4,020/Mm^3 using the exchange rate at 31 March 2014 of UAH11.09/$1.00) for the second quarter of 2014. Further details are set out in the Finance Review section of the Strategic Report.

NOTES

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GLOSSARY

AAPG	American Association of Petroleum Geologists
bbl	barrel
boe	barrels of oil equivalent
Bscf	thousands of millions of standard cubic feet
boepd	barrels of oil equivalent per day
GIIP	gas initially in place
HSES	health, safety, environment and security
km	kilometres
km^2	square kilometres
LPG	liquefied petroleum gas
m^3	cubic metre
m^3/d	cubic metres per day
Mm^3	thousand cubic metres
Mtonnes	thousand tonnes
MMbbl	million barrels
MMboe	million barrels of oil equivalent
%	per cent
scf	standard cubic feet measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
$	United States Dollar
c	United States Cent
UAH	Ukrainian Hryvnia
WPC	World Petroleum Council

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