Regal Petroleum plc

Annual Report and Accounts 2012

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

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Average daily production over the year to 31 December 2012 of 201,002 m^3/d of gas and 45 m^3/d of condensate (1,539 boepd in total)

Two new wells, SV-53 and MEX-105, were spudded in February 2012 and April 2012 respectively. SV-53 is currently subject to further testing and monitoring and production testing for MEX-105 is planned for June 2013. Another new well, SV-59 was spudded in February 2013

Sale of Romanian subsidiary completed in July 2012

An independent report commissioned to assess the Group's reserves and resources as at 31 December 2012 resulting in a material reduction in Proved (1P) and Proved + Probable (2P) categories of remaining reserves

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Profit for year from continuing operations of $13.0 million (2011: $3.3 million loss)

Realised 2012 average gas and condensate price of $420/Mm³ and $99/bbl respectively

Realised average gas and condensate price for first quarter 2013 of $420/Mm³ and $95/bbl respectively

Cash and cash equivalents held at 31 December 2012 increased to $28.5 million (2011: $19.7 million)

Outlook

Continued development of Ukrainian asset through new wells, workovers and compression installation

Facilities upgrades to gas processing facility to improve quality of gas produced and recovery of LPG

Chairman's Statement

I am pleased to report that 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.

The Group operated profitably during 2012. This has been attributable to ongoing production in Ukraine, together with the continued benefit of favourable gas prices, the effects of which are reflected in these financial results.

The Group's profit from continuing operations for the period was $13.0 million (2011: $3.3 million loss). Revenue from continuing operations, derived from the sale of the Group's Ukrainian gas and condensate production, was $41.1 million (2011: $19.1 million). Cash and cash equivalents held at 31 December 2012 of $28.5 million (31 December 2011: $19.7 million) principally reflects the positive cash generated from operations less capital investment in the assets.

In July 2012, we completed the sale of our Romanian subsidiary, Regal Petroleum Romania SRL, and as a result our operational activities are now focused entirely on the MEX-GOL and SV fields. During 2012, we undertook a capital investment programme at these fields, involving the drilling of two new wells, undertaking three workovers, commencing the upgrade of the gas processing plant and the installation of compression.

We commenced the drilling of the SV-53 and MEX-105 wells during the first half of 2012. In February 2013 another new well, SV-59, was spudded, and later this year one well workover is planned and one further well is under consideration. In addition, our 2013 capital investment programme includes the second phase of the upgrade of the gas processing plant, upgrade work to provide for LPG recovery, upgrade of methanol facilities and further work on the utilisation of compression equipment.

I am pleased to be able to report we continued to operate safely during the year, with no Lost Time Incidents or Restricted Work Cases.

On 15 April 2013 the Group announced the results of an independently prepared report which provided an updated assessment of the remaining Reserves and Contingent Resources attributable to the Company's MEX-GOL and SV fields, as at 31 December 2012. In summary, the Proved (1P) reserves reduced from 40.9 MMboe to 7.7 MMboe and the Proved and Probable (2P) reserves reduced from 151.3 MMboe to 31.6 MMboe. A detailed analysis is set out in the Review of Operations.

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.

Board Changes

Following the partial acquisition of Regal by Energees, and in accordance with the Relationship Agreement announced on 3 March 2011, Energees Investments Limited and JSC Smart Holding UA are entitled to nominate three representatives to the Regal Board. On 20 February 2012, Denis Rudev resigned from the Board and Sergei Glazunov was appointed, joining Alexey Pertin and Alexey Timofeyev as Energees' representatives.

Outlook

Our focus during 2013 will be to drill the SV-59 well, hook-up the MEX-105 well, finalise the assessment of the SV-53 well and undertake one workover, with the drilling of one further well under consideration. Successful completion of these activities, together with continuing analysis of our geological and geophysical data, will ultimately help enable us to improve our daily production, as well as provide a better understanding of the MEX-GOL and SV reservoirs and their performance.

The upgrades to our gas treatment facility will improve the efficiency of our gas processing and production, improve the quality of the gas produced and enable us to recover and sell LPG. Based on our current production, and the resultant revenue we receive for our gas and condensate sales, we anticipate that our planned 2013 development programme will be funded from existing cash resources and operational revenues.

Subject to positive results from our new wells, we plan to increase the number of wells drilled on the MEX-GOL and SV fields to more fully develop the reservoir.

In conclusion, on behalf of the Board, I would like to thank our staff for the continued dedication and support they have shown.

Keith Henry
Executive Chairman

Review of Operations

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

Regal 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. Regal reports safety and environmental performance in accordance with industry practice and guidelines.

Ukraine

Asset Overview

Regal Petroleum Corporation Limited (a wholly owned subsidiary in the Regal group of companies) 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 km², approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field.

The fields are located, geologically, towards the middle of the Dnieper-Donets sedimentary basin which extends across most of north-east Ukraine. The vast majority of Ukrainian gas and condensate production lies within 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 to 31 December 2012 was 201,002 m³/d of gas and 45 m³/d of condensate, which equates to a combined total oil equivalent of 1,539 boepd.

The Group's average production over the period 1 January 2013 to 23 April 2013 was 203,911 m³/d of gas and 45 m³/d of condensate, which equates to a combined total oil equivalent of 1,553 boepd.

Operations

Two new wells, SV-53 and MEX-105, were spudded in February 2012 and April 2012 respectively, and another new well, SV-59 was spudded in February 2013. The objective of all three wells is the B-Sands. The new wells have been 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 mid-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. Testing and monitoring continues, and the well is currently being assessed as a potential candidate for hydraulic fracturing.

Well MEX-105 was drilled to a depth of 5,228 metres. Drilling was terminated 22 metres short of its original target depth as all targeted B-Sands formations had been encountered. The well is currently being hooked up to the gas processing facility and production testing is planned to commence in June 2013.

Well SV-59 has a target depth of 5,470 metres, with drilling operations scheduled to be completed in December 2013 and, subject to successful testing, production hook-up by the end of the first quarter of 2014. At 23 April 2013, the intermediate casing has been installed and cemented at 2,314 metres, allowing drilling ahead to proceed.

Workovers on three existing wells were undertaken during 2012 with a view to maintaining and improving production. The workover of the SV-66 well involved the installation of a velocity string, which was successfully completed and the well was brought back on production. Workover operations were also undertaken on the MEX-3 and GOL-1 wells, which were designed to eliminate the ingress of water. Unfortunately, these operations proved unsuccessful and as a result, it has not been possible to bring these wells back on production. Further interventions are being considered at these wells.

The upgrade of methanol equipment at two existing wells is progressing, with equipment currently being installed. In addition, installation of equipment for the upgrade of the Group's gas treatment facility has commenced. This upgrade is the second phase of the work and is designed to enhance the facility's overall efficiency and incorporate compression equipment. It is anticipated that this will provide financial benefits as well as HSES improvements.

Review of Operations

continued

Additional upgrade work, to provide for LPG recovery at the gas processing facility, will enable us to reduce hydrocarbon losses and improve the quality of gas produced, and add to our revenue from the sale of the LPG.

Reserves Report

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 2012 (the "ERCE Report"). The ERCE Report, announced on 15 April 2013, is consistent with Regal's field development plans, which comprise the drilling of a further 27 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 2012 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	37.1 Bscf	146.5 Bscf	230.7 Bscf
Condensate	1.5 MMbbl	7.2 MMbbl	14.2 MMbbl
Total	7.7 MMboe	31.6 MMboe	52.6 MMboe

The ERCE Report estimated the Contingent Resources in the Visean B-Sands reservoirs of the MEX-GOL and SV fields as follows:

	Contingent Resources (1C)	Contingent Resources (2C)	Contingent Resources (3C)
Gas	174.7 Bscf	330.2 Bscf	648.0 Bscf
Condensate	7.5 MMbbl	17.2 MMbbl	40.8 MMbbl
Total	36.6 MMboe	72.2 MMboe	148.8 MMboe

The ERCE Report was commissioned to provide an update on the Group's reserves and resources since the previous reserves estimation undertaken by Ryder Scott in 2010 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 demonstrates discovered GIIP in the B-Sands reservoirs of 5816 Bscf but, compared with the previous assessment by Ryder Scott, there has been a material reduction in the Proved (1P) and Proved + Probable (2P) categories of remaining Reserves from the previous Ryder Scott estimates which were 40.9 MMboe and 151.3 MMboe respectively. These reductions reflect lower expected recovery factors, production since 2010 of approximately 1.6 MMboe and the transfer of a significant portion of previously booked 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 of these Contingent Resources into 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.

Romania

On 30 May 2012, the Company entered into a conditional sale and purchase agreement with Zeta Petroleum plc ("Zeta") for the sale of the Company's wholly owned subsidiary, Regal Petroleum Romania SRL, which holds a 50% interest in the Suceava concession in Romania. Completion of this transaction occurred on 31 July 2012.

The consideration payable under the sale agreement was $650,000, subject to certain adjustments principally relating to the apportionment between Regal and Zeta of joint venture balances relating to the Suceava concession. Following these adjustments, the net amount paid to Regal on completion was approximately $915,000.

Finance Review

The Group's profit from continuing operations for the period was $13.0 million (2011: $3.3 million loss).

Revenue from continuing operations, derived from the sale of the Group's Ukrainian gas and condensate production, was $41.1 million (2011: $19.1 million). No revenue in Ukraine was recorded during the first half of 2011 due to the suspension of production on the MEX-GOL and SV fields which was lifted in July 2011.

During 2012, the average realised gas and condensate prices were $420/Mm^3 and $99/bbl respectively. There continues to be speculation regarding the renegotiation of the gas supply agreement between Russia and Ukraine and its potential effects on the Ukrainian gas price. No decision has been reached on any adjustment to this agreement and therefore the Company has continued to realise an average gas price of $420/Mm^3 in the first quarter of 2013. It is recognised that this level of realisation may decrease in 2013 due to the negotiations outlined above and the Company has taken this possibility into consideration in its internal projections and budgets.

Cost of sales of $21.4 million (2011: $10.1 million) for the 2012 year are $11.3 million higher than in the comparative period, principally reflecting royalty and depreciation charges which were not present in the first half of 2011 due to the suspension of production. From 1 January 2013, due to legislative changes in Ukraine, the royalty and subsoil tax regime relating to hydrocarbon production was replaced by a single subsoil tax. The overall effect of these changes has meant that production tax charges will increase for the Group. This will to some extent be offset by the decrease in corporate income tax rates from 21% to 19% for 2013, decreasing further to 16% from 2014.

Administrative expenses of $9.5 million are significantly lower than the $16.9 million incurred in 2011. This is mainly attributable to corporate transaction costs of $4.3 million included in the comparative period, which were incurred in respect of the competitive takeover process for the acquisition of the Company during the first half of 2011.

Other finance income for the year of $2.5 million (2011: $1.1 million) primarily represents the unwinding of the discount on long-term purchase tax balances recoverable from the Ukrainian Government.

The tax charge for the year of $0.1 million (2011: $3.5 million credit) is primarily comprised of a current tax expense of $1.7 million (2011: $0.4 million) representing taxes incurred in the Group's Ukrainian companies and a deferred tax credit of $1.6 million (2011: $3.9 million).

Loss from discontinued operations is attributable to the Company's wholly-owned Romanian subsidiary, Regal Petroleum Romania SRL, the sale of which completed in July 2012. The loss principally comprises exchange differences historically recognised in Other Comprehensive Income.

Capital expenditure in Ukraine for 2012 was $19.4 million compared to the $1.0 million invested in Ukraine during 2011, when development activity was limited due to the suspension of production and operational activities until July 2011.

Cash and cash equivalents held at 31 December 2012 of $28.5 million (31 December 2011: $19.7 million) principally reflects the positive cash generated from operations during the year.

The Group's cash balance at 23 April 2013 was $24.8 million. The movement from 31 December 2012 reflects operational cash generated since that date less capital investment in the assets.

Cash from operations has funded the capital investment during the 2012 year, and the Group's current cash position and positive operating cash flow are the sources from which the Group expects the 2013 capital investment programme will be funded.

Operating Environment, Principal Risks and Uncertainties

The Company 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

Emerging markets are subject to greater risks than those which are more developed including, in some cases, significant legal, economic and political risks. Such economies may also be subject to rapid change and the Company may need to adapt and alter itself, as needed, relatively quickly.

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 Company in a well-placed position, as experienced in 2010 and the first half of 2011, there are significant risks to carrying out business in the country. It is hoped the involvement of Energees, as a major shareholder with extensive experience in Ukraine, will help mitigate such risks in the future.

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. Furthermore, the optimisation of all of the Company's assets is dependent on maintaining constructive relationships between all of our business stakeholders.

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 Company 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.

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 Company 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 Company targets the appraisal and production of these hydrocarbons.

Currency risk

The Group's main activities are (i) investment into the development of the Group's Ukrainian gas and condensate assets; (ii) the production and sale of gas and condensate; 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 2013 investment programme will be incurred in Hryvnia, thus revenue and costs are matched. As with all currencies, the value of the Hryvnia is subject to foreign exchange fluctuations. Currently the Hryvnia does not enjoy the range of benefits 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.

Financial Markets and Global 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 experiencing continued difficulties during 2012. If these pressures continue, worsen or recur, the Group may be exposed to increased counterparty risk as a result of business failures in the countries in which it operates and will continue to be exposed if counterparties fail or are unable to meet their obligations to the Group. The precise nature of all the risks and uncertainties the Group faces as a result of these risks cannot be predicted and many of these are outside of the Group's control.

Oil and gas price risk

The Group derives its revenue principally from the sale of its Ukrainian gas and condensate production. These revenues are subject to oil price volatility and political influence. A prolonged period of low oil (and hence gas and condensate) 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 and condensate prices may not only decrease the Group's revenues per unit, but may also reduce the amount of gas and condensate which the Group can produce economically.

Although set in Hryvnia, Ukrainian gas prices are largely dictated by Russian, US Dollar-based, import prices due to the dependency of Ukraine on imported gas. The Russian and Ukrainian Governments continue to negotiate future gas import prices and there is a risk that these may be reduced. However, the outcome of these negotiations and its full impact on the price that the Group is able to achieve are as yet unknown.

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 oil (and hence gas and condensate) prices than short term oil price volatility. However, short term volatility does affect liquidity risk, as, in the early stage of the project, income from production revenues are outweighed 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 and condensate 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 from dry holes, but from 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.

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 need is expected to be derived from operational cash generated from production, including from wells yet to be drilled, there is a risk that in the longer term insufficient operational cash is generated, or that additional funding, should the need arise, cannot be secured.

Risks relating to 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 is exposed to production and hydrocarbon price risk, as detailed in the paragraphs above. In view of this the Group prepares monthly cash flow forecasts which take into account all 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 taken into account the risks to revenue, and considering the relatively fixed-price nature of the drilling programme and committed expenditure in Ukraine, the Directors continue to believe the Going Concern basis of preparation is appropriate.

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 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, Vice President of OAO Sidanco in Russia, leader of BP's Southern North Sea gas production business, Vice President 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, an MBA from the University of Strathclyde and an 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 ten 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'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 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 an 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's majority shareholder, Energees Management Limited. Mr Timofeyev is also a Director of the Company's wholly owned subsidiary Regal Petroleum Corporation Limited, and is responsible for the management of all of Regal's activities in Ukraine. 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. He is currently Chief Executive Officer of Smart Energy LLC. 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's majority shareholder, Energees Management Limited. He is currently the Chief Financial Officer of Smart Energy LLC. Previous positions held include Director of Corporate Development at JSC Smart, 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 Alternative Investment Market of the London Stock Exchange 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. 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.

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 2012 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 Group.

The eleventh annual meeting of the Company will provide an opportunity for the Directors to present to shareholders a report on current operations and developments and enable 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 2012.

Principal Activities

The principal activities of the Group are oil and gas exploration, development and production. The Group has its head office in London and has oil and gas interests in Ukraine. During 2012, the Group disposed of its interests in Romania (see Note 12). The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 17 to the financial statements.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2011: $nil).

Policy and Practice on Payment of Creditors

The Group's and Company's policy on payment of creditors is to settle all amounts with its creditors on a timely basis, taking into account the credit period given by each supplier.

The Group's and Company's average number of days purchases included within trade creditors at the year end was 30 for the Group and 30 for the Company (2011: 26 for Group and 26 for the Company).

Business Review

The Company is required by the Companies Act 2006 to include a review of the business and likely future developments. This information is contained in the Chairman's Statement, Review of Operations and the Finance Review.

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 25. 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 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.

Going Concern

The Company and Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's Statement. The financial position of the Company and Group, their cash flows and liquidity position are described in the Finance Review. In addition, Note 29 to the financial statements includes the Company and Group's objectives and strategies for managing its capital, details of its financial instruments and its exposures to currency, interest rate and liquidity risk.

Cash flow forecasts are prepared monthly, which take into consideration the various risks associated with the Group. Further details of these risks can be found in the Operating Environment, Principle Risks and Uncertainties section of the Annual Report. The Board's review of the accounts, budgets and forward plans, and the latest operational results, lead the Directors to believe that the Group has sufficient resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis of accounting.

Post Balance Sheet Events

As announced on 15 April 2013, the Company reported an update of its hydrocarbon reserves and contingent resources for its gas and condensate fields in Ukraine. Further details are described in Note 32 to the financial statements.

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 (Appointed: 20 February 2012)
Denis Rudev (Resigned: 20 February 2012)

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 (2011: nil).

Substantial Shareholders

At 24 April 2013, 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%
Curzon Alternative Investments Limited – CIS Natural Resources Fund	91,868,182	28.65%
Pope Asset Management	25,658,991	8.00%

* Energees Management Limited (see Note 5) is 100% owned by Pelidona Services Limited, which is 100% owned by Lovitia Investments Limited, which is 100% owned by Mr V Novinskiy.

Directors' Report
continued

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU") 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 that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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; and
- the Chairman's Statement, Review of Operations and the Finance Review 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.

Political and Charitable Contributions

During the year the Group made charitable donations of $26,000 (2011: $nil) and no political contributions (2011: $nil).

Statement of Disclosure to Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are not informed; and
- the Director has taken all steps required to make himself aware of any relevant audit information and to establish that the Company's Auditors are informed 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 reappoint Deloitte LLP as Auditors will be proposed at the next Annual General Meeting.

By order of the Board

Keith Henry
Director
24 April 2013

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 2012 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 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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 Auditors

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. 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 as at 31 December 2012 and of the Group's profit 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 Auditors
London, United Kingdom
24 April 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Notes	2012 $000	2011 $000
Continuing operations			
Revenue	3	**41,103**	19,069
Cost of sales	4	**(21,407)**	(10,125)
Gross profit		**19,696**	8,944
Share-based charge	25	**–**	(780)
Other administrative expenses	4	**(9,490)**	(16,099)
Total administrative expenses		**(9,490)**	(16,879)
Operating profit/(loss)		**10,206**	(7,935)
Interest income	9	**1,056**	253
Other finance income	9	**2,485**	1,085
Finance costs	10	**(397)**	(282)
Other (losses)/gains	6	**(231)**	114
Profit/(loss) on ordinary activities before taxation	4	**13,119**	(6,765)
Income tax (charge)/credit	11	**(78)**	3,460
Profit/(loss) for the year from continuing operations		**13,041**	(3,305)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	12	**(1,400)**	9,713
Profit for the year		**11,641**	6,408
Earnings/(loss) per ordinary share (cents) from continuing operations			
Basic and diluted	14	**4.1c**	(1.0)c
Earnings per ordinary share (cents) from total operations			
Basic and diluted	14	**3.6c**	2.0c

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	2012 $000	2011 $000
Equity — foreign currency translation	**91**	(8)
Net income/(expense) recognised directly in equity	**91**	(8)
Profit for the year	**11,641**	6,408
Total comprehensive profit for the year	**11,732**	6,400

Company Statement of Comprehensive Income

for the year ended 31 December 2012

	2012 $000	2011 $000
Profit for the year	**13,328**	2,904
Total comprehensive profit for the year	**13,328**	2,904

Consolidated Balance Sheet

at 31 December 2012

	Notes	2012 $000	2011 $000
Assets			
Non-current assets			
Intangible assets	15	**65**	84
Property, plant and equipment	16	**233,508**	225,300
Trade and other receivables	19	**7,014**	12,207
Inventory	18	**2,390**	–
Deferred tax	24	**3,169**	–
		246,146	237,591
Current assets			
Inventories	18	**7,620**	9,139
Assets held for sale	12	**–**	786
Trade and other receivables	19	**17,535**	16,734
Cash and cash equivalents	20	**28,453**	19,694
		53,608	46,353
Total assets		**299,754**	283,944
Liabilities			
Current liabilities			
Trade and other payables	21	**(3,044)**	(2,370)
Current tax liabilities		**–**	(41)
Provisions	23	**(761)**	(454)
Liabilities directly associated with assets classified as held for sale	12	**–**	(12)
		(3,805)	(2,877)
Net current assets		**49,803**	43,476
Non-current liabilities			
Trade and other payables	22	**–**	(9)
Provisions	23	**(6,776)**	(6,372)
Deferred tax	24	**(4,055)**	(2,468)
		(10,831)	(8,849)
Total liabilities		**(14,636)**	(11,726)
Net assets		**285,118**	272,218
Equity			
Called up share capital	25	**28,115**	28,115
Share premium account		**555,090**	555,090
Other reserves	26	**5,692**	4,433
Retained deficit		**(303,779)**	(315,420)
Total equity		**285,118**	272,218

The financial statements of Regal Petroleum plc, company number 4462555, were approved by the Board of Directors and authorised for issue on 24 April 2013. They were signed on its behalf by:

Keith Henry
Director

Consolidated Statement of Changes in Equity

at 31 December 2012

	Share capital $000	Share premium account $000	Equity share option reserve $000	Merger reserve $000	Capital contributions $000	Foreign exchange reserve $000	Retained deficit $000	Total $000
At 1 January 2011	27,932	555,090	11,176	(3,204)	7,477	168	(333,784)	264,855
Retained profit for the year	—	—	—	—	—	—	6,408	6,408
Current year IFRS 2 charge	—	—	780	—	—	—	—	780
Exchange differences	—	—	—	—	—	(8)	—	(8)
Transfer for options exercised or expired	183	—	(11,956)*	—	—	—	11,956	183
At 31 December 2011	28,115	555,090	—	(3,204)	7,477	160	(315,420)	272,218

* The partial acquisition of the Company by Energees Management Limited in March 2011 triggered the automatic vesting of share options (see Notes 5 and 25).

	Share capital $000	**Share premium account $000**	**Equity share option reserve $000**	**Merger reserve† $000**	**Capital contributions† $000**	**Foreign exchange reserve† $000**	**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**
Exchange differences	**—**	**—**	**—**	**—**	**—**	**91**	**—**	**91**
Disposal of subsidiary (see Note 12)	**—**	**—**	**—**	**—**	**—**	**1,168**	**—**	**1,168**
At 31 December 2012	**28,115**	**555,090**	**—**	**(3,204)**	**7,477**	**1,419**	**(303,779)**	**285,118**

† See Note 26.

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Notes	2012 $000	2011 $000
Operating activities			
Cash from/(used in) operations	28	**33,119**	(21,365)
Interest paid		**(7)**	(34)
Taxation paid		**(2,042)**	(182)
Interest received		**1,003**	256
Net cash from/(used in) operating activities		**32,073**	(21,325)
Investing activities			
Proceeds from sale of discontinued operations	12	**764**	23,283
Purchase tax recovery/(payment) relating to sale of discontinued operation	12	**2,522**	(3,219)
Purchase of property, plant and equipment		**(19,274)**	(4,136)
Increase in related purchase tax receivable		**(4,511)**	(396)
Purchase of intangible assets		**(197)**	(255)
Purchase of materials inventory		**(3,115)**	(971)
Proceeds from sale of materials inventory		**664**	1,316
Equipment rental income		**282**	111
Proceeds from sale of property, plant and equipment		**37**	5
Net cash (used in)/provided by investing activities		**(22,828)**	15,738
Financing activities			
Proceeds from issue of shares	25	**–**	183
Decrease in other financial assets		**–**	1,547
Net cash from financing activities		**–**	1,730
Net increase/(decrease) in cash and cash equivalents		**9,245**	(3,857)
Cash and cash equivalents at beginning of year		**19,705**	23,265
Effect of foreign exchange rate changes		**(497)**	297
Cash and cash equivalents at end of year	20	**28,453**	19,705*

* Includes cash and cash equivalents classified as held for sale of $11,000 (see Note 12).

Company Balance Sheet

at 31 December 2012

	Notes	2012 $000	2011 $000
Assets			
Non-current assets			
Intangible assets	15	**5**	41
Property, plant and equipment	16	**45**	85
Investments	17	**17,279**	17,279
Loans to subsidiary undertakings	17	**244,756**	240,257
Trade and other receivables	19	**—**	1,049
Deferred tax	24	**3,169**	—
		265,254	258,711
Current assets			
Trade and other receivables	19	**2,583**	3,978
Cash and cash equivalents	20	**20,999**	12,897
		23,582	16,875
Total assets		**288,836**	275,586
Liabilities			
Current liabilities			
Trade and other payables	21	**(647)**	(638)
Provisions	23	**(522)**	(324)
		(1,169)	(962)
Net current assets		**22,413**	15,913
Non-current liabilities			
Provisions	23	**—**	(285)
Total liabilities		**(1,169)**	(1,247)
Net assets		**287,667**	274,339
Equity			
Called up share capital	25	**28,115**	28,115
Share premium account		**555,090**	555,090
Retained deficit		**(295,538)**	(308,866)
Shareholders' funds		**287,667**	274,339

These financial statements were approved by the Board of Directors and authorised for issue on 24 April 2013. They were signed on its behalf by:

Keith Henry
Director

Company Statement of Changes in Equity

at 31 December 2012

	Share capital $000	Share premium account $000	Equity Share option reserve $000	Retained deficit $000	Total $000
At 1 January 2011	27,932	555,090	11,176	(323,726)	270,472
Retained profit for the year	—	—	—	2,904	2,904
Current year IFRS 2 charge	—	—	780	—	780
Transfer for options exercised or expired	183	—	(11,956)*	11,956	183
At 31 December 2011	28,115	555,090	—	(308,866)	274,339

* The partial acquisition of the Company by Energees Management Limited in March 2011 triggered the automatic vesting of share options (see Note 5).

	Share capital $000	**Share premium account $000**	**Equity Share option reserve $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**

Company Cash Flow Statement

for the year ended 31 December 2012

	Notes	2012 $000	2011 $000
Operating activities			
Cash used in operations	28	**(3,536)**	(23,416)
Interest received		**37**	72
Net cash used in operating activities		**(3,499)**	(23,344)
Investing activities			
Purchase of property, plant and equipment		**–**	(15)
Proceeds from sale of discontinued operation	12	**764**	22,651
Purchase tax recovery/(payment) relating to sale of discontinued operation	12	**2,522**	(3,219)
Investment in Group companies		**(2,837)**	(14,304)
Repayment of loans to Group companies	17	**11,274**	6,350
Net cash provided by investing activities		**11,723**	11,463
Financing activities			
Proceeds from issue of shares	25	**–**	183
Decrease in other financial assets		**–**	1,547
Net cash from financing activities		**–**	1,730
Net increase/(decrease) in cash and cash equivalents		**8,224**	(10,151)
Cash and cash equivalents at beginning of year		**12,897**	22,553
Effect of foreign exchange rate changes		**(122)**	495
Cash and cash equivalents at end of year	20	**20,999**	12,897

Notes

forming part of the financial statements

1. Accounting Policies

Regal Petroleum plc is a company listed on the Alternative Investment Market and incorporated in the United Kingdom 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 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 International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board and as adopted by the European Union. The financial statements are prepared on the historical cost basis except for the valuation of financial assets.

New IFRSs and Interpretations

A number of amendments to existing standards and interpretations were applicable from 1 January 2012. The adoption of these amendments did not have a material impact on the Group's financial statements for the year ended 31 December 2012. With respect to new IFRSs and interpretations issued but not yet effective, management have performed an initial assessment of the implications of these and do not believe them to be material to the financial statements.

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.

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.

Joint ventures

The Group's companies have previously participated in joint ventures which involved joint control of assets used in the Group's oil and gas exploration, development and producing activities. The Group accounts for its share of the assets and liabilities of joint ventures, classified in the appropriate balance sheet heading within each company and at Group level upon consolidation. Following the sale of Regal Petroleum Romania SRL during 2012, the Group no longer has any joint venture interests.

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.

1. Accounting Policies continued

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 fixed 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.

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.

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.

Notes continued

forming part of the financial statements

1. Accounting Policies continued

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 depreciation and any provision for impairment. These assets represent intangible computer software. Depreciation 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 (including vehicles under finance leases)	20–25% per annum straight line
Plant and machinery	20–25% 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.

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.

1. Accounting Policies continued

Foreign Currencies

The Group's consolidated accounts and those of the Company are presented in US Dollars. The functional and presentation currencies of some subsidiary companies are in currencies other than US Dollars.

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.

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 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).

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.

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1. Accounting Policies continued

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.

1. Accounting Policies continued

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.

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.

Share-Based Transactions

The Group has applied the requirements of IFRS 2 "Share-based payments". All share-based awards are treated as equity settled as defined by IFRS 2. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. The fair value, adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values of options under the 2004 Share Option Plan were calculated using a binomial option pricing model, whilst the fair values of options under the Long-Term Incentive Plan introduced during 2009 were calculated using the Black-Scholes model, with suitable modifications to allow for employee turnover after vesting and early exercise. The inputs to the models include: the share price at date of grant; exercise price; expected volatility; expected dividends; risk free rate of interest; and patterns of exercise of the plan participants.

Share Options

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Company provides in full for the employer's national insurance liability estimated to arise on the future exercise of share options granted.

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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. Management's estimate of recoverable values is based on a value in use estimate. This requires judgment in the following areas:

i. *Sales price* — There continues to be a level of uncertainty in forecasting the Ukraine gas price. The estimate used in the calculation has taken this uncertainty into consideration, and is lower than the gas price currently being received.
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 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.
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 an extension to the current licences will be granted upon application.

See Note 16 for further details.

(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.

(c) Depreciation of Oil and Gas Assets

Oil and gas assets held in property, plant and equipment are mainly 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 oil in place, recovery factors, future oil prices and also take into consideration the Group's latest development plan for the associated oil and gas asset.

(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 19 for further details.

2. Critical Accounting Estimates and Assumptions continued

(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.

(f) Recognition of deferred tax asset

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

3. Segmental Information

In line with 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 primary 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 share based charges.

Details of the discontinued operations can be found in Note 12.

	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 (incl. sales to third parties)	**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**

* Discontinued operations during 2012 all relate to operations in Romania.

There are no inter-segment sales within the Group and all products are sold in the geographical region in which they are produced. The Group's gas sales from continuing operations were $30,893,000 (2011: $13,961,000). Gas sales to the Group's two largest customers amounted to $10,833,000 and $4,711,000. During 2011 the Group's gas sales from continuing operations were with one single external party. Total revenue generated from operating revenue and interest income is $42,159,000 (2011: $19,322,000).

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3. Segmental Information continued

	Ukraine 2011 $000	United Kingdom 2011 $000	Total continuing operations 2011 $000	Egypt 2011 $000	Romania 2011 $000	Total discontinued operations 2011 $000	Total 2011 $000
Turnover							
Gas sales	13,961	—	13,961	—	473	473	14,434
Condensate sales	5,108	—	5,108	—	—	—	5,108
Total sales (incl. sales to third parties)	19,069	—	19,069	—	473	473	19,542
Impairment loss	—	—	—		(655)	(655)	(655)
Segment result	8,228	(11,098)*	(2,870)	360	(1,752)	(1,392)	(4,262)
Depreciation and amortisation			(4,285)			—	(4,285)
Share-based charge			(780)			—	(780)
Operating loss			(7,935)			(1,392)	(9,327)
Segment assets	262,966	20,192	283,158	—	786	786	283,944
Capital additions	994	15	1,009	7	294	301	1,310

* Including transaction costs of $4.3 million (see Note 5).

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

	Continuing operations 2012 $000	Continuing operations 2011 $000
Profit/(loss) on ordinary activities before taxation is stated after charging		
Included within cost of sales		
Depreciation of development and producing asset (see Note 16)	**11,014**	4,032
Production based taxes	**6,129**	2,621
Cost of inventories recognised as an expense	**777**	538
Write downs of inventories recognised as an expense (see Note 18)	**671**	1,100
Staff costs (see Note 8)	**1,060**	1,225
Included within administrative expenses		
Auditor’s remuneration (see below)	**458**	458
Depreciation of other assets (see Note 16)	**174**	199
Amortisation of intangible assets (see Note 15)	**56**	54
Staff costs (see Note 8)	**5,024**	6,415
Transaction costs (see Note 5)	**—**	4,266

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

	2012 $000	2011 $000
Audit of the Company	**176**	162
Audit of Company's subsidiaries	**40**	42
Total audit	**216**	204
Audit related assurances services — interim review	**66**	56
Total assurance services	**282**	260
Tax compliance services	**25**	25
Tax advisory services	**27**	101
Corporate finance services	**124**	72
Total non-audit services	**176**	198
Total audit and other services	**458**	458

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

The above does not include fees for corporate finance services of $521,000 paid to Deloitte LLP in 2011 relating to transaction costs for a potential acquisition, which were fully reimbursed by the counterparty.

5. Transaction costs

Transaction costs of $4,266,000 included in administrative expenses in 2011 (2012: $nil), principally relate to advisers' fees as a result of the partial acquisition of the Company by Energees Management Limited in March 2011.

6. Other Net Gains and Losses

	2012 $000	2011 $000
Losses on disposal of inventory	**(38)**	(35)
Foreign exchange (losses)/gains	**(718)**	38
Other income	**525**	111
	(231)	114

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.

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7. Remuneration of Directors

	2012 $000	2011 $000
Directors' emoluments	**1,046**	1,456

The emoluments of the individual Directors were as follows:

	Basic salary and fees 2012 $000	Bonus 2012 $000	**Total emoluments 2012 $000**	Total emoluments 2011 $000
Keith Henry	396	103	**499**	501
Robert Wilde	—	—	**—**	369
Harry Verkuil	—	—	**—**	154
Denis Rudev	22	—	**22**	88
Adrian Coates	63	—	**63**	64
Alastair Graham	63	—	**63**	64
Alexey Timofeyev	238	59	**297**	168
Alexey Pertin	63	—	**63**	48
Sergei Glazunov	39	—	**39**	—
	884	162	**1,046**	1,456

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. There were no outstanding options to Directors at 31 December 2012 (2011: $nil).

8. 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 2012	2011
Group		
Management/operational	**105**	119
Administrative support	**57**	30
	162	149

8. Staff Numbers and Costs continued

The aggregate staff costs of these employees were as follows:

	2012 $000	2011 $000
Wages and salaries	**4,943**	5,549
Social security costs	**253**	379
Pension costs	**888**	932
Share option charge (see Note 26)	**—**	780
	6,084	7,640

9. Finance Income

	2012 $000	2011 $000
Interest income	**1,056**	253
Unwinding of discount on long term receivables (see Note 19)	**2,485**	1,085
	3,541	1,338

10. Finance Costs

	2012 $000	2011 $000
Interest on obligations under finance leases	**7**	34
Unwinding of discount on decommissioning provision (see Note 23)	**390**	248
	397	282

11. Taxation

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

	Continuing operations		Discontinued operations		Total	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Current tax						
Overseas — current year	**1,660**	417	**10**	2,045	**1,670**	2,462
Deferred tax asset (see Note 24)						
UK — current year	**(3,169)**	—	**—**	—	**(3,169)**	—
Deferred tax liability (see Note 24)						
UK — current year	**2,774**	856	**—**	—	**2,774**	856
UK — prior year	**(1,187)**	(4,733)	**—**	—	**(1,187)**	(4,733)
	78	(3,460)	**10**	2,045	**88**	(1,415)

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11. Taxation continued

b) Factors affecting tax charge/(credit) for the period:

The charge/(credit) for the period from continued operations, can be reconciled to the profit/(loss) per the income statement as follows:

	2012 $000	2011 $000
Tax reconciliation		
Profit/(loss) before tax from continuing operations	**13,119**	(6,765)
Tax charge/(credit) at UK tax rate of 24.5% (2011: 26.5%)	**3,214**	(1,793)
Tax effects of:		
The application of overseas tax rates	**(185)**	(342)
Expenses not deductible in determining taxable profit	**4,504**	5,400
Recognition of deferred tax on losses arising in previous periods	**(3,169)**	—
Losses utilised	**(2,809)**	(1,814)
Changes in tax rates	**(290)**	(178)
Prior year adjustments	**(1,187)**	(4,733)*
Tax charge/(credit) for the year	**78**	(3,460)

* Primarily as a result of a decision to disclaim capital allowances, and instead utilise Group losses for which no deferred tax asset was previously recognised.

12. Discontinued Operations

Regal Petroleum Romania SRL

On 30 May 2012, the Company entered into a conditional sale and purchase agreement with Zeta Petroleum plc ("Zeta") for the sale of the Company's wholly-owned Romanian subsidiary, Regal Petroleum Romania SRL, which held a 50% non-operated interest in the Suceava concession in Romania.

The consideration under the sale and purchase agreement was $650,000, which was payable in cash on completion. The consideration was subject to certain adjustments to be made on completion of the sale. The adjustments principally related to the apportionment between Regal and Zeta of joint venture balances relating to the Suceava concession. The agreement was subject to certain conditions precedent which, amongst other things, related to the capitalisation of outstanding intra-group debt owed to the Company. The sale was completed on 31 July 2012. Following the adjustments, and other associated costs of the sale, the net amount received by the Company on completion was approximately $764,000.

Barlad concession in Romania

On 29 September 2010, the Company entered into a conditional sale and purchase agreement with Chevron Romania Exploration and Production BV for the sale of Regal's 100% owned Barlad Concession in Romania for a cash consideration of $25.0 million. The sale was completed on 14 February 2011, with sales proceeds received, net of taxes and associated costs, amounting to $22.7 million. Associated recoverable purchase tax payments of $3.2 million were made, and recovered during 2012 (net of subsequent exchange losses of $0.7 million).

12. Discontinued Operations continued

East Ras Budran in Egypt

On 27 January 2011, the Group entered into a conditional sale and purchase agreement with Apache East Ras Budran Corporation LDC in respect of its 25% non-operated interest in the East Ras Budran Concession in Egypt. The sale closed on 7 July 2011 resulting in net receipts to Regal of $640,344.

The results of these discontinued operations are shown below.

	2012 $000	2011 $000
Regal Petroleum Romania SRL*		
Revenue	**213**	473
Expenses	**(136)**	(1,506)†
Profit/(loss) before tax	**77**	(1,033)
Attributable tax expense	**(10)**	(29)
Other losses‡	**(1,467)**	—
Net loss attributable to discontinued operation	**(1,400)**	(1,062)
Barlad (Romania)		
Expenses	**–**	(719)
Profit on disposal of discontinued operation	**–**	13,150
Attributable tax expense	**–**	(2,016)
Net profit attributable to discontinued operation	**–**	10,415
East Ras Budran (Egypt)		
Income	**–**	360
Net profit attributable to discontinued operation	**–**	360

* Excludes results associated with the Barlad concession, which are shown separately.
† Including impairment charge of $655,000.
‡ Comprises exchange differences historically recognised in other comprehensive income.

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12. Discontinued Operations continued

Cash flows for the periods are summarised below:

	2012 $000	2011 $000
Regal Petroleum Romania SRL*		
Operating activities	**(129)**	(349)
Investing activities		
— net proceeds from sale of discontinued operation	**764**	—
— other	**(160)**	(224)
	475	(573)
Barlad (Romania)		
Operating activities	**–**	(719)
Investing activities		
— net proceeds from sale of discontinued operation	**–**	22,651
— purchase tax recovery/(payment) relating to sale of discontinued operation	**2,522**	(3,219)
	2,522	18,713
East Ras Budran (Egypt)		
Operating activities	**–**	(29)
Investing activities		
— net proceeds from sale of discontinued operation	**–**	632
— other	**–**	(7)
	–	596

* Excludes cash flows associated with the Barlad concession, which are shown separately.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2012 $000	Regal Petroleum Romania SRL 2011 $000
Assets classified as held for sale		
Intangible exploration assets	**–**	509
Inventory	**–**	70
Trade and other receivables	**–**	196
Cash and cash equivalents	**–**	11
	–	786

	2012 $000	Regal Petroleum Romania SRL 2011 $000
Liabilities associated with assets classified as held for sale		
Trade and other payables	**–**	12
	–	12

13. 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 profit for the period includes a parent Company profit after tax of $13,328,000 for the year ended 31 December 2012 (2011: $2,904,000).

14. Earnings/(Loss) per Share

The calculation of basic profit or loss per ordinary share has been based on the profit or loss for the period and 320,637,836 (2011: 320,183,644) ordinary shares, being the weighted average number of shares in issue for the period. The impact of potentially dilutive instruments (share options) is either insignificant or, for the periods for which there was a loss, anti-dilutive.

15. Intangible Fixed Assets

	2012	2011			
	Computer	Exploration assets		Computer	
	Software	Romania	Egypt	Software	Total
	$000	$000	$000	$000	$000
Group					
Cost					
At beginning of year	**401**	12,054	5,477	504	18,035
Additions	**37**	294	7	24	325
Income from test production	**–**	(301)	—	—	(301)
Reclassified as asset held for sale (see Note 12)	**–**	(11,681)	—	—	(11,681)
Disposals	**–**	—	(5,484)	(127)	(5,611)
Effect of movement in foreign exchange	**–**	(366)	—	—	(366)
At end of year	**438**	—	—	401	401
Amortisation and impairment					
At beginning of year	**317**	10,928	4,376	384	15,688
Charge for year	**56**	—	—	54	54
Impairment losses	**–**	655	—	—	655
Reclassified as asset held for sale (see Note 12)	**–**	(11,172)	—	—	(11,172)
Disposals	**–**	—	(4,376)	(121)	(4,497)
Effect of movement in foreign exchange	**–**	(411)	—	—	(411)
At end of year	**373**	—	—	317	317
Net book value at 31 December	**65**	—	—	84	84

	2012	2011
	Computer	Computer
	Software	Software
	$000	$000
Company		
Cost		
At beginning of year	**279**	407
Disposals	**–**	(128)
At end of year	**279**	279
Amortisation		
At beginning of year	**238**	316
Charge for year	**36**	44
Disposals	**–**	(122)
At end of year	**274**	238
Net book value at 31 December	**5**	41

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16. Property, Plant and Equipment

	2012			2011		
	Development and Production assets Ukraine $000	**Other fixed assets* $000**	**Total $000**	Development and Production assets Ukraine $000	Other fixed assets* $000	Total $000
Group						
Cost						
At beginning of year	**241,969**	**1,025**	**242,994**	242,141	1,676	243,817
Additions	**19,204**	**192**	**19,396**	932	53	985
Reclassified as asset held for sale (see Note 12)	**—**	**—**	**—**	—	(57)	(57)
Disposals	**—**	**(84)**	**(84)**	(1,104)	(647)	(1,751)
At end of year	**261,173**	**1,133**	**262,306**	241,969	1,025	242,994
Depreciation						
At beginning of year	**16,935**	**759**	**17,694**	12,903	1,239	14,142
Charge for year	**11,014**	**174**	**11,188**	4,032	199	4,231
On disposals	**—**	**(84)**	**(84)**	—	(622)	(622)
Reclassified as asset held for sale (see Note 12)	**—**	**—**	**—**	—	(57)	(57)
At end of year	**27,949**	**849**	**28,798**	16,935	759	17,694
Net book value at 31 December	**233,224**	**284**	**233,508**	225,034	266	225,300

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 the value in use. The Group estimates value in use of its development and producing assets using a discounted cash flow model.

An updated reserves report, prepared by ERC Equipoise Limited, revealed a revised estimate of the Group's 2P reserves on the Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") gas and condensate fields in Ukraine, of 31.6 MMboe, compared to the previous estimate of 151.3 MMboe, calculated by Ryder Scott in 2010. This revised reserves report has not resulted in an impairment loss for 2012, as there continues to be headroom (i.e. the difference between the value in use and the carrying value of the asset).

The calculation of value in use was based on the following assumptions:

i) Commodity prices — The model assumes gas prices of $350/Mm^3$, which is $70 lower than the $420/Mm^3$ currently being received by the Group from its gas sales.
ii) Discount rate — The Group has estimated the discounted cash flows using a pre-tax discount rate of 15%. This discount rate is derived from management's assessment of the relevant business risks associated with the MEX-GOL and SV fields. A 1% increase in the discount rate would not result in an impairment charge but would result in a 34% reduction in headroom, whilst a 1% reduction in the discount rate would result in a 37% increase in headroom.
iii) The current licenses, which are due to expire in July 2024, would be extended until at least the end of December 2029. No application for such an extension has been made at the date of this report, however 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 one. If it is assumed the extension is not granted, this would not result in an impairment charge, but would reduce headroom by 52%.

16. Property, Plant and Equipment continued

	Other fixed assets* 2012 $000	Other fixed assets* 2011 $000
Company		
Cost		
At beginning of year	**173**	758
Additions	**—**	15
Disposals	**—**	(600)
At end of year	**173**	173
Depreciation		
At beginning of year	**88**	613
Charge for year	**40**	54
On disposals	**—**	(579)
At end of year	**128**	88
Net book value at 31 December	**45**	85

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

17. Fixed Asset Investments

	Shares in subsidiary undertakings $000	**Loans to subsidiary undertakings $000**	**Total $000**
Company			
Cost			
At 1 January 2011	17,279	240,352	257,631
Additions	—	24,112	24,112
Repayments	—	(18,747)	(18,747)
Provision against subsidiary loans	—	(5,460)	(5,460)
At 31 December 2011	17,279	240,257	257,536
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**

In accordance with the Company's accounting policies loans to subsidiaries have been reviewed to assess recoverability. As a result, a provision was recorded against the carrying value of loans between the Company and its subsidiaries.

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17. Fixed Asset Investments continued

Subsidiary undertakings

At 31 December 2012, 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 (Jersey) Limited	Jersey	Ukraine	Holding company	100%
Regal Petroleum Corporation Limited	Jersey	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum Ukraine Limited	Ukraine	Ukraine	Service Company	100%
Regal Petroleum Corporation (Ukraine) Limited	Ukraine	Ukraine	Service 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 holds indirect interests of 100% of the share capital of Regal Petroleum Corporation Limited, Regal Petroleum Ukraine Limited and Regal Petroleum Corporation (Ukraine) Limited with all other companies owned directly 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.

During 2012, the Company disposed of its interest in Regal Petroleum Romania SRL (see Note 12).

18. Inventories

	Group 2012 $000	Group 2011 $000
Non-current		
Materials	**2,390**	–

	Group 2012 $000	Group 2011 $000
Current		
Materials	**7,467**	8,990
Condensate stock	**153**	149
	7,620	9,139

The majority of the Group's materials inventory is held at written down value, due to historic impairment charges, as a result of the curtailment of the 2010 drilling programme in Ukraine. The write down recorded on the total inventory balance above, was $3,523,000 for 2012 (2011: $4,665,000).

A review of the inventory at 31 December 2012 resulted in a further write down of materials inventory of $671,000, which has been recorded within cost of sales in the income statement (2011: $1,100,000). During 2012 certain items of material inventory were sold resulting in a $104,000 (2011: $45,000) reversal of a prior year impairment.

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

19. Trade and Other Receivables

	Group		Company	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Non-current				
Purchase tax receivable	**7,014**	11,158	**–**	–
Other receivables	**–**	1,049	**–**	1,049
	7,014	12,207	**–**	1,049

	Group		Company	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Current				
Trade receivables	**597**	2,595	**–**	–
Prepayments and accrued income	**3,952**	3,072	**329**	651
Corporation tax receivable	**374**	34	**–**	–
Purchase tax receivable	**10,538**	10,727	**180**	3,021
Other receivables	**2,074**	306	**2,074**	306
	17,535	16,734	**2,583**	3,978

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

Current purchase tax receivable in respect of the Group includes $9,699,000 (2011: $7,710,000) 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 $7,014,000 (2011: $11,158,000) which is included within non-current trade and other receivables as, based on the Group's future sales projections, 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. This resulted in corresponding finance income during 2012 of $2,485,000 (2011: $1,085,000), for the unwinding of the discount.

Purchase tax receivable by the Company in 2011 of $2,820,000 (2012: $nil) was recorded in relation to the disposal of the Barlad concession in Romania, and net of subsequent foreign exchange losses $2,522,000 was recovered during 2012.

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20. Cash and Cash Equivalents

	Group		Company	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Cash at bank and on hand	**2,506**	2,373	**61**	350
Short-term deposits	**25,947**	17,321	**20,938**	12,547
	28,453	19,694	**20,999**	12,897

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 three months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

21. Trade and Other Payables

	Group		Company	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Trade payables	**443**	267	**94**	133
Taxation and social security	**216**	323	**62**	—
Accruals and deferred income	**2,385**	1,780	**491**	505
	3,044	2,370	**647**	638

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

22. Obligations Under Finance Leases

	Group	
	2012	2011
	$000	$000
Amounts payable under finance leases:		
Within one year	**11**	22
In the second to fifth years inclusive	**—**	12
	11	34
Less future finance, service and insurance charges	**(3)**	(11)
Present value of lease obligations	**8**	23
Amount due for settlement within 12 months (shown under current liabilities)	**8**	14
Amount due for settlement after 12 months	**—**	9

The finance leases relate to motor vehicles in Ukraine. The average lease term is three years. For the year ended 31 December 2012, the average effective borrowing rate was 12.94% (2011: 13.19%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in Ukrainian Hryvnia and translated to US Dollars. The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. At 31 December 2012, the carrying value of these assets was $16,000 (2011: $60,000).

Management consider that the fair value of the Group's lease obligations approximates their carrying amount.

23. Provisions for Liabilities and Charges

	Provision for decommissioning $000	Other* $000	Total $000
Group			
At beginning of year	6,089	737	6,826
Amounts provided	297	24	321
Unwinding of discount (see Note 10)	390	—	390
At end of year	**6,776**	**761**	**7,537**

	Other* $000	Total $000
Company		
At beginning of year	609	609
Amounts utilised	(87)	(87)
At end of year	**522**	**522**

* Other provisions include a number of immaterial items including office dilapidation costs of $291,000 to be paid in 2013 (2011: $278,000).

	Group		Company	
	2012 $000	2011 $000	**2012 $000**	2011 $000
Current	**761**	454	**522**	324
Non-current	**6,776**	6,372	**—**	285
	7,537	6,826	**522**	609

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. These costs are expected to be incurred by 2029.

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forming part of the financial statements

24. Deferred Tax

	Group		Company	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Deferred tax asset				
At beginning of year	**—**	—	**—**	—
Credited to income statement — current year	**3,169**	—	**3,169**	—
At end of year	**3,169**	—	**3,169**	—

	Group		Company	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Deferred tax liability				
At beginning of year	**2,468**	6,345	**—**	—
Charged to income statement - current year	**2,774**	856	**—**	—
Credited to income statement - prior year	**(1,187)**	(4,733)	**—**	—
At end of year	**4,055**	2,468	**—**	—

At 31 December 2012 and in gross terms, there were unrecognised deferred tax assets in respect of estimated UK tax losses carried forward of approximately $94 million (31 December 2011: $119 million), which 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 2012 to the extent that it is probable that there will be sufficient future taxable profits.

The deferred tax liability at 31 December 2012 is recognised due to the tax effect of the temporary differences between the carrying value of the Group's development and producing assets in Ukraine, and their tax base.

Factors affecting future tax charge

In December 2010, the Ukrainian Government adopted the tax code of Ukraine which has replaced all previously existing tax laws and introduced a number of major changes into Ukrainian tax legislation. As part of these changes, the corporate income tax rate was reduced on 1 January 2012 to 21% and then further in 2013 to 19%. On 1 January 2014, the rate will further reduce to 16%.

In July 2012, the UK Government announced that the main rate of corporation tax would reduce to 23% with effect from 1 April 2013. Subsequently, in March 2013, the UK Government announced further 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. The effect of these tax rate reductions on deferred tax balances will be accounted for in the period in which the respective tax rate reduction is substantively or fully enacted. The Group has recognised deferred tax at 23%, which is the rate that was enacted by the balance sheet date.

25. Called up Share Capital

	2012		2011	
	Number	**$000**	Number	$000
Allotted, called up and fully paid				
Opening balance at 1 January	**320,637,836**	**28,115**	318,366,876	27,932
Issued during the year:				
— Exercise of share options	**–**	**–**	2,270,960	183
Closing balance at 31 December	**320,637,836**	**28,115**	320,637,836	28,115

There are no restrictions over ordinary shares issued.

Share Option Schemes

There were no share options granted or outstanding during 2012.

During 2011, the Company operated an LTIP scheme for certain Directors and senior employees of the Group. These LTIP awards were time and performance based, vested over specified periods of time and were in the form of a right to acquire ordinary shares at their nominal value, being a price of 5 pence per ordinary share. The performance conditions were non-market based, being linked to certain pre-defined operational milestones.

As a result of the unconditional offer by Energees Management Limited to shareholders of the Company (see Note 5) all LTIP awards held at this date automatically vested and were exercised during 2011. There are no LTIP awards currently outstanding.

The 2004 Share Option Scheme is still in operation, however there are no options outstanding. During 2010 the scheme applied to past Non-Executive Directors whose remaining options granted under the 2004 Share Option Scheme vested and expired during 2010.

For both schemes, options are normally forfeited if the employee leaves the Group before the options vest.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, all share options during the year.

	2012		2011	
		WAEP		WAEP
	Number	**£**	Number	£
Outstanding at beginning of year	**–**	**–**	3,117,560	0.442
Exercised during the year	**–**	**–**	(2,270,960)	(0.050)
Expired during the year	**–**	**–**	(846,600)	(1.500)
Outstanding at end of year	**–**	**–**	–	–
Exercisable at end of year	**–**	**–**	–	–

The Company recognised a total charge of $780,000 during 2011 in respect of cash and equity settled share-based awards (2012: $nil). An amount of $11,956,000 was also transferred between the equity share option reserve and the retained deficit upon the exercise or lapse or certain awards. All options automatically vested in 2011, and no new share-based awards were issued during 2012.

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26. Other Reserves

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

Equity share option reserve

The balance held in the equity share option reserve relates to the fair value of the share options that have been expensed through the profit and loss account less any amounts that have been transferred to the retained deficit reserve upon exercise or expiry.

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.

27. Operating Lease Arrangements

The Group as lessee

	Group		Company	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Minimum lease payments under operating leases recognised as an expense for the year	**399**	588	**274**	466

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	
	2012	2011
	$000	$000
Group and Company		
Amounts payable due:		
— Within one year	**338**	655
— In the second to fifth years inclusive	**–**	113
	338	768

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

27. Operating Lease Arrangements continued

The Group as lessor

There was no property rental income recognised as income from subleasing during the year (2011: $31,000).

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

	Land and buildings 2012 $000	2011 $000
Group and Company		
Amounts receivable due:		
— Within one year	**107**	410
— In the second to fifth years inclusive	**—**	102
	107	512

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

	2012 $000	2011 $000
Group		
Operating profit/(loss) from continuing operations	**10,206**	(7,935)
Operating loss from discontinued operations	**(176)**	(1,392)
Depreciation, amortisation and impairment charges	**11,244**	4,940
Loss on disposal of intangible assets	**—**	6
Loss on disposal of property, plant and equipment	**—**	21
Write down of inventory (including discontinued operations) (see Note18)	**671**	1,307
Reversal of write down of inventory	**(104)**	—
Movement in provisions	**21**	693
Share option charge	**—**	780
(Increase)/decrease in condensate stock	**(79)**	163
Decrease in debtors	**10,786**	956
Increase/(decrease) in creditors	**550**	(20,904)
Cash from/(used in) operations	**33,119**	(21,365)

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

	2012 $000	2011 $000
Company		
Operating loss	**(4,520)**	(17,269)
Depreciation, amortisation and impairment charges	**76**	98
Loss on disposal of intangible assets	**–**	6
Loss on disposal of property, plant and equipment	**–**	21
Share option charge	**–**	780
Movement in provisions (including against subsidiary loans)	**751**	6,069
Decrease/(increase) in debtors	**148**	(666)
Increase/(decrease) in creditors	**9**	(12,455)
Cash used in operations	**(3,536)**	(23,416)

29. 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.

Currencies held in Hryvnia are held outside the Company. The Group's financial assets and financial liabilities comprise the following:

Financial Assets

	2012 $000	2011 $000
Group		
Cash and cash equivalents	**28,453**	19,694
Trade and other receivables	**2,671**	3,950
	31,124	23,644

	2012 $000	2011 $000
Company		
Cash and cash equivalents	**20,999**	12,897
Trade and other receivables	**2,074**	1,355
	23,073	14,252

29. Financial Instruments continued

Financial Liabilities

	2012 $000	2011 $000
Group		
Trade and other payables	**443**	443
Accruals	**1,554**	1,312
	1,997	1,755

	2012 $000	2011 $000
Company		
Trade and other payables	**94**	153
Accruals	**296**	193
	390	346

Currency Risk

The functional currency of the majority of entities in the Group is US Dollars. 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.

	2012 $000	2011 $000
Currency		
Canadian Dollars	**5**	—
British Pounds	**267**	1,041
Euros	**1,830**	1,441
Ukraine Hryvnia	**7,115**	8,059
	9,217	10,541

Foreign Currency Sensitivity Analysis

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

The following table details the Group's sensitivity to a 10% increase and decrease in the US Dollar against the stated currencies. 10% 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. The sensitivity analysis principally arises on money market deposits held at the balance sheet date. A positive number below indicates an increase in profit and other equity where the US Dollar weakens 10% against the relevant currency. For a 10% strengthening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

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29. Financial Instruments continued

	Hryvnia currency change		Sterling currency change	
	2012 $000	2011 $000	2012 $000	2011 $000
Profit/(loss)				
— 10% strengthening of USD	**(718)**	(648)	**(34)**	(147)
— 10% weakening of USD	**718**	648	**34**	147
Other equity				
— 10% strengthening of USD	**(718)**	(648)	**(34)**	(147)
— 10% weakening of USD	**718**	648	**34**	147

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:

- profit for the year ended 31 December 2012 would increase by $127,000 in the event of 0.5% higher interest rates and decrease by $76,000 in the event of 0.5% lower interest rates (2011: increase with higher rate by $90,000, and decrease with lower rate by $83,000). 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 (2011: 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, the recovery of purchase tax receivable relating to the sale of the Group's Barlad Concession, and proceeds from the sale of Regal Petroleum Romania SRL.

Details of the Group's cash management are explained in Note 20.

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

29. Financial Instruments continued

Credit risk

Credit risk principally arises in respect of the Group's cash balance. In the UK, where the majority ($21.0 million) of the overall cash is held, the Group only deposits cash surpluses with major banks of high quality credit standing.

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

Interest Rate Risk Profile of Financial Assets

The Group had the following cash and cash equivalent balances which are included in financial assets at 31 December 2012 with an exposure to interest rate risk:

	Total 2012 $000	**Floating rate financial assets 2012 $000**	**Fixed rate financial assets 2012 $000**	Total 2011 $000	Floating rate financial assets 2011 $000	Fixed rate financial assets 2011 $000
Currency						
Canadian Dollars	**5**	**5**	**–**	–	–	–
Euros	**483**	**483**	**–**	392	392	–
British Pounds	**339**	**339**	**–**	1,470	1,470	–
Ukraine Hryvnia	**7,184**	**7,184**	**–**	6,480	6,480	–
US Dollars	**20,442**	**20,442**	**–**	11,352	11,352	–
Total	**28,453**	**28,453**	**–**	19,694	19,694	–

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

Interest Rate Risk Profile of Financial Liabilities

The Group had no interest bearing financial liabilities at year end (2011: $nil).

All the Group's creditors falling due within one year are excluded because they are not interest bearing.

Maturity of Financial Liabilities

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

	2012 $000	2011 $000
Group		
In one year or less	**1,997**	1,755
Within two to five years	**–**	–
In more than five years	**–**	–
Total	**1,997**	1,755

	2012 $000	2011 $000
Company		
In one year or less	**390**	346
Within two to five years	**–**	–
In more than five years	**–**	–
Total	**390**	346

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29. Financial Instruments continued

Borrowing Facilities

The Group did not have any borrowing facilities available to it at year end (2011: nil).

Fair Value of Financial Assets and Liabilities

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

30. 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 2012 were $14,579,000 (2011: $16,239,000).

31. Related Party Disclosures

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

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

	Services provided		Purchase of goods	
	2012	2011	**2012**	2011
	$000	$000	**$000**	$000
Subsidiaries of ultimate parent Company	**140**	44	**–**	2

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties	
	2012	2011
	$000	$000
Subsidiaries of ultimate parent Company	**–**	28

The amounts outstanding were unsecured and will be settled in cash.

During the year, the Group also held cash deposits with a related party bank, which was not related during 2011. Interest received totalled $966,000, and bank charges incurred were $16,000. The Group's closing cash balance comprises $7,186,000 held with this bank.

32. Post Balance Sheet Events

As announced on 15 April 2013, the Company engaged independent petroleum consultants, ERC Equipoise Limited, to prepare an updated assessment of the remaining Reserves and Contingent Resources attributable to the Company's MEX-GOL and SV fields. Further details are included in the Review of Operations.

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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
$
United States Dollar
GIIP
gas initially in place
km
kilometres
km^2
square kilometres
LPG
liquefied petroleum gas
m^3/d
cubic metres per day
Mm^3
thousand cubic metres
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
WPC
World Petroleum Council

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