Regal Petroleum plc

Annual Report and Financial Statements
for the year ended 31 December 2017

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

Inside this Report

STRATEGIC REPORT
HIGHLIGHTS

UKRAINE OPERATIONS

Aggregate 2017 year end production of approximately 2,800 boepd, compared with approximately 1,700 boepd at 2016 year end, representing an increase of nearly 65% over the year, largely as a result of the significant contributions of the new MEX-109 well and the successful workover of the SV-2 well

Average production from the MEX-GOL and SV fields over the year to 31 December 2017 was 197,961 m^3/d of gas, 47 m^3/d of condensate and 24 m^3/d of LPG (1,629 boepd in aggregate) (2016: 157,228 m^3/d of gas, 41 m^3/d of condensate and 19 m^3/d of LPG (1,321 boepd in aggregate))

Average gas and condensate production from the VAS field over the year to 31 December 2017 was 86,242 m^3/d of gas and 6.5 m^3/d of condensate (608 boepd in aggregate) (Period from 4 July 2016 to 31 December 2016: 82,624 m^3/d of gas and 6.5 m^3/d of condensate (556 boepd in aggregate))

FINANCE

Profit for the year to 31 December 2017 of $2.3 million (2016: $1.3 million loss)

Revenue for the year to 31 December 2017 of $35.1 million (2016: $25.7 million)

Cash generated from operations during the year of $18.0 million (2016: $10.0 million)

Average realised gas, condensate and LPG prices in Ukraine for the year to 31 December 2017 of $241/$Mm^3$ (UAH6,412/Mm^3), $67/bbl and $56/bbl respectively (2016: $213/$Mm^3$ (UAH5,441/Mm^3) gas, $51/bbl condensate and $43/bbl LPG)

Cash and cash equivalents of $14.2 million and other short-term investments of $16.0 million at 31 December 2017 (31 December 2016: $20.0 million and nil respectively), with cash and cash equivalents at 28 March 2018 of $20.3 million, held as $13.5 million equivalent in Ukrainian Hryvnia and the balance of $6.8 million equivalent predominantly in US Dollars and Pounds Sterling. The Group's other short-term investments at 28 March 2018 were $16.0 million

OUTLOOK

Focus during 2018 at MEX-GOL and SV fields on completion of geophysical studies on existing seismic data and refinement of new geological model, workover of SV-12 well, planning for new well, installation of additional compression equipment, continued investment in gas processing facilities and pipeline network, and upgrading of existing wells

Focus during 2018 at VAS field on acquisition, processing and interpretation of new 3D seismic, drilling of VAS-10 well and continued investment in gas processing facilities, pipeline network and other infrastructure

Funding of 2018 development programme planned to be from existing cash resources and operational cash flow

CHAIRMAN'S STATEMENT

I am pleased to introduce the 2017 Annual Report and Financial Statements. During 2017, the Group has made very promising progress in the development of its MEX-GOL, SV and VAS gas and condensate fields in north-eastern Ukraine, with significant improvements in production rates, leading to a much improved financial performance.

At the Group's MEX-GOL and SV fields, production was reasonably stable during the first half of 2017, but in June 2017, the new MEX-109 well, utilising improved drilling and completion techniques developed as a result of recent studies, was completed successfully and put on production, and in August 2017, following completion of its workover, the SV-2 well was also put on production. Together, these successes have nearly doubled output from the MEX-GOL and SV fields. In addition, the VAS field has continued to produce consistently during the year. With the improved contribution from the new wells on the MEX-GOL and SV fields, aggregate production at the end of 2017 from all fields was approximately 2,800 boepd. This compares with an aggregate production rate of approximately 1,700 boepd at the end of 2016, which represents an increase of nearly 65% over the year.

The fiscal and economic situation in Ukraine continues to improve, with a better economic outlook, GDP growth and improved stability in the Ukrainian Hryvnia exchange rates, although the inflation rate did increase moderately. Nevertheless, there continue to be stresses in the economy and weaknesses in the Ukrainian banking sector.

The Ukrainian Government has implemented a number of reforms in the oil and gas industry in recent years, which include the deregulation of the gas supply market in late 2015, and more recently, reductions in the subsoil tax rates relating to oil and gas production and a proposed simplification of the regulatory procedures applicable to oil and gas exploration and production activities in Ukraine.

The deregulation of the gas supply market, supported by electronic gas trading platforms and improved pricing transparency, has meant that the market gas prices in Ukraine now broadly correlate with the imported gas prices. During 2017, gas prices were reasonably stable, allowing for some seasonal variation, and were higher than in 2016. Furthermore, condensate and LPG prices were also higher in 2017 by comparison with the previous year.

As regards the Group's financial performance in the year ended 31 December 2017, I am pleased to report that the Group made a profit of $2.3 million (2016: $1.3 million loss), mainly as a result of improved revenues from higher production volumes and hydrocarbon prices. Cash generated from operations during the year was higher at $18.0 million (2016: $10.0 million).

Board and Management Changes

During the year, there were significant changes to the management and Board of Directors of the Company. With effect from the start of August 2017, Sergii Glazunov became Chief Executive Officer, having previously been Finance Director, and Yevhen (Gene) Palyenka was appointed Chief Financial Officer. Later in August 2017, Bruce Burrows joined the Board as Non-Executive Director, and Adrian Coates stepped down from the Board at the same time.

I joined the Board as Non-Executive Director in September 2017, and was appointed Non-Executive Chairman in October 2017. At the same time, Phil Frank joined the Board as Non-Executive Director, and Keith Henry and Alastair Graham stepped down from the Board. On behalf of the Board, I would like to thank each of Keith, Alastair and Adrian for their valued contributions during their respective tenures with the Company.

Outlook

While there are still challenges in the business environment in Ukraine, the situation is improving and the Group is continuing to progress the development of its Ukrainian fields. After the operational successes of 2017 and the increased production output during the year, we are looking forward to achieving further successes in the development activities planned for 2018 and delivering a steadily increasing production and revenue stream in the future.

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

Chris Hopkinson
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

Introduction

The Group has made good progress at its Ukrainian fields during 2017, with the increase in development activity at the MEX-GOL and SV fields resulting in the successes of the MEX-109 well, which came on production in June 2017, and the SV-2 well, which came on production in August 2017, providing a significant boost to production rates.

During the year, the Group continued its work on the subsurface of the MEX-GOL and SV fields, utilising the results of P.D.F. Limited's comprehensive re-evaluation study to plan additional development of these fields. This work included detailed reprocessing of the existing 3D seismic data, using the latest processing technology, with the reprocessed data now under interpretation. As well as the drilling of the MEX-109 well and the workover of the SV-2 well, the Group undertook workover operations on the GOL-2 and SV-6 wells during the year to eliminate water ingress into the wells, but these operations were not successful and the Group is currently considering further remedial work on these wells. The Group also installed additional compression equipment, upgraded the gas processing facilities and pipeline network, and undertook remedial work on existing wells.

At the VAS field, planning took place for the acquisition of new 3D seismic over the field and the drilling of the VAS-10 well, both of which activities commenced in early 2018.

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

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

I am pleased to report that during 2017, a total of 448,618 man-hours of staff and contractor time were recorded without a Lost Time Incident occurring. The total number of safe man-hours now stands at over 1,444,850 man-hours without a Lost Time Incident. No environmental incidents were recorded during the year.

Production

Average daily production from the MEX-GOL and SV fields over the year ended 31 December 2017 was 197,961 m^3/d of gas, 47 m^3/d of condensate and 24 m^3/d of LPG (1,629 boepd in aggregate) (2016: 157,228 m^3/d of gas, 41 m^3/d of condensate and 19 m^3/d of LPG (1,321 boepd in aggregate)). Production rates improved significantly following the commencement of production from the MEX-109 well in June 2017 and the SV-2 well in August 2017.

Average daily production from the VAS field for the year ended 31 December 2017 was 86,242 m^3/d of gas and 6.5 m^3/d of condensate (608 boepd in aggregate) (Period from 4 July 2016 to 31 December 2016: 82,624 m^3/d of gas and 6.5 m^3/d of condensate (556 boepd in aggregate)), contributing material volumes to the Group's production output.

The Group's average daily production for the period from 1 January 2018 to 28 March 2018 from the MEX-GOL and SV field was 272,656 m^3/d of gas, 53 m^3/d of condensate and 32 m^3/d of LPG (2,169 boepd in aggregate) and from the VAS field was 86,214 m^3/d of gas and 6.2 m^3/d of condensate (606 boepd in aggregate).

Operations

The improving geopolitical situation in Ukraine, coupled with the stabilisation of the Ukrainian Hryvnia, higher hydrocarbon prices and improvements in the fiscal and economic situation over the last year, meant that the Group was able to increase the development programmes at its Ukrainian fields during 2017.

At the MEX-GOL and SV fields, the Group continued to work with P.D.F. Limited to utilise its re-evaluation study of these fields, which involved analysis of all available geological, geophysical, petroleum engineering and well performance data. The continuing work included detailed reprocessing of existing 3D seismic data, using the latest processing technology, to try to improve the definition in such data. Interpretation of this new dataset is under way, with the intention of utilising it to refine the new geological subsurface model of the fields. This work, undertaken in conjunction with P.D.F. Limited, will enable the Group to refine its strategies for the further development of the fields, including the timing and level of future capital investment required to exploit the hydrocarbon resources.

CHIEF EXECUTIVE OFFICER'S STATEMENT continued

The MEX-109 well, which was spudded in July 2016, targeted the Visean reservoirs ("B-Sands") in the MEX-GOL field. The well was drilled to a depth of 4,873 metres, and completed in the B-20 Visean reservoir. It was brought on production in June 2017. The initial production rates were very encouraging and the well has been producing consistently in excess of 90,000 m^3/d since then.

In early 2017, the Group entered into an agreement with NJSC Ukrnafta, the majority State-owned oil and gas producer, in relation to the SV-2 well, which is a suspended well owned by NJSC Ukrnafta located within the Group's SV licence area. Under the agreement, the Group agreed to undertake a workover of the well, which, if successful, would result in the well being brought back into production. Pursuant to the agreement, the gas and condensate produced from the well is to be sold under an equal net profit-sharing arrangement between the Group and NJSC Ukrnafta. The workover operations were successful and production from the well recommenced in August 2017, providing a further significant boost to production volumes.

Following on from the success of the SV-2 well operations, in November 2017, the Group entered into a similar agreement with NJSC Ukrnafta, in relation to the SV-12 well, which is also a suspended well owned by NJSC Ukrnafta located within the SV licence area. The terms of the new agreement are fundamentally consistent with the agreement relating to the SV-2 well, including the equal net profit-sharing arrangement between the Group and NJSC Ukrnafta. Investigative work has been undertaken to ascertain the condition of the well and preparations for workover operations on the well are under way. It is anticipated that the workover operations will be concluded during the fourth quarter of 2018.

The Group also undertook workover operations on the GOL-2 and SV-6 wells during the year to eliminate water ingress into the wells. Although these operations were successful in preventing the water ingress, the wells did not return to production and are now under observation. The Group is currently considering further remedial work on these wells. Also at the MEX-GOL and SV fields, the Group installed additional compression equipment, upgraded the gas processing facilities and pipeline network, and undertook remedial work on existing wells.

At the VAS field during 2017, planning work took place for the acquisition of new 3D seismic data over the field and the drilling of the VAS-10 well. The acquisition of the 3D seismic is expected to be completed shortly and thereafter the data will be processed and interpreted.

The VAS-10 well was spudded on 13 March 2018, with a planned depth of 3,450 metres. The well is designed to appraise horizons in the Visean formation, and to evaluate the western edge of field, at an offset of approximately 1 km from the nearest currently producing well. The drilling operations are scheduled to be completed in June 2018 and, subject to successful testing, production hook-up is anticipated during the third quarter of 2018.

Outlook

During 2018, the Group will continue the development of the MEX-GOL, SV and VAS fields. At the MEX-GOL and SV fields, the development programme includes revision of the geological model utilising the newly interpreted reprocessed seismic data, concluding the workover of the SV-12 well, planning for a new development well, investigating workover opportunities for other existing wells, installation of additional compression equipment, further upgrading of the gas processing facilities and pipeline network, and remedial work on existing wells, pipelines and other infrastructure.

At the VAS field, the work on processing and interpreting the new 3D seismic data will continue, as will the drilling of the VAS-10 well. In addition, consideration and planning for a further appraisal/development well will be undertaken. It is also intended to undertake further evaluation of the VED area of the licence, which appears highly prospective on the current 2D seismic data and will benefit from the improved imaging of the new 3D seismic data. Work is also planned to upgrade the gas processing facilities, pipeline network and other infrastructure.

It is also intended to commission updated assessments of the remaining reserves and resources at each of the MEX-GOL and SV fields and the VAS field, which will be undertaken by an independent petroleum reserves consultant later in 2018. The extensive re-evaluation of the MEX-GOL and SV fields by P.D.F. Limited, the interpretation work being undertaken on the reprocessed 3D seismic dataset and the ongoing revision of the geological model means that the Group considers that now is an appropriate time to undertake a reassessment of the remaining reserves and resources at the MEX-GOL and SV fields, and this reassessment is planned to be undertaken during the first half of 2018. Similarly, the interpretation of the newly acquired 3D seismic and associated subsurface studies, together with the data collected from the VAS-10 well at the VAS field, means that a reassessment of the remaining reserves and resources at the VAS field will also be appropriate by the end of 2018.

There has also been encouraging new legislation relating to the oil and gas sector in Ukraine, which demonstrates the Ukrainian Government's stated intention to promote and support the domestic oil and gas production industry. These new measures include reductions in the subsoil taxes applicable to the production of hydrocarbons, which became effective for new wells from 1 January 2018 and for condensate production from 1 January 2019. Furthermore, there is newly announced legislation to simplify a number of the regulatory procedures relating to oil and gas exploration and production activities in Ukraine, which has passed through the Ukrainian Parliament and is now awaiting the signature of the President of Ukraine to bring it into law.

These measures, and the general improvement in the business climate in Ukraine, are encouraging and supportive of the independent oil and gas producers in Ukraine.

Finally, I would like to add my thanks to all of our staff for the continued hard work and dedication they have shown during this successful year.

Sergii Glazunov
Chief Executive Officer

OVERVIEW OF ASSETS AND RESERVES

ASSETS

1. MEX-GOL and SV fields

Regal Petroleum Corporation Limited (a wholly owned subsidiary in the Group) holds a 100% working interest in and is the operator of the MEX-GOL and SV fields. The production licences extend over a combined area of 269 km², approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field. The licences were granted in July 2004 and have a duration of 20 years.

The fields are located, geologically, towards the middle of the Dnieper-Donets sedimentary basin which extends across the majority of north-east Ukraine. The vast majority of Ukrainian gas and condensate production comes from this basin. The reservoirs comprise a series of gently dipping Carboniferous sandstones of Visean age ("B-Sands") inter-bedded with shales at approximately 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, and much of the trapping at these fields is stratigraphic in nature. 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") and may offer additional gas potential. Deeper sandstones of Devonian age ("D-Sands") have also been penetrated in the fields.

2. VAS field

LLC Prom-Enerho Produkt (a wholly owned subsidiary in the Group) holds a 100% working interest in and is the operator of the VAS field. The production licence extends over an area of 33.2 km² and is located approximately 17 km south-east of Kharkiv. The licence was granted in August 2012 and has a duration of 20 years.

The field is also located, geologically, towards the middle of the Dnieper-Donets sedimentary basin in the north-east of Ukraine. The field is trapped in an anticlinal structure broken into several faulted blocks, which are gently dipping to the north, stretching from the north-east to south-west along a main bounding fault. The gas is located in Carboniferous sandstones of Bashkirian, Serpukhovian and Visean age at depths of 2,900 – 3,400 metres below the surface.

RESERVES

1. MEX-GOL and SV fields

The Group's estimates of the remaining Reserves and Resources at the MEX-GOL and SV licence areas are derived from an assessment undertaken by independent petroleum consultants, ERC Equipoise Limited ("ERCE"), as at 31 December 2013 (the "ERCE Report"), which was announced on 25 March 2014. During the period from 1 January 2014 to 31 December 2017, the Group has produced 2.04 MMboe from these fields.

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

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

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

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

2. VAS field

The Group's estimates of the remaining Reserves and Resources at the VAS field and the Prospective Resources at the VED prospect are derived from an assessment undertaken by independent petroleum consultants, Senergy (GB) Limited, as at 1 January 2016 (the "Senergy Report"), which was announced on 5 July 2016 in connection with the Group's acquisition of LLC Prom-Enerho Produkt. During the period from 1 January 2016 to 31 December 2017, 0.4 MMboe were produced from the field.

The Senergy Report estimates the remaining Reserves as at 1 January 2016 in the VAS field, based on the drilling of one further well, as follows:

	Proved (1P)	Proved + Probable (2P)	Proved + Probable + Possible (3P)
Gas	91.5 MMm^3	251.5 MMm^3	448.6 MMm^3
Condensate	6.90 Mtonne	19.0 Mtonne	33.82 Mtonne
Total	**0.66 MMboe**	**1.80 MMboe**	**3.21 MMboe**

The Senergy Report estimates the Contingent Resources as at 1 January 2016 in the VAS field, based on the drilling of an additional further well, as follows:

	Contingent Resources (1C)	Contingent Resources (2C)	Contingent Resources (3C)
Gas	153.0 MMm^3	280.3 MMm^3	515.4 MMm^3
Condensate	6.3 Mm^3	11.4 Mm^3	20.7 Mm^3
Total	**158.6 MMm^3**	**294.5 MMm^3**	**538.0 MMm^3**

The Senergy Report estimates the Prospective Resources as at 1 January 2016 in the VED prospect as follows:-

	Low	Best	High	Mean
Gas and Condensate	441.8 MMm^3	1,078.9 MMm^3	2,582.6 MMm^3	1,234.7 MMm^3

FINANCE REVIEW

The Group made a profit of $2.3 million (2016: $1.3 million loss) during the year ended 31 December 2017, mainly as a result of improved revenue from higher production volumes and hydrocarbon prices. Revenue in the year, derived from the sale of the Group's Ukrainian gas, condensate and LPG production, was higher at $35.1 million (2016: $25.7 million).

Cash generated from operations during the year increased to $18.0 million (2016: $10.0 million), as a result of higher production volumes and hydrocarbon prices.

For the year ended 31 December 2017, the average realised gas, condensate and LPG prices were $241/Mm^3 (UAH6,412/Mm^3), $67/bbl and $56/bbl respectively (2016: $213/Mm^3 (UAH5,441/Mm^3) gas, $51/bbl condensate and $43/bbl LPG).

During the period from 1 January 2018 to 28 March 2018, the average realised gas, condensate and LPG prices were $277/Mm^3 (UAH7,574/Mm^3), $70/bbl and $55/bbl respectively. The current realised gas price is $265/Mm^3 (UAH6,972/Mm^3).

Since the deregulation of the gas supply market in Ukraine in October 2015, the market price for gas has broadly correlated to the price of imported gas, which generally reflects trends in European gas prices. Gas prices are also subject to seasonal variation. During the 2017 year, gas prices were reasonably stable, allowing for some seasonal variation, and were higher than in 2016, as were condensate and LPG prices by comparison with 2016.

In the first half of 2017, the Group commenced selling all of its gas production to LLC Smart Energy ("Smart Energy"), which is part of the PJSC Smart-Holding Group, which is ultimately controlled by Mr Vadim Novinskiy, who, through an indirect 54% majority shareholding, ultimately controls the Group. This arrangement came about as a consequence of the introduction of a number of new taxation regulations in Ukraine, which significantly increased the regulatory burden on affected companies. Due to the corporate structure of the Group, a substantial proportion of its gas production is produced by a non-Ukrainian subsidiary of the Group, which operates in Ukraine as a branch, or representative office as it is classified in Ukraine. As a result, the new tax regulations impose additional regulatory obligations on the Group's potential customers, who may be less inclined to purchase the Group's gas and/or may seek discounts on sales prices. In light of this situation, the Group and Smart Energy reached an agreement under which Smart Energy will purchase all of the Group's gas production and assume responsibility for the regulatory obligations under the Ukrainian tax regulations, as well as combining the Group's gas production with Smart Energy's own gas production so as to sell such gas as combined volumes, which should result in higher sales prices due to the larger sales volumes. In order to cover Smart Energy's sales, administration and regulatory compliance costs, the Group sells its gas to Smart Energy at a small discount to the gas sales prices achieved by Smart Energy, who sell the combined volumes in line with market prices. The terms of sale, effective from June 2017, for the Group's gas to Smart Energy are (i) payment for one third of the estimated monthly volume of gas by the 20th of the month of delivery, and (ii) payment of the remaining balance by the 10th of the month following the month of delivery. As a consequence of their common ultimate control, the Company and Smart Energy are deemed to be related parties under the AIM Rules for Companies, and more details of this arrangement are set out in the announcement made on 30 June 2017, as well as in Notes 4 and 31 below.

The subsoil tax rates applicable to gas and condensate production were stable during the year at 29% for gas produced from deposits at depths above 5,000 metres and 14% for gas produced from deposits below 5,000 metres, and 45% for condensate produced from deposits above 5,000 metres and 21% for condensate produced from deposits below 5,000 metres.

However, in December 2017, the Ukrainian Government passed new legislation under which (i) for new wells drilled after 1 January 2018, the subsoil tax rates will be reduced from 29% to 12% for gas produced from deposits at depths above 5,000 metres and from 14% to 6% for gas produced from deposits below 5,000 metres, and (ii) with effect from 1 January 2019 and applicable to all wells, the subsoil tax rates for condensate will be reduced from 45% to 29% for condensate produced from deposits above 5,000 metres and from 21% to 14% for condensate produced from deposits below 5,000 metres.

In addition, with effect from 1 April 2017, a transmission tariff of UAH296.80/Mm^3 ($11.00/Mm^3) for use of the Ukrainian national pipeline system became applicable to oil and gas producers in Ukraine, including the Group. However, shortly after its imposition, the tariff was suspended following a legal challenge to the legality of the tariff, and it is currently uncertain if and/or when the tariff will be reinstated, and what the amount of the tariff may be.

Cost of sales for the year ended 31 December 2017 was higher at $24.3 million (2016: $18.6 million), mainly due to the inclusion of a full year of the cost of sales of hydrocarbons from the VAS field of $5.7 million (Period from 4 July 2016 to 31 December 2016: $2.6 million).

Administrative expenses for the year were higher at $5.3 million (2016: $4.7 million), primarily as a result of the inclusion of administrative expenses relating to LLC Prom-Enerho Produkt ("PEP"), the owner of the VAS field, of $0.4 million (Period from 4 July 2016 to 31 December 2016: $0.1 million) and staff termination compensation of $0.2 million (2016: nil).

The tax charge for the year of $4.3 million (2016: $4.1 million charge) comprises a current tax charge of $3.0 million (2016: $1.9 million charge) and a deferred tax charge of $1.3 million (2016: $2.2 million charge).

The Group has recognised a deferred tax asset of $9.3 million at 31 December 2017 (31 December 2016: $11.1 million). This comprises a deferred tax asset of $2.6 million (31 December 2016: $3.7 million) in relation to UK tax losses carried forward, and $6.7 million (31 December 2016: $7.4 million) relating to the Group's MEX-GOL and SV asset and the provision for decommissioning in Ukraine, which is recognised on the tax effect of temporary timing differences between the carrying value of such asset and its tax base. The reduction in the deferred tax asset in 2017 is primarily due to a decrease of forecasted taxable income for the following five years caused by partial settlement of intra-group loans receivable by the Company. The Group has also recognised a deferred tax liability of $0.8 million at 31 December 2017 (31 December 2016: $1.2 million) relating to the Group's VAS asset in Ukraine, which is recognised on the tax effect of temporary timing differences between the carrying value of such asset and its tax base, mainly due to revaluation of the VAS asset at the date of acquisition by the Group.

Capital investment of $4.0 million reflects investment in the Group's oil and gas development and production assets during the year (2016: $13.9 million), primarily a continuation of the expenditure associated with the drilling of the MEX-109 well.

Under the agreement between the Group and NJSC Ukrnafta relating to the SV-2 well, which is a suspended well owned by NJSC Ukrnafta located within the Group's SV licence area, the Group agreed to carry out a workover of the well and, if successful, to operate, produce and sell the gas and condensate from the well under an equal net profit-sharing arrangement with NJSC Ukrnafta. The workover was successful and production from this well commenced in August 2017.

Cash and cash equivalents held at 31 December 2017 were $14.2 million and other short-term investments were $16.0 million (31 December 2016: $20.0 million and nil respectively). The Group's cash and cash equivalents balance at 28 March 2018 was $20.3 million, held as $13.5 million equivalent in Ukrainian Hryvnia and the balance of $6.8 million equivalent predominantly in US Dollars and Pounds Sterling. The Group's other short-term investments at 28 March 2018 were $16.0 million.

Since early 2014, the Ukrainian Hryvnia has devalued significantly against the US Dollar, falling from UAH8.3/$1.00 on 1 January 2014 to UAH28.1/$1.00 on 31 December 2017, which resulted in substantial foreign exchange translation losses for the Group over that period, and in turn adversely impacted the carrying value of the MEX-GOL and SV asset due to the translation of two of the Group's subsidiaries from their functional currency of Ukrainian Hryvnia to the Group's presentation currency of US Dollars. However in 2017, the exchange rate between the Ukrainian Hryvnia and the US Dollar has been reasonably stable averaging UAH26.6/$1.00 during the period (average rate during 2016: UAH 27.0/$1.00). Nevertheless, further devaluation of the Ukrainian Hryvnia against the US Dollar may affect the carrying value of the Group's assets in the future.

Cash from operations has funded the capital investment during the period, and the Group's current cash position and positive operating cash flow are the sources from which the Group plans to fund the development programmes for its assets in 2018.

FINANCE REVIEW continued

The Group manages its revenue, cash from operations and production volumes as key performance indicators. The achieved results for 2017 were as follows:

- revenue of $35.1 million (2016: $25.7 million)
- cash from operations of $18.0 million (2016: $10.0 million)
- daily production volumes from the MEX-GOL and SV fields for the year of 197,961 m^3/d of gas, 47 m^3/d of condensate and 24 m^3/d of LPG (1,629 boepd in aggregate) (2016: 157,228 m^3/d of gas, 41 m^3/d of condensate and 19 m^3/d of LPG (1,321 boepd in aggregate))
- daily production volumes from the VAS field for the year of 86,242 m^3/d of gas and 6.5 m^3/d of condensate (608 boepd in aggregate) (Period from 4 July 2016 to 31 December 2016: 82,624 m^3/d of gas and 6.5 m^3/d of condensate (556 boepd in aggregate))
- aggregate production volumes from the MEX-GOL and SV fields for the year of 72,255,906 m^3 of gas, 17,014 m^3 of condensate and 8,763 m^3 of LPG, equating to a combined total oil equivalent of 594,577 boe (2016: 57,545,607 m^3 of gas, 15,146 m^3 of condensate and 7,014 m^3 of LPG (483,603 boe in aggregate))
- aggregate production volumes from the VAS field for the year of 31,478,359 m^3 of gas and 2,374 m^3 of condensate, equating to a combined total oil equivalent of 221,760 boe (Period from 4 July 2016 to 31 December 2016: 14,955,029 m^3 of gas and 1,178 m^3 of condensate (100,701 boe in aggregate)).

Yevhen Palyenka
Chief Financial Officer

PRINCIPAL RISKS AND UNCERTAINTIES

The Group has a risk evaluation methodology in place to assist in the review of the risks across all material aspects of its business. This methodology highlights external, operational and technical, financial and corporate 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 risks and, where possible, propose mitigating actions. Key risks recognised and mitigation factors are detailed below:

RISK	MITIGATION
External risks	
Operating in Ukraine	
Ukraine is an emerging market and as such the Group is exposed to greater regulatory, economic and political risks than it would be in other jurisdictions. Emerging economies are generally subject to a volatile political and economic environment, which makes them vulnerable to market downturns elsewhere in the world, and could adversely impact the Group's ability to operate in the market.	The Group minimises this risk by continuously monitoring the market in Ukraine and by maintaining a strong working relationship with the Ukrainian regulatory authorities. The Group also maintains a significant proportion of its cash holdings in international banks outside Ukraine.
Regional conflict	
Ukraine continues to have a strained relationship with Russia, following Ukraine's agreement to join a free trade area with the European Union, which resulted in the implementation of mutual trade restrictions between Russia and Ukraine on many key products. Further, the conflict in parts of eastern Ukraine has not been resolved to date, and Russia continues to occupy Crimea. This conflict has put further pressure on relations between Ukraine and Russia, and the political tensions have had an adverse effect on the Ukrainian financial markets, hampering the ability of Ukrainian companies and banks to obtain funding from the international capital and debt markets. This strained relationship between Russia and Ukraine has also resulted in disputes and interruptions in the supply of gas from Russia.	As the Group has no assets in Crimea or the areas of conflict in the east of Ukraine, nor do its operations rely on sales or costs incurred there, the Group has not been directly affected by the conflict. However, the Group continues to monitor the situation and endeavours to procure its equipment from sources in other markets. The disputes and interruption to the supply of gas from Russia have indirectly encouraged Ukrainian Government support for the development of the domestic production of hydrocarbons since Ukraine imports a significant proportion of its gas, which has resulted in legislative measures to improve the regulatory requirements for hydrocarbon extraction in Ukraine.

PRINCIPAL RISKS AND UNCERTAINTIES continued

RISK	MITIGATION
Banking system in Ukraine	
The banking system in Ukraine has been under great strain in recent years due to the weak level of capital, low asset quality caused by the economic situation, currency depreciation, changing regulations and other economic pressures generally, and so the risks associated with the banks in Ukraine have been significant, including in relation to the banks with which the Group has operated bank accounts. However, following remedial action imposed by the National Bank of Ukraine, Ukraine's banking system has improved and at the end of May 2017, Moody's revised its outlook for the Ukrainian banking system from negative to stable. Nevertheless, Ukraine continues to be supported by funding from the International Monetary Fund under a four-year Extended Funding Facility aggregating $17.5 billion approved in March 2015. Since then, Ukraine has received four tranches under the funding programme totalling $8.4 billion, with the most recent tranche of $1 billion in April 2017. Further disbursements of International Monetary Fund tranches depend on the implementation of Ukrainian Government reforms, and other economic, legal and political factors, including reforms to the banking system in Ukraine.	The creditworthiness and potential risks relating to the banks in Ukraine are regularly reviewed by the Group, but the geopolitical and economic events since 2013 in Ukraine have significantly weakened the Ukrainian banking sector. In light of this, the Group has taken and continues to take steps to diversify its banking arrangements between a number of banks in Ukraine. These measures are designed to spread the risks associated with each bank's creditworthiness, and the Group endeavours to use banks that have the best available creditworthiness. Nevertheless, and despite some recent improvements, the Ukrainian banking sector remains weakly capitalised and so the risks associated with the banks in Ukraine remain significant, including in relation to the banks with which the Group operates bank accounts. As a consequence, the Group also maintains a significant proportion of its cash holdings in international banks outside Ukraine.
Geopolitical environment in Ukraine	
Although there have been some improvements in recent years, there has not been a final resolution of the political, fiscal and economic situation in Ukraine and its ongoing effects are difficult to predict and likely to continue to affect the Ukrainian economy and potentially the Group's business. Whilst not materially affecting the Group's production operations, the instability has disrupted the Group's development and operational planning for its assets.	The Group continually monitors the market and business environment in Ukraine and endeavours to recognise approaching risks and factors that may affect its business. In addition, the involvement of Energees Management Limited, as a major shareholder with extensive experience in Ukraine, is considered helpful to mitigate such risks.
Operational and technical risks	
Health, Safety, Environment and Security ("HSES")	
The oil and gas industry, by its nature, conducts activities which can cause health, safety, environmental and security incidents. Serious incidents can not only have a financial impact but can also damage the Group's reputation and the opportunity to undertake further projects.	The Group maintains an HSES management system and requires that management, staff and contractors adhere to this system. The system ensures that the Group meets Ukraine legislative standards in full and achieves international standards to the maximum extent possible.

RISK	MITIGATION
Oil and gas industry	
The Group is exposed to risks which are generally associated with the oil and gas industry. For example, the Group's ability to pursue and develop its projects and development programmes depends on a number of uncertainties, including the availability of capital, seasonal conditions, regulatory approvals, gas, oil, condensate and LPG prices, development costs and drilling success. As a result of these uncertainties, it is unknown whether potential drilling locations identified on proposed projects will ever be drilled or whether these or any other potential drilling locations will be able to produce gas, oil or condensate. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only due to dry holes, but also as a result of productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations are highly technical and complex activities and may be curtailed, delayed or cancelled as a result of a variety of factors.	The Group has well qualified and experienced technical management staff to plan and supervise operational activities. In addition, the Group engages with suitably qualified local and international geological, geophysical and engineering experts and contractors to supplement and broaden the pool of expertise available to the Group. Detailed planning of development activities is undertaken with the aim of managing the inherent risks associated with oil and gas exploration and production, as well as ensuring that appropriate equipment and personnel are available for the operations, and that local contractors are appropriately supervised.
Production of hydrocarbons	
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, as well as finding or acquiring additional reserves. The Group may not be able to develop, find or acquire reserves at acceptable costs. The experience gained from drilling undertaken to date highlights such risks as the Group targets the appraisal and production of these hydrocarbons.	In 2016, the Group engaged external technical consultants to undertake a comprehensive review and re-evaluation study of the MEX-GOL and SV fields in order to gain an improved understanding of the geological aspects of the fields and reservoir engineering, drilling and completion techniques, and the results of this study and further planned technical work is being used by the Group in the future development of these fields. The Group has established an ongoing relationship with such external technical consultants to ensure that technical management and planning is of a high quality in respect of all development activities on the Group's fields.

PRINCIPAL RISKS AND UNCERTAINTIES continued

RISK	MITIGATION
Development and operation of the Group's fields in Ukraine	
The planned development and operation of the Group's gas and condensate fields in Ukraine is susceptible to appraisal, development and operational risk. This could include, but is not restricted to, delays in delivery of equipment in Ukraine, failure of key equipment, lower than expected production from wells that are currently producing, or new wells that are brought on-stream, problematic wells and complex geology which is difficult to drill or interpret. The generation of significant operational cash is dependent on the successful delivery and completion of the development and operation of the fields. These risks have been demonstrated by the previous downgrade in the Group's remaining reserves which resulted in the reduction in the value in use, and consequent impairment loss relating to the Group's MEX-GOL and SV asset in Ukraine.	The Group's technical management staff, in consultation with its external technical consultants, carefully plan and supervise development and operational activities with the aim of managing the risks associated with the further development of the Group's fields in Ukraine. This includes detailed review and consideration of available subsurface data, utilisation of modern geological software, and utilisation of engineering and completion techniques developed for the fields. With operational activities, the Group ensures that appropriate equipment and personnel is available for the operations, and that operational contractors are appropriately supervised. In addition, the Group performs a review of its oil and gas assets for impairment on an annual basis, and considers whether an assessment of its oil and gas assets by a suitably qualified independent assessor is appropriate or required.
Drilling and workover operations	
Due to the depth and nature of the reservoirs in the Group's fields, the technical difficulty of drilling or re-entering wells in the Group's fields is high, and this and the equipment limitations within Ukraine, can result in unsuccessful or lower than expected outcomes for wells.	The utilisation of detailed sub-surface analysis, careful well planning and engineering design in designing work programmes, along with appropriate procurement procedures and competent on-site management, aims to minimise these risks.
Maintenance of facilities	
There is a risk that production or transportation facilities can fail due to non-adequate maintenance, control or poor performance of the Group's suppliers.	The Group's facilities are operated and maintained at standards above the Ukraine minimum legal requirements. Operations staff are experienced and receive supplemental training to ensure that facilities are properly operated and maintained. Service providers are rigorously reviewed at the tender stage and are monitored during the contract period.
Financial risks	
Restrictions on cash flow and liquidity	
There is a risk that insufficient funds are available to meet the Group's development obligations to commercialise the Group's oil and gas assets. Since a significant proportion of the future capital requirements of the Group 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.	The Group maintains adequate cash reserves and closely monitors forecasted and actual cash flow, as well as short and longer-term funding requirements. The Group does not currently have any loans outstanding, 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. However, as the risk to future capital funding is inherent in the oil and gas exploration and development industry and reliant in part on future development success, it is difficult for the Group to take any other measures to further mitigate this risk, other than tailoring its development activities to its available capital funding from time to time.

RISK	MITIGATION
Ensuring appropriate business practices	
The Group operates in Ukraine, an emerging market, where certain inappropriate business practices may, from time to time occur, such as corrupt business practices, bribery, appropriation of property and fraud, all of which can lead to financial loss.	The Group maintains anti-bribery and corruption policies in relation to all aspects of its business, and ensures that clear authority levels and robust approval processes are in place, with stringent controls over cash management and the tendering and procurement processes. In addition, office and site protection is maintained to protect the Group's assets.
Hydrocarbon prices	
The Group derives its revenue principally from the sale of its Ukrainian gas, condensate and LPG production. These revenues are subject to commodity price volatility and political influence. A prolonged period of low gas, condensate and LPG prices may impact the Group's ability to maintain its long-term investment programme with a consequent effect on growth rate, which in turn may impact the share price or any shareholder returns. Lower gas, condensate and LPG prices may not only decrease the Group's revenues per unit, but may also reduce the amount of gas, condensate and LPG which the Group can produce economically, as would increases in costs associated with hydrocarbon production, such as subsoil taxes and royalties. The overall economics of the Group's key assets (being the net present value of the future cash flows from its Ukrainian projects) are far more sensitive to long-term gas, condensate and LPG prices than short-term price volatility. However, short-term volatility does affect liquidity risk, as, in the early stage of the projects, income from production revenues is offset by capital investment.	The Group sells a proportion of its hydrocarbon production through long-term offtake arrangements, which include pricing formulae so as to ensure that it achieves market prices for its products, as well utilising the electronic market platforms in Ukraine to achieve market prices for its remaining products. However, hydrocarbon prices in Ukraine are implicitly linked to world hydrocarbon prices and so the Group is subject to external price trends.
Currency	
Since the beginning of 2014, the Ukrainian Hryvnia has significantly devalued against major world currencies, including the US Dollar, where it has fallen from UAH8.3/$1.00 on 1 January 2014 to UAH28.1/$1.00 on 31 December 2017, although it was relatively stable during 2017. This devaluation was a significant contributor to the imposition of the banking restrictions by the National Bank of Ukraine over recent years. In addition, the geopolitical events in Ukraine over recent years, are likely to continue to impact the valuation of the Ukrainian Hryvnia against major world currencies. Further devaluation of the Ukrainian Hryvnia against the US Dollar will affect the carrying value of the Group's assets.	The Group's sales proceeds are received in Ukrainian Hryvnia, and the majority of the capital expenditure costs for the current investment programme will be incurred in Ukrainian Hryvnia, thus the currency of revenue and costs are largely matched. In light of the previous devaluation and volatility of the Ukrainian Hryvnia against major world currencies, and since the Ukrainian Hryvnia does not benefit from the range of currency hedging instruments which are available in more developed economies, the Group has adopted a policy that, where possible, funds not required for use in Ukraine be retained on deposit in the United Kingdom, principally in US Dollars.

PRINCIPAL RISKS AND UNCERTAINTIES continued

RISK	MITIGATION
Counterparty and credit	
The challenging political and economic environment in Ukraine means that businesses can be subject to significant financial strain, which can mean that the Group is exposed to increased counterparty risk if counterparties fail or default in their contractual obligations to the Group, including in relation to the sale of its hydrocarbon production, resulting in financial loss to the Group.	The Group monitors the financial position and credit quality of its contractual counterparties and seeks to manage the risk associated with counterparties by contracting with creditworthy contractors and customers. Hydrocarbon production is sold on terms that limit supply credit and/or title transfer until payment is received.
Financial markets and economic outlook	
The performance of the Group is 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 in recent periods, with the global economy having experienced a long period of difficulties, and more particularly the events that have occurred in Ukraine over recent years. This has led to extreme foreign exchange movements in the Ukrainian Hryvnia, high inflation and interest rates, and increased credit risk relating to the Group's key counterparties.	The Group's sales proceeds are received in Ukrainian Hryvnia and a significant proportion of investment expenditure is made in Ukrainian Hryvnia, which minimises risks related to foreign exchange volatility. However, hydrocarbon prices in Ukraine are implicitly linked to world hydrocarbon prices and so the Group is subject to external price movements. The Group holds a significant proportion of its cash reserves in the United Kingdom, mostly in US Dollars, with reputable financial institutions. The financial status of counterparties is carefully monitored to manage counterparty risks. Nevertheless, the risks that the Group faces as a result of these risks cannot be predicted and many of these are outside of the Group's control.
Corporate risks	
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 MEX-GOL and SV production licences, which was not resolved until mid-2011. In 2013, new rules relating to the updating of production licences led to further challenges being raised by the Ukrainian authorities to the production licences held by independent oil and gas producers in Ukraine, including the Group, which may result in requirements for remediation work, financial penalties and/or the suspension of such licences, which, in turn, may adversely affect the Group's operations and financial position. All such challenges affecting the Group have thus far been successfully defended through the Ukrainian legal system. However, the business environment is such that these types of challenges may arise at any time in relation to the Group's operations, licence history, compliance with licence commitments and/or local regulations. In addition, these licences carry ongoing compliance obligations, which if not met, may lead to the loss of a licence.	The Group ensures compliance with commitments and regulations relating to its production licences through Group procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable time frame for achieving compliance or an alternative, mutually agreeable course of action. Work programmes are designed to ensure that all licence obligations are met and continual interaction with Government bodies is maintained in relation to licence obligations and commitments.

RISK	MITIGATION
Extension of MEX-GOL and SV licences	
The Group's production licences for the MEX-GOL and SV fields currently expire in 2024. However, in the estimation of its reserves, it is assumed that licence extensions will be granted in accordance with current Ukrainian legislation and that consequently the fields' development will continue until the end of the fields' economic life in 2036. Despite such legislation, it is possible that licence extensions will not be granted, which would affect the achievement of full economic field development and consequently the carrying value of the Group's MEX-GOL and SV asset in the future.	The Group monitors legislation in Ukraine which is likely to affect its licences and the obligations associated therewith, and ensures that its licence compliance obligations are monitored and maintained as such compliance is a likely to be a factor in the extension of the licences in 2024.
Key personnel	
The Group's success depends upon skilled management as well as technical expertise and administrative staff. The loss of service of critical members from the Group's team could have an adverse effect on the business.	The Group periodically reviews the compensation and contractual terms of its staff. In addition, the Group has developed relationships with a number of technical and other professional experts and advisers, who are used to provided specialist services as required.

Strategic Report Approval

The Strategic Report incorporates the Highlights, the Chairman's Statement, the Chief Executive Officer's Statement, the Overview of Assets and Reserves, the Finance Review and the Principal Risks and Uncertainties.

By Order of the Board

Chris Hopkinson
Chairman
29 March 2018

GOVERNANCE
BOARD OF DIRECTORS

Chris Hopkinson
Non-Executive Chairman

Chris Hopkinson was appointed as Non-Executive Director in September 2017, and became Non-Executive Chairman in October 2017. Mr Hopkinson has extensive experience in the oil and gas industry, having worked in senior management roles in Kazakhstan, Africa, the Russian Federation and the Middle East. He began his career with Shell International, followed by technical and management roles with Yukos and Lukoil Overseas, before becoming Chief Executive Officer of Imperial Energy Group up until its acquisition by ONGC in 2009. He was then Vice-President Western Siberia for TNK-BP, Senior Vice-President North Africa for BG Group, Chief Executive Officer of International Petroleum Limited, and Chief Operating Officer for JSC National Company KazMunayGas. Mr Hopkinson is a member of the Society of Petroleum Engineers, and holds a BSc (Hons) in Applied Physics from St Andrews University.

Sergii Glazunov
Chief Executive Officer

Sergii Glazunov was appointed as Chief Executive Officer in August 2017, having previously been Finance Director since November 2014, and a Non-Executive Director since February 2012 as a nominee of Regal's majority shareholder, Energees Management Limited. He is also the Chief Executive Officer of LLC Smart Energy. Prior to joining the Smart Holding Group, Mr Glazunov held positions as Deputy Chief Executive Officer at JSC Concern AVEC & Co and Vice-President at JP Morgan Chase and Bank One Investment Management Group. He also has extensive teaching and academic research experience working at Wayne State and Michigan State Universities. Mr Glazunov is a Chartered Financial Analyst and holds an MSc in Mathematics from Kiev State University, an MSc in Statistics from Michigan State University and an MBA from Wayne State University.

Bruce Burrows
Non-Executive Director

Bruce Burrows was appointed as Non-Executive Director in August 2017. Mr Burrows is currently the Chief Financial Officer of AITEO Group. He has extensive experience in the oil and gas industry, and, in particular, Ukraine and Eastern Europe, having been Finance Director of JKX Oil & Gas for 14 years until 2011. Since then, he has been Chief Financial Officer of Seven Energy International, and Chief Financial Officer of Lekoil, and has served as a non-executive Director of Azonto Petroleum and European Goldfields. He is a member of the Institute of Chartered Accountants of Australia & New Zealand, and holds a BSc Honours from Canterbury University (New Zealand) and a Diploma in Accounting from Victoria University (New Zealand).

Dr Phil Frank
Non-Executive Director

Phil Frank was appointed as Non-Executive Director in October 2017. Dr Frank is a geologist with extensive experience in the oil and gas industry. He began his career with BP, followed by technical and management roles with Clyde Petroleum, Triton Resources, Monument Oil & Gas and Lasmo. He was then Exploration Manager for Emerald Energy, Exploration Director for Sterling Energy and a Non-Executive Director of Tower Resources. Dr Frank is a Chartered Geologist, a Fellow of the Geological Society, and holds a BSc and PhD in Geology from Liverpool University.

Alexey Pertin
Non-Executive Director

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

Yuliia Kirianova
Non-Executive Director

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

CORPORATE GOVERNANCE STATEMENT

Companies on the AIM Market of London Stock Exchange plc are not required to comply with the UK Corporate Governance Code and due to its size the Company is not in full compliance. The Directors, however, support high standards of corporate governance. During 2018, the Company intends to adopt a corporate governance code, appropriate to its size and stature, to ensure compliance with the new requirement of the AIM Rules for Companies.

The Board

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

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

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

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

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

Remuneration Committee

The Remuneration Committee, comprising the Non-Executive Chairman and two independent Non-Executive Directors, 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 Bruce Burrows (Chairman), Chris Hopkinson and Phil Frank.

Audit Committee

The Audit Committee, comprising the Non-Executive Chairman and two independent Non-Executive Directors, 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 and a representative of the Independent Auditors.

The Audit Committee presently comprises Bruce Burrows (Chairman), Chris Hopkinson and Phil Frank.

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 were assessed for effectiveness and business risks were monitored and reviewed in the course of 2017 through regular Board and management meetings.

Code of Conduct

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

Communication with Shareholders

The Board recognises that it is accountable to shareholders for the performance and activities of the Company and the Group. The Board engages in discussions with shareholders as appropriate from time to time through formal meetings or correspondence and telephone discussions.

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

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

DIRECTORS' REPORT

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2017.

Likely Future Events

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

Proposed Dividend

The Directors do not recommend the payment of a dividend (2016: $nil).

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in Note 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 of the Company and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

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

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

Directors and Directors' Interests

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

Keith Henry (resigned 16 October 2017)
Adrian Coates (resigned 29 August 2017)
Alastair Graham (resigned 16 October 2017)
Alexey Pertin
Sergii Glazunov
Yuliia Kirianova
Bruce Burrows (appointed 29 August 2017)
Chris Hopkinson (appointed 20 September 2017)
Phil Frank (appointed 16 October 2017)

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

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

Directors' Indemnities

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

Political Contributions

During the year the Group did not make any political contributions (2016: $nil).

Financial Risk Management

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

Post Balance Sheet Events

Details of significant events since the Balance Sheet date are contained in Note 32.

Substantial Shareholders

At 29 March 2018, the Company had been notified of the following interests of 3% or more in its issued share capital:

Substantial Shareholder	Number of shares	% of issued ordinary share capital
Energees Management Limited*	173,128,587	54.00%
CTF Holdings Limited	78,337,879	24.43%
Pope Asset Management	25,396,047	7.92%

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

Directors' Responsibilities Statement

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

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

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

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

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

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

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

Statement of Disclosure to Auditors

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

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

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

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as Independent Auditors will be proposed at the next Annual General Meeting.

On behalf of the Board

Chris Hopkinson
Chairman
29 March 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REGAL PETROLEUM PLC

Report on the audit of the financial statements

Opinion

In our opinion, Regal Petroleum plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group and Company balance sheets as at 31 December 2017; the Group income statement, the Group and Company statements of comprehensive income, the Group and Company statements of cash flows, and the Group and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall Group materiality: $350,500 (2016: $257,000), based on 1% of revenue.
- Overall Company materiality: $669,000 (2016: $257,000), based on 5% of profit before tax.
- We conducted a full scope audit of the financial statements of the Group and the Company. Our audit work enabled us to obtain coverage of 100% of consolidated revenue and 99% of total assets for the Group.
- Carrying value of oil and gas assets (Group).
- Carrying value of investments in subsidiaries (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the Auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the Auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Carrying value of oil and gas assets (Group) As disclosed in Notes 15 and 16, the Group has two cash generating units – MEX-GOL/SV and VAS. At 31 December 2017, property, plant and equipment includes $14.3 million in respect of the MEX-GOL/SV and VAS cash generating units, and intangible assets includes mineral rights and reserves of $5.5 million in respect of the VAS cash generating unit. We focused on this area due to the material nature of the balances and the judgement involved in assessing whether there were triggers that would suggest a full impairment review is required in accordance with IAS 36 'Impairment of assets', or whether there were triggers that would suggest previously recognised impairments in the MEX-GOL/SV cash generating unit should be reversed. After considering internal and external factors, including results from recent drilling activity, current production levels and the macroeconomic environment in Ukraine, management concluded that there were no impairment triggers in respect of either of the Group's cash generating units. Specifically in connection with the MEX-GOL/SV cash generating unit, management also considered whether their trigger assessment suggested whether any of the previously recognised impairment should be reversed. Management concluded that, while there were positive indicators that have arisen during 2017, there was insufficient information at 31 December 2017 to meet the impairment reversal requirements of IAS 36.	We reviewed the criteria outlined in IAS 36 and in particular considered changes in the key assumptions applied by management such as commodity prices and discount rates since the prior year. We also considered the status of the reserves updating process as outlined in Note 3(a). We agree with management's conclusion that no impairment trigger has arisen in respect of the oil and gas assets included within property, plant and equipment, and intangible assets. We also concur with their assessment that, while there are positive indicators, there is insufficient information on which to base a reversal of previously recognised impairment.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REGAL PETROLEUM PLC continued

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Carrying value of investments in subsidiaries (Company) As disclosed in Note 17, the Company has a total investment in subsidiaries of $55.5 million comprising investment in shares and loans. The carrying value of the investment is dependent on the carrying value of oil and gas assets in the Company's subsidiaries. Management considered whether there was any indication that the carrying value of investments was impaired, and whether there was any indication that previous impairments should be reversed, and concluded that there was reason to reverse a previously recognised impairment of $6,360,000.	We reviewed and challenged management's assessment and considered it in the context of their review of the carrying value of oil and gas assets. We concur with management's conclusion that no impairment is required and that the previously recognised impairment should be reversed.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured as one operating segment, being oil and gas exploration, development and production in Ukraine. The Group financial statements are a consolidation of eight entities, comprising the Group's operating businesses and centralised functions; however, our audit of the Group was scoped as one component.

Day-to-day management of the operations of the Group, including accounting and financial reporting, is undertaken in Kiev, Ukraine. Accordingly, a significant portion of our audit work was undertaken in Kiev.

Our audit gave us coverage of 100% of consolidated revenue and 99% of consolidated total assets. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	GROUP FINANCIAL STATEMENTS	COMPANY FINANCIAL STATEMENTS
Overall materiality	$350,500 (2016: $257,000).	$669,000 (2016: $257,000).
How we determined it	1% of revenue.	5% of profit before tax.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, revenue is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Company, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $17,525 (Group audit) (2016: $12,850) and $33,000 (Company audit) (2016: $12,750) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors' Report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF REGAL PETROLEUM PLC continued

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 March 2018

FINANCIALS
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017

	Note	2017 $000	2016 $000
Revenue	4	**35,053**	25,659
Cost of sales	5	**(24,272)**	(18,633)
Gross profit		**10,781**	7,026
Administrative expenses	6	**(5,311)**	(4,681)
Other operating gains and (losses) (net)	11	**(26)**	30
Operating profit		**5,444**	2,375
Finance income	9	**1,307**	770
Finance costs	10	**(112)**	(185)
Other losses (net)		**(50)**	(121)
Profit on ordinary activities before taxation		**6,589**	2,839
Income tax expense	12	**(4,301)**	(4,098)
Profit/(loss) for the year		**2,288**	(1,259)
Earnings/(loss) per share (cents)			
Basic and diluted	14	**0.7c**	(0.4c)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 $000	2016 $000
Profit/(loss) for the year	**2,288**	(1,259)
Other comprehensive expense:		
Items that may be subsequently reclassified to profit or loss:		
Equity – foreign currency translation	**(1,247)**	(5,900)
Items that will not be subsequently reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	**(1)**	(104)
Total other comprehensive expense	**(1,248)**	(6,004)
Total comprehensive income/(expense) for the year	**1,040**	(7,263)

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 $000	2016 $000
Profit/(loss) for the year	**12,239**	(15,616)
Total comprehensive income/(expense) for the year	**12,239**	(15,616)

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

CONSOLIDATED BALANCE SHEET

at 31 December 2017

	Note	2017 $000	2016 $000
Assets			
Non-current assets			
Property, plant and equipment	15	**14,962**	21,354
Intangible assets	16	**5,590**	6,530
Corporation tax receivable		**37**	54
Deferred tax asset	24	**9,261**	11,121
		29,850	39,059
Current assets			
Inventories	18	**1,394**	1,200
Trade and other receivables	19	**6,536**	4,243
Other short-term investments	20	**16,000**	–
Cash and cash equivalents	20	**14,249**	19,966
		38,179	25,409
Total assets		**68,029**	64,468
Liabilities			
Current liabilities			
Trade and other payables	21	**(2,423)**	(1,435)
Corporation tax payable		**(1,116)**	(300)
		(3,539)	(1,735)
Net current assets		**34,640**	23,674
Non-current liabilities			
Provision for decommissioning	22	**(3,027)**	(1,915)
Defined benefit liability	23	**(275)**	(303)
Deferred tax liability	24	**(820)**	(1,187)
		(4,122)	(3,405)
Total liabilities		**(7,661)**	(5,140)
Net assets		**60,368**	59,328
Equity			
Called up share capital	25	**28,115**	28,115
Share premium account		**555,090**	555,090
Foreign exchange reserve		**(100,932)**	(99,684)
Other reserves	26	**4,273**	4,273
Accumulated losses		**(426,178)**	(428,466)
Total equity		**60,368**	59,328

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

The financial statements of Regal Petroleum plc, company number 4462555, on pages 28 to 67 were approved by the Board of Directors on 29 March 2018 and signed on its behalf by:

Bruce Burrows
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

at 31 December 2017

	Called up share capital $000	Share premium account $000	Merger reserve $000	Capital contributions reserve $000	Foreign exchange reserve* $000	Accumulated losses $000	Total equity $000
As at 1 January 2016	28,115	555,090	(3,204)	7,477	(93,784)	(427,103)	66,591
Loss for the year	–	–	–	–	–	(1,259)	(1,259)
Other comprehensive expense							
– exchange differences	–	–	–	–	(5,900)	–	(5,900)
– remeasurements of post-employment benefit obligations	–	–	–	–	–	(104)	(104)
Total comprehensive expense	–	–	–	–	(5,900)	(1,363)	(7,263)
As at 31 December 2016	28,115	555,090	(3,204)	7,477	(99,684)	(428,466)	59,328

	Called up share capital $000	**Share premium account $000**	**Merger reserve $000**	**Capital contributions reserve $000**	**Foreign exchange reserve* $000**	**Accumulated losses $000**	**Total equity $000**
As at 1 January 2017	**28,115**	**555,090**	**(3,204)**	**7,477**	**(99,684)**	**(428,466)**	**59,328**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**2,288**	**2,288**
Other comprehensive expense							
– exchange differences	**–**	**–**	**–**	**–**	**(1,247)**	**–**	**(1,247)**
– remeasurements of post-employment benefit obligations	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**(1)**
Total comprehensive expense	**–**	**–**	**–**	**–**	**(1,247)**	**2,287**	**1,040**
As at 31 December 2017	**28,115**	**555,090**	**(3,204)**	**7,477**	**(100,931)**	**(426,179)**	**60,368**

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

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2017

	Note	2017 $000	2016 $000
Operating activities			
Cash generated from operations	28	**17,982**	9,971
Income tax paid		**(2,133)**	(2,219)
Interest received		**906**	809
Net cash inflow from operating activities		**16,755**	8,561
Investing activities			
Acquisition of subsidiary, net of cash acquired		**–**	(11,560)
Purchase of property, plant and equipment		**(6,151)**	(7,242)
Purchase of intangible assets		**(121)**	(60)
Proceeds from sale of property, plant and equipment		**8**	11
Other short-term investments	20	**(16,000)**	12,635
Net cash outflow from investing activities		**(22,264)**	(6,216)
Financing activities			
Repayment of non-interest bearing borrowings		**–**	(1,095)
Net cash outflow from financing activities		**–**	(1,095)
Net (decrease)/increase in cash and cash equivalents		**(5,509)**	1,250
Cash and cash equivalents at beginning of year		**19,966**	19,920
Effect of foreign exchange rate changes		**(208)**	(1,204)
Cash and cash equivalents at end of year	20	**14,249**	19,966

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

COMPANY BALANCE SHEET

at 31 December 2017

	Note	2017 $000	2016 $000
Assets			
Non-current assets			
Investments	17	**17,279**	17,279
Loans to subsidiary undertakings	17	**38,225**	35,669
Deferred tax asset	24	**2,567**	3,717
		58,071	56,665
Current assets			
Trade and other receivables	19	**547**	539
Other short-term investments	20	**16,000**	–
Cash and cash equivalents	20	**4,411**	9,645
		20,958	10,184
Total assets		**79,029**	66,849
Liabilities			
Current liabilities			
Trade and other payables	21	**(90)**	(149)
		(90)	(149)
Net current assets		**20,868**	10,035
Total liabilities		**(90)**	(149)
Net assets		**78,939**	66,700
Equity			
Called up share capital	25	**28,115**	28,115
Share premium account		**555,090**	555,090
Accumulated losses:			
At 1 January		**(516,505)**	(500,889)
Profit for the year attributable to the owners		**12,239**	(15,616)
At 31 December		**(504,266)**	(516,505)
Total equity		**78,939**	66,700

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

The financial statements of Regal Petroleum plc, company number 4462555, on pages 28 to 67 were approved by the Board of Directors on 29 March 2018 and signed on its behalf by:

Bruce Burrows
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

at 31 December 2017

	Called up share capital $000	Share premium account $000	Accumulated losses $000	Total equity $000
As at 1 January 2016	28,115	555,090	(500,889)	82,316
Loss for the year	–	–	(15,616)	(15,616)
As at 31 December 2016	28,115	555,090	(516,505)	66,700

	Called up share capital $000	**Share premium account $000**	**Accumulated losses $000**	**Total equity $000**
As at 1 January 2017	**28,115**	**555,090**	**(516,505)**	**66,700**
Profit for the year	**–**	**–**	**12,239**	**12,239**
As at 31 December 2017	**28,115**	**555,090**	**(504,266)**	**78,939**

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

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2017

	Note	2017 $000	2016 $000
Operating activities			
Cash used in operations	28	**(1,839)**	(2,268)
Interest received		**126**	49
Net cash outflow from operating activities		**(1,713)**	(2,219)
Investing activities			
Repayment of loans by Group companies	17	**6,090**	–
Repayment of interest on loans by Group companies	17	**6,360**	–
Other short-term investments		**(16,000)**	–
Net cash outflow from investing activities		**(3,550)**	–
Net (decrease) in cash and cash equivalents		**(5,263)**	(2,219)
Cash and cash equivalents at beginning of year		**9,645**	11,913
Effect of foreign exchange rate changes		**29**	(49)
Cash and cash equivalents at end of year	20	**4,411**	9,645

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

NOTES
forming part of the financial statements

1. General Information and Operational Environment

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

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

As of 31 December 2017 and 2016, the Company's immediate parent company was Energees Management Limited, which is 100% owned by Pelidona Services Limited, which is 100% owned by Lovitia Investments Ltd, which is 100% owned by Mr V Novinskiy. Accordingly, the Company was ultimately controlled by Mr V Novinskiy.

The Group's gas, condensate and LPG extraction and production facilities are located in Ukraine. The ongoing political and economic instability in Ukraine, which commenced in late 2013, has led to a deterioration of Ukrainian State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies and has continued in 2017, though to a lesser extent as compared to 2014–2016.

The inflation rate in Ukraine during 2017 increased to 14% (as compared to 12% in 2016).

Devaluation of the Ukrainian Hryvnia during 2017 has been moderate. As at 29 March 2018, the official exchange rate of the Ukrainian Hryvnia against the US Dollar was UAH26.4/$1.00, compared to UAH28.1/$1.00 as at 31 December 2017 (31 December 2016: UAH27.2/$1.00).

In 2017, there was a further easing of the currency control restrictions that were introduced by the National Bank of Ukraine during 2014–2015. In particular, the required share of foreign currency for mandatory sale was decreased from 65% to 50% from 4 April 2017, and the settlement period for export–import transactions in foreign currency was increased from 120 to 180 days from 26 May 2017. In addition, from 13 June 2016, Ukrainian companies were permitted to pay dividends to non-residents with a limit of $5 million per month.

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

2. Accounting Policies

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

Basis of Preparation

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2. Accounting Policies continued

Going Concern

Based on the positive operational and financial performance of the Group and for the reasons outlined in the Principal Risks and Uncertainties section of the Strategic Report, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future regarded as at least 12 months after the date of signing of these financial statements. Accordingly, the going concern basis has been adopted in preparing its consolidated financial statements for the year ended 31 December 2017. The use of this basis of accounting takes into consideration the Company's and the Group's current and forecast financing position, additional details of which are provided in the Principal Risks and Uncertainties section of the Strategic Report.

New and amended standards adopted by the Group

The Group has applied the following new and revised standards and interpretations for the first time for its annual reporting period commencing 1 January 2017. These improvements relate to the following areas:

- Amendment to IAS 12, 'Income taxes', regarding recognition of deferred tax assets for unrealised losses
- Amendment to IAS 7, 'Cash flow statements', regarding the Disclosure initiative
- Annual improvements 2014–2016 IFRS 12, 'Disclosure of interests in other entities'

The adoption of these amendments had no significant impact on these financial statements.

Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018. The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and liabilities.

NOTES
forming part of the financial statements continued

2. Accounting Policies continued

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Group

In thousands of US dollars	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
	IAS 39	IFRS 9		ECL	Other	Mandatory	Voluntary	
Cash and cash equivalents	L&R*	AC†	14,249	(9)	–	–	–	14,240
Other short-term investments	L&R*	AC†	16,000	(35)	–	–	–	15,965
Trade and other accounts receivable	L&R*	AC†	2,632	(62)	–	–	–	2,570
Total financial assets	**–**	**–**	**32,881**	**(106)**	**–**	**–**	**–**	**32,775**

* L&R – Loans and receivables
† AC – Amortised cost

Company

In thousands of US dollars	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
				Remeasurement		Reclassification		
	IAS 39	IFRS 9		ECL	Other	Mandatory	Voluntary	
Cash and cash equivalents	L&R*	AC†	4,411	(2)	–	–	–	4,409
Other short-term investments	L&R*	AC†	16,000	(35)	–	–	–	15,965
Trade and other accounts receivable	L&R*	AC†	464	–	–	–	–	464
Loans to subsidiary undertakings	L&R*	AC†	38,225	–	–	–	–	38,225
Total financial assets	**–**	**–**	**59,100**	**(37)**	**–**	**–**	**–**	**59,063**

* L&R – Loans and receivables
† AC – Amortised cost

The new standard also introduces expanded disclosure requirements and changes in presentation. Management of the Group does not expect a significant impact on its consolidated financial statements effected by implementation of IFRS 9 on 1 January 2018.

- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018. The Group does not expect the new standard to have a significant impact on financial statements of the Group.

2. Accounting Policies continued

- IFRS 16, 'Leases', was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $103,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

Exchange differences on intra-group balances with foreign operation

The Group has certain inter-company monetary balances of which the Company is the beneficial owner. These monetary balances are payable by a subsidiary that is a foreign operation and are eliminated on consolidation.

In the consolidated financial statements, exchange differences arising on such payables because the transaction currency differs from the subsidiary's functional currency are recognised initially in other comprehensive income if the settlement of such payables is continuously deferred and is neither planned nor likely to occur in the foreseeable future.

In such cases, the respective receivables of the Company are regarded as an extension of the Company's net investment in that foreign operation, and the cumulative amount of the above-mentioned exchange differences recognised in other comprehensive income is carried forward within the foreign exchange reserve in equity and is reclassified to profit or loss only upon disposal of the foreign operation.

When the subsidiary that is a foreign operation settles its quasi-equity liability due to the Company, but the Company continues to possess the same percentage of the subsidiary, i.e. there has been no change in its proportionate ownership interest, such settlement is not regarded as a disposal or a partial disposal, and therefore cumulative exchange differences are not reclassified.

The designation of inter-company monetary balances as part of the net investment in a foreign operation is reassessed when management's expectations and intentions on settlement change due to a change in circumstances.

Where, because of a change in circumstances, a receivable balance, or part thereof, previously designated as a net investment into a foreign operation is intended to be settled, the receivable is de-designated and is no longer regarded as part of the net investment.

In such cases, the exchange differences arising on the subsidiary's payable following de-designation are recognised within finance costs/income in profit or loss, similar to foreign exchange differences arising from financing.

Basis of Consolidation

The consolidated financial statements incorporate the financial information of the Company and entities controlled by the Company (and its subsidiaries) made up to 31 December each year.

NOTES
forming part of the financial statements continued

2. Accounting Policies continued

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Segment reporting

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

Commercial Reserves

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

Oil and Gas Development and Producing Assets

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

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

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

2. Accounting Policies continued

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

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

Depreciation, Depletion and Amortisation

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

Impairment

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

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

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

Decommissioning Provision

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

Property, Plant and Equipment other than Oil and Gas Assets

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

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

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

NOTES
forming part of the financial statements continued

2. Accounting Policies continued

Inventories

Inventories typically consist of materials, spare parts and hydrocarbons, and are stated at the lower of cost and net realisable value. Cost of finished goods is determined on the weighted average bases. Cost of other than finished goods inventory is determined on the first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Revenue Recognition

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

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

Foreign Currencies

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

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

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

(a) assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;

(b) income and expenses for each Income Statement are translated at average monthly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

The principal rates of exchange used for translating foreign currency balances at 31 December 2017 were $1:UAH28.1 (2016: $1:UAH27.2), $1:£0.7 (2016: $1:£0.8), $1:€0.8 (2016: $1:€0.9).

None of the Group's operations are considered to use the currency of a hyperinflationary economy; however, this is kept under review.

2. Accounting Policies continued

Pensions

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

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

The Group companies participate in a mandatory Ukrainian State-defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The early pension benefit (in the form of a monthly annuity) is payable by employers only until the employee has reached the statutory retirement age. The pension scheme is based on a benefit formula which depends on each individual member's average salary, his/her total length of past service and total length of past service at specific types of workplaces ("list II" category).

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

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

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

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

In October 2017, there were certain changes introduced to the Law of Ukraine on Mandatory State Pension Insurance as follows:

- Increase in retirement age and required employment period which resulted in an increase of preferential pensions period covered by the Group and consequently past service costs;
- Decrease of index used in the calculation of insurance period which subsequently led to a decrease of pensions amount;
- The Government of Ukraine deblocked pensions indexation starting from 2019 which is now estimated as 50% of salary increase and 50% of inflation.

Leases

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

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

NOTES
forming part of the financial statements continued

2. Accounting Policies continued

Taxation

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

The Group does not currently utilise derivative financial instruments.

Trade Receivables

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

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

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

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

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

2. Accounting Policies continued

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

Investments and loans to subsidiaries

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

Trade Payables

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

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

Equity Instruments

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

Cash and Cash Equivalents

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

Other short-term investments

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

3. Critical Accounting Estimates and Assumptions

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

(a) Recoverability of Development and Production Assets in Ukraine

According to the Group's accounting policies, costs capitalised as assets are assessed for impairment at each balance sheet date if impairment indicators exist. In assessing whether an impairment loss has occurred, the carrying value of the asset is compared to its recoverable amount. In previous years, management had assessed value in use, using a discounted cash flow model to measure its recoverable amount. The cash flows in the model were projected in real terms, i.e. they did not take into account the impact on cash flows of the estimated commodity price index during the period of projection. The discount rate was adjusted accordingly and represented a real terms discount rate. No impairment loss was recognised as a result of the assessment as at 31 December 2016. In the current year, no impairment indicators were identified, due to a favourable change in the Group's performance and the economic environment in Ukraine and, therefore, no impairment test was required. In addition, the Group considered if there were any triggers to reverse any previously recognised impairment and concluded that there was insufficient information to be able to do so. The Group is currently undertaking certain projects with the purpose of refining its field development strategy, including the required capital expenditure, and the reassessment of its mineral reserves. The information that will be obtained from these projects is expected to enable the Group to determine the need for any reassessment of the carrying value of its oil and gas assets.

NOTES
forming part of the financial statements continued

3. Critical Accounting Estimates and Assumptions continued

(b) Recoverability of inter-company loans receivable by the Company from a subsidiary

The Company has certain inter-company loans receivable from a subsidiary, which are eliminated on consolidation. For the purpose of the Company's financial statements, these receivable balances are impaired if the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate is less than the asset's carrying amount, and the resulting impairment loss is recognised in profit or loss in the Company's financial statements. In previous years, impairment charges were recognised against the cumulative balance of the loans issued to subsidiaries based on an analysis of their recoverability. During 2017, the Company received $12,450,000 in repayment of loans receivable from its subsidiaries, including $6,360,000 of interest accrued, which had been impaired in the prior year. In light of this repayment, the provision related to the interest was reversed in the amount repaid. In addition, the Company considered if there were any triggers to reverse any additional previously recognised impairment and concluded that there was insufficient information to be able to do so. The Group is currently undertaking certain projects with the purpose of refining its field development strategy, including the required capital expenditure, and the reassessment of its mineral reserves. The information that will be obtained from these projects is expected to enable the Company to determine the need for any reassessment of the carrying value of its inter-company loans.

(c) Decommissioning

The Group has decommissioning obligations in respect of its Ukrainian assets. 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.

A detailed assessment of gross decommissioning cost was undertaken on a well-by-well basis using local data on day rates and equipment costs. The discount rate applied on the decommissioning cost provision at 31 December 2017 was 4.7% (31 December 2016: 6.11%). The discount rate is calculated in real terms based on the yield to maturity of Ukrainian Government bonds denominated in the currency in which the liability is expected to be settled and with the settlement date that approximates the timing of settlement of decommissioning obligations.

The change in estimate during 2017 reflects a combination of a revision in the estimated costs (increase of $559,000) and the discount rate applied (increase of $421,000).

The decommissioning costs are estimated to be incurred by June 2036 on the MEX-GOL and SV gas and condensate fields, which is the current estimated end of the economic life of the fields, and by 2024 on the VAS gas and condensate field. Management believes that the current licences for the MEX-GOL and SV gas and condensate fields, which are due to expire in July 2024, will be extended until June 2036.

(d) Depreciation of Development and Production Assets

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

The Group is currently undertaking certain projects on the MEX-GOL and SV fields with the purpose of refining its field development strategy, including the required capital expenditure, and the reassessment of its mineral reserves. These projects include the interpretation of a reprocessed 3D seismic dataset, further analysis of technical and economic data, and ongoing revision of the geological model. The information that will be obtained from these projects is to be used in a reassessment of the remaining reserves and resources at these fields, which is planned to be completed in the middle of 2018.

3. Critical Accounting Estimates and Assumptions continued

(e) Recoverability of materials and spare parts inventory

The majority of the Group's materials and spare parts inventory balance comprises items to be used in the Ukraine drilling programme. Where there is uncertainty whether these items will be realised through the drilling programme, or through sale, the materials are recorded at scrap value. 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 judgement for forecasting future profits.

Further details of the deferred tax assets recognised can be found in Note 24.

(g) Exchange differences on intra-group balances with foreign operations

During 2017, a Group subsidiary, Regal Petroleum Corporation (Ukraine) Limited, settled $12,480,000 of intra-group liability of which the Company is the beneficial owner. A further amount of $6,000,000 is expected to be settled by the end of 2018. As such, a foreign exchange difference of $351,000 accumulated on the intra-group balance of $14,560,000 since the date of de-designation of this balance as part of the Company's net investment in the foreign operation up to 31 December 2017 was recognised in profit or loss in these consolidated financial statements. No reclassification of the foreign exchange difference accumulated in equity prior to de-designation was made as there has been no change in the Company's proportionate ownership interest in the foreign operation and therefore no disposal or partial disposal of the foreign operation. There were no changes in management's plans or intentions regarding the payment of intra-group balances unsettled as at 31 December 2017, other than the above-mentioned amount of $6,000,000, and as such, a foreign exchange difference related to the balance designated as net investment in a foreign operation was recognised in other comprehensive income in the Company Statement of Comprehensive Income for the year ended 31 December 2017.

4. Segmental Information

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

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

	Ukraine 2017 $000	United Kingdom 2017 $000	Total 2017 $000
Revenue			
Gas sales	24,936	–	24,936
Condensate sales	7,957	–	7,957
Liquefied Petroleum Gas sales	2,160	–	2,160
Total revenue	35,053	–	35,053
Segment result	19,213	(1,773)	17,440
Depreciation, amortisation and impairment of non-current assets			(11,996)
Operating profit			5,444
Segment assets	44,630	23,399	68,029
Capital additions*	4,024	–	4,024

* Comprises additions to property, plant and equipment (Note 15).

NOTES
forming part of the financial statements continued

4. Segmental Information continued

There are no inter-segment sales within the Group and all products are sold in the geographical region in which they are produced.

During 2017, the Group commenced selling all of its gas production to its related party, LLC Smart Energy ("Smart Energy"). Smart Energy has oil and gas operations in Ukraine and is part of the PJSC Smart-Holding Group, which is ultimately controlled by Mr Vadim Novinskiy, who through an indirect 54% majority shareholding, ultimately controls the Group. This arrangement came about as a consequence of the Ukrainian Government introducing a number of new provisions into the Ukrainian Tax Code over the last two years, including transfer pricing regulations for companies operating in Ukraine. The introduction of the new regulations has meant that there is an increased regulatory burden on affected companies in Ukraine who must prepare and submit reporting information to the Ukrainian Tax Authorities. Due to the corporate structure of the Group, a substantial proportion of its gas production is produced by a non-Ukrainian subsidiary of the Group, which operates in Ukraine as a branch, or representative office as it is classified in Ukraine. Under the new tax regulations, this places additional regulatory obligations on each of the Group's potential customers who may be less inclined to purchase the Group's gas and/or may seek discounts on sales prices. As a result of discussions between the Company and Smart Energy, Smart Energy agreed to purchase all of the Group's gas production and to assume responsibility for the regulatory obligations under the Ukrainian tax regulations. Furthermore, Smart Energy has agreed to combine the Group's gas production with its own gas production, and to sell such gas as combined volumes, which should result in higher sales prices due to the larger sales volumes. In order to cover Smart Energy's sales, administration and regulatory compliance costs, the Group has agreed to sell its gas to Smart Energy at a small discount to the gas sales prices achieved by Smart Energy, who sell the combined volumes in line with market prices. The terms of sale, effective from June 2017, for the Group's gas to Smart Energy are (i) payment for one third of the estimated monthly volume of gas by the 20th of the month of delivery, and (ii) payment of the remaining balance by the 10th of the month following the month of delivery.

	Ukraine 2016 $000	United Kingdom 2016 $000	Total 2016 $000
Revenue			
Gas sales	16,529	–	16,529
Condensate sales	5,696	–	5,696
Liquefied Petroleum Gas sales	3,434	–	3,434
Total revenue	25,659	–	25,659
Segment result	13,773	(2,257)	11,516
Depreciation, amortisation and impairment of non-current assets			(9,141)
Operating profit			2,375
Segment assets	50,960	13,508	64,468
Capital additions*	13,899	–	13,899

* Comprises additions to property, plant and equipment (Note 15).

5. Cost of Sales

	2017 $000	2016 $000
Depreciation of property, plant and equipment	**10,796**	8,620
Production taxes	**7,856**	4,401
Staff costs (Note 8)	**1,867**	1,402
Cost of inventories recognised as an expense	**1,063**	760
Amortisation of mineral reserves	**822**	417
Rent expenses (Note 27)	**707**	93
Impairment of inventory	**179**	–
Cost of purchased gas	**6**	1,712
Geological services	**–**	40
Other expenses	**976**	1,188
	24,272	18,633

6. Administrative Expenses

	2017 $000	2016 $000
Staff costs (Note 8)	**3,473**	2,580
Consultancy fees	**520**	1,063
Auditors' remuneration	**349**	281
Rent expenses (Note 27)	**266**	279
Amortisation of other intangible assets	**104**	36
Depreciation of other assets	**94**	68
Other expenses	**505**	374
	5,311	4,681

	2017 $000	2016 $000
Audit of the Company and subsidiaries	**234**	209
Audit related assurances services – interim review	**51**	50
Total assurance services	**285**	259
Tax compliance services	**63**	22
Tax advisory services	**1**	–
Total non-audit services	**64**	22
Total audit and other services	**349**	281

All amounts shown as Auditor's remuneration in 2017 and 2016 were payable to the Group Auditors, PricewaterhouseCoopers LLP and other member firms of PricewaterhouseCoopers LLP.

NOTES
forming part of the financial statements continued

7. Remuneration of Directors

	2017 $000	2016 $000
Directors' emoluments	**940**	694

The emoluments of the individual Directors were as follows:

	Total emoluments 2017 $000	Total emoluments 2016 $000
Executive Directors:		
Keith Henry	**432**	337
Sergii Glazunov	**174**	121
Non-Executive Directors:		
Alastair Graham	**88**	74
Adrian Coates	**68**	61
Alexey Pertin	**58**	61
Yulia Kirianova	**58**	40
Chris Hopkinson	**31**	–
Bruce Burrows	**19**	–
Phil Frank	**12**	–
	940	694

Sergii Glazunov was appointed as Chief Executive Officer in August 2017, and is paid $252,000 per annum. Prior to his appointment as Chief Executive Officer, Mr Glazunov was Finance Director, and was paid $118,000 for the period from January 2017 to July 2017.

Chris Hopkinson was appointed as Non-Executive Director in September 2017, for which he was paid £45,000 per annum. In October 2017, he was appointed Non-Executive Chairman, for which he is now paid £100,000 per annum.

Bruce Burrows was appointed as Non-Executive Director in August 2017, and is paid £45,000 per annum.

Phil Frank was appointed as Non-Executive Director in October 2017, and is paid £45,000 per annum.

Keith Henry's role as Executive Chairman was made redundant in October 2017. He was paid £250,000 per annum for the period from January 2017 to October 2017, and thereafter was paid termination compensation of £123,886 and unused holiday pay of £12,500.

Adrian Coates stepped down as Non-Executive Director in August 2017. He was paid £45,000 per annum for the period from January 2017 to August 2017, and thereafter was paid termination compensation of £22,500.

Alastair Graham stepped down as Non-Executive Director in October 2017. He was paid £45,000 per annum for the period from January 2017 to October 2017, and thereafter was paid termination compensation of £32,500.

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

8. Staff Numbers and Costs

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

	Number of employees	
Group	**2017**	2016
Management/operational	**130**	113
Administrative support	**66**	58
	196	171

The increase in the average monthly number of employees is due to an increase in employees upon the acquisition of LLC Prom-Enerho Produkt in July 2016.

The aggregate staff costs of these employees were as follows:

	2017 $000	2016 $000
Wages and salaries	**4,739**	3,435
Other pension costs	**540**	499
Social security costs	**61**	48
	5,340	3,982

9. Financial income

During 2017, the Group recorded interest income of $956,000 (2016: $770,000) from placement of cash on current and deposit accounts and recognised foreign exchange gains less losses of $351,000 (2016: nil).

10. Finance Costs

	2017 $000	2016 $000
Unwinding of discount on decommissioning provision (Note 22)	**112**	82
Loss on early settlement of non-interest bearing loan	**–**	103
	112	185

11. Other operating gains and (losses) (net)

	2017 $000	2016 $000
Impairment of non-current assets (Note 15)	**(180)**	–
Gain on sales of current assets	**117**	91
Rental income	**6**	22
Agency remuneration	**–**	(29)
Allowance of doubtful debts	**(31)**	(64)
Other operating income, net	**62**	10
	(26)	30

NOTES
forming part of the financial statements continued

12. Income tax expense

(a) Income tax expense and (benefit):

	2017 $000	2016 $000
Current tax		
Overseas – current year	**3,037**	1,977
Overseas – prior year	**–**	(38)
Deferred tax (Note 24)		
UK – current year	**(603)**	121
UK – prior year	**1,516**	1,847
Overseas – current year	**351**	191
Income tax expense	**4,301**	4,098

(b) Factors affecting tax charge for the year:

The tax assessed for the year is different from the blended rate of corporation tax in the UK of 19.25%. The expense/(income) for the year can be reconciled to the profit/(loss) as per the Income Statement as follows:

	2017 $000	2016 $000
Profit on ordinary activities before taxation	**6,589**	2,839
Tax charge at UK tax rate of 19.25% (2016: 20%)	**1,268**	568
Tax effects of:		
Lower foreign corporate tax rates in Ukraine (18%)	**(33)**	(18)
Disallowed expenses and non-taxable income	**(2,905)**	(1,962)
Losses not recognised as deferred tax assets	**4,455**	3,212
Adjustment for reduction in UK corporate tax rate	**–**	492
Realisation of previously unrecognised deferred tax assets on provision for unused vacations	**–**	(3)
Adjustments in respect of prior periods	**1,516**	1,809
Tax expense for the year	**4,301**	4,098

The tax effect of disallowed expenses and non-taxable income are mainly represented by foreign exchange differences of Regal Petroleum Corporation (Ukraine) Limited.

The tax effect losses not recognised as deferred tax assets are mainly represented by accumulated losses of Regal Petroleum Corporation (Ukraine) Limited.

13. Profit/(Loss) for the Financial Year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Income Statement in these financial statements. The Group profit for the year includes a Parent Company profit after tax of $12,239,000 for the year ended 31 December 2017. For the year ended 31 December 2016, the Group loss included a Parent Company loss after tax of $15,616,000.

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 year and 320,637,836 (2016: 320,637,836) ordinary shares, being the weighted average number of shares in issue for the year. There are no dilutive instruments.

15. Property, Plant and Equipment

	2017			2016		
Group	**Development and Production assets Ukraine $000**	**Other fixed assets $000**	**Total $000**	Development and Production assets Ukraine $000	Other fixed assets $000	Total $000
Cost						
At beginning of year	**100,490**	**902**	**101,392**	99,254	719	99,973
Additions	**3,749**	**275**	**4,024**	5,973	229	6,202
Additions due to acquisition of subsidiary	**–**	**–**	**–**	7,610	87	7,697
Change in decommissioning provision	**1,119**	**–**	**1,119**	359	–	359
Disposals	**(48)**	**(13)**	**(61)**	(153)	(17)	(170)
Exchange differences	**(3,383)**	**(60)**	**(3,443)**	(12,553)	(116)	(12,669)
At end of year	**101,927**	**1,104**	**103,031**	100,490	902	101,392
Accumulated depreciation and impairment						
At beginning of year	**79,649**	**389**	**80,038**	81,114	356	81,470
Charge for year	**10,812**	**119**	**10,931**	8,620	68	8,688
Impairment charged for individual assets	**180**	**–**	**180**	–	–	–
Disposals	**(21)**	**(11)**	**(32)**	(1)	(11)	(12)
Exchange differences	**(3,029)**	**(19)**	**(3,048)**	(10,084)	(24)	(10,108)
At end of year	**87,591**	**478**	**88,069**	79,649	389	80,038
Net book value at beginning of year	**20,841**	**513**	**21,354**	18,140	363	18,503
Net book value at end of year	**14,336**	**626**	**14,962**	20,841	513	21,354

According to the results of the annual count and revision carried out in 2017, individual obsolete and damaged non-current assets were impaired by the amount of $180,000 (Note 11).

In accordance with the Group's accounting policies, the oil and gas development and producing assets are tested for impairment at each balance sheet date if impairment indicators exists. As at 31 December 2017, no impairment indicators were identified.

NOTES
forming part of the financial statements continued

16. Intangible assets

	2017			2016		
Group	**Mineral reserve rights $000**	**Other intangible assets $000**	**Total $000**	Mineral reserve rights $000	Other intangible assets $000	Total $000
Cost						
At beginning of year	**6,832**	**144**	**6,976**	–	94	94
Additions	**–**	**150**	**150**	–	71	71
Additions due to acquisition of subsidiary	**–**	**–**	**–**	7,479	4	7,483
Disposals	**–**	**(26)**	**(26)**	–	(9)	(9)
Exchange differences	**(214)**	**(11)**	**(225)**	(647)	(16)	(663)
At end of year	**6,618**	**257**	**6,875**	6,832	144	6,976
Accumulated amortisation and impairment						
At beginning of year	**393**	**53**	**446**	–	31	31
Charge for year	**822**	**104**	**926**	417	36	453
Disposals	**–**	**(26)**	**(26)**	–	(9)	(9)
Exchange differences	**(54)**	**(7)**	**(61)**	(24)	(5)	(29)
At end of year	**1,161**	**124**	**1,285**	393	53	446
Net book value at beginning of year	**6,439**	**91**	**6,530**	–	63	63
Net book value at end of year	**5,457**	**133**	**5,590**	6,439	91	6,530

Intangible assets consist mainly of the hydrocarbon production licence relating to the VAS gas and condensate field which is owned by LLC Prom-Enerho Produkt. The Group amortises this intangible asset using the straight-line method over the term of the licence until 2024.

In accordance with the Group's accounting policies, intangible assets are tested for impairment at each balance sheet date as part of the impairment testing of the Group's oil and gas development and producing assets if impairment indicators exist. As at 31 December 2017, no impairment indicators were identified.

17. Investments and loans to subsidiaries

Company	**Shares in subsidiary undertakings $000**	**Loans to subsidiary undertakings $000**	**Total $000**
At 1 January 2016	17,279	48,311	65,590
Additions including accrued interest	–	5,384	5,384
Impairment of loans to subsidiary	–	(16,209)	(16,209)
Exchange differences	–	(1,817)	(1,817)
At 31 December 2016	17,279	35,669	52,948
At 1 January 2017	**17,279**	**35,669**	**52,948**
Additions including accrued interest	**–**	**3,886**	**3,886**
Repayment of interests and loans	**–**	**(12,450)**	**(12,450)**
Reversal of impairment of loans to subsidiary	**–**	**6,360**	**6,360**
Exchange differences	**–**	**4,760**	**4,760**
At 31 December 2017	**17,279**	**38,225**	**55,504**

As at 31 December 2016, the Company recognised an impairment of $16,209,000 against the carrying value of loans to reflect the significant decrease in the carrying value of the Ukrainian assets due to devaluation of Ukrainian Hryvnia. As at 31 December 2017, part of the impairment totalling $6,360,000 was reversed, which equals the amount of interest paid during the year, which had been fully provided for in previous years.

17. Investments and loans to subsidiaries continued

Subsidiary undertakings

At 31 December 2017, the Company's subsidiary undertakings, all of which are included in the consolidated financial statements, were:

	Registered address	Country of incorporation	Country of operation	Principal activity	% of shares held
Regal Petroleum Corporation Limited	26 New Street, St Helier, Jersey, JE2 3RA	Jersey	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum Corporation (Ukraine) Limited	162 Shevchenko Str., Yakhnyky Village, Lokhvytsya District, Poltava Region, 37212	Ukraine	Ukraine	Service Company	100%
Refin Limited	162 Shevchenko Str., Yakhnyky Village, Lokhvytsya District, Poltava Region, 37212	Ukraine	Ukraine	Service Company	100%
LLC Prom-Enerho Produkt	3 Klemanska Str., Kiev, 02081	Ukraine	Ukraine	Oil & Natural Gas Extraction	100%
Regal Petroleum (Jersey) Limited	26 New Street, St Helier, Jersey, JE2 3RA	Jersey	United Kingdom	Holding Company	100%
Regal Group Services Limited	16 Old Queen Street, London, SW1H 9HP	United Kingdom	United Kingdom	Service Company	100%

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

Regal Group Services Limited, company number 5252958, has taken advantage of the subsidiary audit exemption allowed under section 479A of the Companies Act 2006 for the year ended 31 December 2017.

18. Inventories

	Group	
Current	**2017 $000**	2016 $000
Materials and spare parts	**1,178**	1,150
Finished goods	**216**	50
	1,394	1,200

Inventories consist of materials, spare parts and finished goods. Materials and spare parts are represented by spare parts that were not assigned to any new wells as at 31 December 2017, production raw materials and fuel at the storage facility. Finished goods consist of produced gas held in underground gas storage facilities and condensate and LPG held at the processing facility prior to sale.

All inventories are measured at the lower of cost or net realisable value.

According to the results of a stocktake carried out in 2017, individual obsolete and damaged current assets were impaired by the amount of $179,000 (Note 5).

NOTES
forming part of the financial statements continued

19. Trade and Other Receivables

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Trade receivables	**2,492**	2,203	**–**	–
Prepayments and accrued income	**3,633**	1,300	**31**	29
VAT receivable	**156**	543	**41**	50
Other receivables	**255**	197	**475**	460
	6,536	4,243	**547**	539

Due to the short-term nature of the current trade and other receivables, their carrying amount is assumed to be the same as their fair value. All trade receivables, except those provided for, are considered to be of high credit quality.

At 31 December 2017, the Group's total trade receivables amounted to $2,492,000 and 100% were denominated in Ukrainian Hryvnia (31 December 2016: $2,203,000 and 100% were denominated in Ukrainian Hryvnia). Further description of financial receivables is disclosed in Note 29.

Prepayments and accrued income mainly consists of prepayments of $3,130,000 relating to the development of the VAS field (31 December 2016: $1,048,000 relating to the development of the MEX-GOL field).

The current VAT receivable in respect of the Group includes $156,000 (2016: $543,000) relating to capital expenditure in Ukraine which is expected to be recovered via an offset against VAT payable on future sales in that country. The Group expects to offset the total amount of VAT receivable at 31 December 2017 during the 2018 year, and therefore no VAT receivable was included within non-current trade and other receivables.

Movements in the impairment provision for trade and other receivables are as follows:

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Provision for impairment at 1 January 2017	**64**	–	**–**	–
Provision charge for impairment during the year	**31**	64	**–**	–
Exchange differences	**(5)**	–	**–**	–
Provision for impairment at 31 December 2017	**90**	64	**–**	–

20. Cash and Cash Equivalents and Other Short-term Investments

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Cash and Cash Equivalents				
Cash at bank and on hand	**1,736**	5,630	**332**	275
Demand deposits and term deposits with maturity less than 3 months	**12,513**	14,336	**4,079**	9,370
	14,249	19,966	**4,411**	9,645
Other short-term investments				
Term deposits with maturity more than 3 months	**16,000**	–	**16,000**	–
	16,000	–	**16,000**	–

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

20. Cash and Cash Equivalents and Other Short-term Investments continued

The credit quality of cash and cash equivalents balances and other short-term investments may be summarised based on Moody's ratings as follows at 31 December:

	Cash at bank and on hand 2017 $000	**Demand deposits and term deposits with maturity less than 3 months 2017 $000**	**Total cash and cash equivalents 2017 $000**	**Term deposits with maturity more than 3 months 2017 $000**	**Total other short-term investments 2017 $000**
A- to A+ rated	**691**	**4,079**	**4,770**	**16,000**	**16,000**
B- to B+ rated	**–**	**7,241**	**7,241**	**–**	**–**
Unrated	**1,045**	**1,193**	**2,238**	**–**	**–**
	1,736	**12,513**	**14,249**	**16,000**	**16,000**

	Cash at bank and on hand 2016 $000	Demand deposits and term deposits with maturity less than 3 months 2016 $000	Total cash and cash equivalents 2016 $000	Term deposits with maturity more than 3 months 2016 $000	Total other short-term investments 2016 $000
A- to A+ rated	605	9,370	9,975	–	–
B- to B+ rated	–	–	–	–	–
Unrated	5,025	4,966	9,991	–	–
	5,630	14,336	19,966	–	–

21. Trade and Other Payables

	Group		**Company**	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Accruals and other payables	**1,369**	764	**90**	149
Taxation and social security	**965**	651	**–**	–
Trade payables	**67**	–	**–**	–
Advances received	**22**	20	**–**	–
	2,423	1,435	**90**	149

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature. A description of financial payables is disclosed in Note 29.

The increase of accruals is mostly represented by bonuses accrued for employees of $412,000 payable in 2018 and fees payable on a new well lease of $233,000.

NOTES
forming part of the financial statements continued

22. Provision for Decommissioning

Group	2017 $000	2016 $000
At beginning of year	**1,915**	831
Amounts provided	**139**	49
Amounts provided due to acquisition of subsidiary	**–**	816
Unwinding of discount (Note 10)	**112**	82
Change in estimate	**980**	310
Exchange differences	**(119)**	(173)
At end of year	**3,027**	1,915

The provision for decommissioning is based on the net present value of the Group's estimated liability for the removal of the Ukraine production facilities and well site restoration at the end of production life.

Amounts provided during 2016 as a result of the acquisition of LLC Prom-Enerho Produkt amounted to $816,000, reflecting a provision for decommissioning of existing wells, pipeline and the gas production plant at the VAS gas and condensate field.

The change in estimate during 2017 reflects a combination of a revision in the estimated costs (increase of $559,000) and the discount rate applied (increase of $421,000). The discount rate in real terms applied on the decommissioning cost provision at 31 December 2017 was 4.7% (31 December 2016: 6.11%). The decrease of the discount rate at 31 December 2017 came as a result of a Ukrainian Eurobonds' yield decrease and a respective decrease of Country Risk Premium. These costs are expected to be incurred by 2036 on the MEX-GOL and SV gas and condensate fields (2016: by 2036), and by 2024 on the VAS gas and condensate field, although if the costs on the MEX-GOL and SV gas and condensate fields were to be incurred at the current expiry of the production licences in 2024, the provision for decommissioning at 31 December 2017 would be $2,613,000 (31 December 2016: $2,219,000).

The principal assumptions used are as follows:

	31 December 2017	31 December 2016
Discount rate, %	**4.70%**	6.11%
Average cost of restoration per well, $000	**179**	171

The sensitivity of the restoration provision to changes in the principal assumptions is presented below:

	31 December 2017	31 December 2016
Discount rate (increase)/decrease by 1%	**(344)/403**	(240)/284
Change in average cost of restoration increase/(decrease) by 10%	**197/(197)**	134/(134)

23. Defined benefit liability

Group	2017 $000	2016 $000
At beginning of year	**303**	164
Amounts provided due to subsidiary acquisition	**–**	26
Income statement charge included in operating profit	**(16)**	42
Remeasurements	**1**	104
Benefits paid	**(5)**	(2)
Exchange differences	**(8)**	(31)
At end of year	**275**	303

23. Defined benefit liability continued

The principal assumptions used in calculation of the retirement benefit obligations are as follows:

	2017	2016
Nominal discount rate, %	**9.53%**	12.00%
Nominal salary increase, %	**12.00%**	25.00%

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2017 $000	2016 $000
Nominal discount rate increase/decrease by 1%	**(35)/43**	(37)/44
Nominal salary increase/decrease by 1%	**31/(28)**	12/(22)

24. Deferred Tax

	2017 $000	2016 $000
Deferred tax asset recognised on tax losses – Company and Group		
At beginning of year	**3,717**	4,470
Charged to Income Statement – current year	**(1,150)**	(753)
At end of year	**2,567**	3,717

	2017 $000	2016 $000
Deferred tax asset recognised relating to development and production asset and provision for decommissioning – Group		
At beginning of year	**7,404**	9,963
Credited to Income Statement – current year	**1,051**	250
(Charged) to Income Statement – prior year	**(1,516)**	(1,847)
Effect of exchange difference	**(245)**	(962)
At end of year	**6,694**	7,404

	2017 $000	2016 $000
Deferred tax liability recognised relating mainly to development and production asset – Group		
At beginning of year	**(1,187)**	–
Acquisition of subsidiary	**–**	(1,499)
Charged to Income Statement – current year	**351**	191
Effect of exchange difference	**16**	121
At end of year	**(820)**	(1,187)

At 31 December 2017, the Group recognised a deferred tax asset of $2,567,000 in relation to UK tax losses carried forward (31 December 2016: $3,717,000). There was a further $83 million (31 December 2016: $85 million) of unrecognised UK tax losses carried forward for which no deferred tax asset has been recognised. These losses can be carried forward indefinitely, subject to certain rules regarding capital transactions and changes in the trade of the Company. The Directors consider it appropriate to recognise deferred tax assets resulting from accumulated tax losses at 31 December 2017 to the extent that it is probable that there will be sufficient future taxable profits.

NOTES
forming part of the financial statements continued

24. Deferred Tax continued

The deferred tax asset relating to the Group's provision for decommissioning at 31 December 2017 of $127,000 (31 December 2016: $68,000) was recognised on the tax effect of the temporary differences on the Group's provision for decommissioning at the MEX-GOL and SV gas and condensate fields, and its tax base. The deferred tax asset relating to the Group's development and production assets at 31 December 2017 of $6,567,000 (31 December 2016: $7,336,000) was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and production asset at the MEX-GOL and SV gas and condensate fields, and its tax base. This is deemed recoverable on the projected future profits generated by the Group's operations in Ukraine. The forecast profits are based on the current field development plan at the MEX-GOL and SV gas and condensate fields, and are determined using data from the same cash flow model which was used for impairment review of such development and production asset, as outlined in Note 15. Based on these projections, the deferred tax asset recognised will be recovered by 2022. However, should future field development not result in additional production, only $1 million of the $7 million deferred tax recognised would be recoverable based on forecast profits available from the Group's existing wells.

The deferred tax asset relating to the Group's provision for decommissioning at 31 December 2017 of $277,000 (31 December 2016: $151,000) was recognised on the tax effect of the temporary differences on the Group's provision for decommissioning at the VAS gas and condensate fields, and its tax base. The deferred tax liability relating to the Group's development and production assets at 31 December 2017 of $1,097,000 (31 December 2016: $1,338,000) was recognised on the tax effect of the temporary differences between the carrying value of the Group's development and production asset at the VAS gas and condensate fields, and its tax base.

The impact of the UK losses surrendered to the Ukrainian operating subsidiary in relation to losses was $4,649,000 for 2015. There were no UK losses surrendered for the year ended 31 December 2016–2017.

Losses accumulated in a Ukrainian subsidiary service company of UAH3,130,112,486 ($111,521,999) at 31 December 2017 and UAH2,448,430,023 ($90,046,074) at 31 December 2016 mainly originated as foreign exchange differences on inter-company loans and for which no deferred tax asset was recognised as this subsidiary is not expected to have taxable profits to utilise these losses in the future.

As at 31 December 2017 and 2016, the Group has not recorded a deferred tax liability in respect of taxable temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

UK Corporation tax change

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main tax rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 were substantively enacted on 26 October 2015. Changes to reduce the UK corporation tax rate to 17% from 1 April 2020 were substantively enacted on 6 September 2016 and the effects of these changes are included in the consolidated financial statements.

25. Called Up Share Capital

	2017		2016	
	Number	**$000**	Number	$000
Allotted, called up and fully paid				
Opening balance at 1 January	**320,637,836**	**28,115**	320,637,836	28,115
Issued during the year	**–**	**–**	–	–
Closing balance at 31 December	**320,637,836**	**28,115**	320,637,836	28,115

There are no restrictions over ordinary shares issued.

26. Other Reserves

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at general meetings of shareholders. Distributable reserves are limited to the balance of retained earnings. The share premium reserves are not available for distribution by way of dividends.

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

Capital contributions reserve

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

Merger reserve

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

Foreign exchange reserve

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

27. Operating Lease Arrangements

The Group as Lessee

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Lease payments under operating leases recognised as an expense for the year	**973**	372	**120**	145

Lease payments under operating leases recognised as an expense for the year ended 31 December 2017 are mainly represented by the rentals of office properties in Ukraine and the UK of $266,000 (2016: $279,000) and the leases of land and wells of $707,000 (2016: $93,000). The increase in lease expenses in 2017 is mainly attributable to lease expenses relating to the SV-2 well of $519,000.

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

	Land and buildings	
Group and Company	**2017 $000**	2016 $000
Amounts payable due:		
– Within one year	**103**	97
	103	97

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

NOTES
forming part of the financial statements continued

28. Reconciliation of Operating Profit to Operating Cash Flow

Group	2017 $000	2016 $000
Operating profit	**5,444**	2,375
Depreciation, amortisation and impairment charges	**11,816**	9,141
Gain on sales of current assets, net	**(117)**	(91)
Impairment of non-current assets	**180**	–
Impairment of inventory	**179**	–
Loss from write-off of doubtful debts	**31**	64
Gain from write-off of non-current assets	**(15)**	(14)
Movement in provisions	**(5)**	(20)
(Increase)/decrease in inventory	**(182)**	90
Increase in receivables	**(403)**	(1,730)
Decrease in payables	**1,054**	156
Cash generated from operations	**17,982**	9,971

Company	2017 $000	2016 $000
Operating loss	**(1,772)**	(18,430)
Movement in provisions (including impairment of subsidiary loans)	**–**	16,209
Increase in receivables	**(8)**	(13)
Decrease in payables	**(59)**	(34)
Cash used in operations	**(1,839)**	(2,268)

29. Financial Instruments

Capital Risk Management

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

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

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

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

There are no capital requirements imposed on the Group.

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

29. Financial Instruments continued

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

Financial Assets

Group	2017 $000	2016 $000
Cash and cash equivalents	**14,249**	19,966
Other short-term investments	**16,000**	–
Trade and other receivables	**2,632**	2,224
	32,881	22,190

Company	2017 $000	2016 $000
Cash and cash equivalents	**4,411**	9,645
Other short-term investments	**16,000**	–
Trade and other receivables	**464**	442
	20,875	10,087

Financial Liabilities

Group	2017 $000	2016 $000
Trade and other payables	**67**	–
Accruals	**653**	345
	720	345

Company	2017 $000	2016 $000
Accruals	**90**	149
	90	149

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

Currency Risk

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

Currency	2017 $000	2016 $000
British Pounds	**373**	316
Euros	**5**	4
Canadian Dollars	**2**	2
US Dollars	**–**	–
Net monetary assets less liabilities	**380**	322

NOTES
forming part of the financial statements continued

29. Financial Instruments continued

Foreign Currency Sensitivity Analysis

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

	2017 After tax impact on profit or loss $000	2016 After tax impact on profit or loss $000
GBP strengthening by 30%	**112**	95
EUR strengthening by 30%	**2**	1

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

Interest Rate Risk Management

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

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

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

Interest Rate Sensitivity Analysis

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

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 2017 would increase by $55,000 in the event of 0.5% higher interest rates and decrease by $55,000 in the event of 0.5% lower interest rates (decrease of loss for the year ended 31 December 2016 by $87,000 in the event of 0.5% higher interest rates and increase by $87,000 in the event of 0.5% lower interest rates). This is mainly attributable to the Group's exposure to interest rates on its money market deposits; and
- other equity reserves would not be affected (2016: not affected).

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

Liquidity Risk

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

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

Liquidity risk for the Group is further detailed under the Principal Risks and Uncertainties section of the Strategic Report.

29. Financial Instruments continued

Credit Risk

Credit risk principally arises in respect of the Group's cash balance and other short-term investments. In the UK, where $4.8 million of the overall cash and cash equivalents and $16 million of other short-term investments is held (31 December 2016: $10.0 million cash and cash equivalents and $nil other short-term investments), the Group only deposits cash surpluses with major banks of high quality credit standing (Note 20). As at 31 December 2017, the remaining balance of $9.4 million of cash and cash equivalents was held in Ukraine (31 December 2016: $10.0 million). In May 2017, Standard & Poor's affirmed Ukraine's sovereign credit rating of "B-/B", Outlook Stable. There is no international credit rating information available for the specific banks in Ukraine where the Group currently holds its cash and cash equivalents.

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

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

None of the Group's trade receivables are past due or impaired.

Interest Rate Risk Profile of Financial Assets

The Group had the following cash and cash equivalent and other short-term investments balances which are included in financial assets as at 31 December 2017 with an exposure to interest rate risk:

Currency	**Total 2017 $000**	**Floating rate financial assets 2017 $000**	**Fixed rate financial assets 2017 $000**	Total 2016 $000	Floating rate financial assets 2016 $000	Fixed rate financial assets 2016 $000
Canadian Dollars	**2**	**2**	**–**	2	2	–
Euros	**5**	**5**	**–**	4	4	–
British Pounds	**536**	**536**	**–**	471	471	–
Ukrainian Hryvnia	**9,479**	**–**	**9,479**	9,992	–	9,992
US Dollars	**20,227**	**4,227**	**16,000**	9,497	9,497	–
	30,249	**4,770**	**25,479**	19,966	9,974	9,992

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

Interest Rate Risk Profile of Financial Liabilities

The Group had no interest bearing financial liabilities at the year end (2016: $nil).

NOTES
forming part of the financial statements continued

29. Financial Instruments continued

Maturity of Financial Liabilities

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

Group	2017 $000	2016 $000
In one year or less	**720**	345
	720	345

Company	2017 $000	2016 $000
In one year or less	**90**	149
	90	149

Borrowing Facilities

The Group did not have any borrowing facilities available to it at the year end (2016: $nil).

Fair Value of Financial Assets and Liabilities

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

30. Contingencies and Commitments

Amounts contracted in relation to the Group's 2017 investment programme in the MEX-GOL, SV and VAS gas and condensate fields in Ukraine, but not provided for in the financial statements at 31 December 2017, were $3,151,000 (2016: $1,212,000).

During 2010–2017, the Group has been in dispute with the Ukrainian tax authorities in respect of VAT receivables on imported leased equipment, with a disputed liability of up to UAH8,487,000 ($302,000) inclusive of penalties and other associated costs. There is a level of ambiguity in the interpretation of the relevant tax legislation, and the position adopted by the Group has been challenged by the Ukrainian tax authorities, which has led to legal proceedings to resolve the issue. The Group had been successful in three court cases in respect of this dispute in courts of different levels. On 20 September 2016, a hearing was held in the Supreme Court of Ukraine of an appeal of the Ukrainian tax authorities against the decision of the Higher Administrative Court of Ukraine, in which the appeal of the Ukrainian tax authorities was upheld. As a result of this appeal decision, all decisions of the lower courts were cancelled, and the case was remitted to the first instance court for a new trial. On 1 December 2016 and 7 March 2017 respectively, the Group received positive decisions in the first and second instance courts, but further legal proceedings may arise. Since as at the end of the year, the Group had been successful in previous court cases in respect of this dispute in courts of different levels, the date of the next legal proceedings has not been set and as management believes that adequate defences exist to the claim, no liability has been recognised in these consolidated financial statements for the year ended 31 December 2017 (31 December 2016: nil).

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:

	2017 $000	2016 $000
Sale of goods/services	**25,030**	65
Purchase of goods/services	**369**	230
Amounts owed by related parties	**2,509**	–
Amounts owed to related parties	**30**	20

All related party transactions were with subsidiaries of the ultimate Parent Company, and primarily relate to the sale of gas (see Note 4 for more details), the rental of office facilities and a vehicle and the sale of equipment. The amounts outstanding were unsecured and will be settled in cash.

As of 31 December 2017, the Company's immediate parent company was Energees Management Limited, which is 100% owned by Pelidona Services Limited, which is 100% owned by Lovitia Investments Ltd, which is 100% owned by Mr V Novinskiy. Accordingly, the Company was ultimately controlled by Mr V Novinskiy.

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

	2017 $000	2016 $000
Interest income	**–**	365
Bank charges	**56**	1
Closing cash balance	**6**	–

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

32. Post Balance Sheet Events

On 14 March 2018, the Group announced the spud of the VAS-10 well at the VAS field. The well has a target depth of 3,450 metres, with drilling operations scheduled to be completed in June 2018 and, subject to successful testing, production hook-up during the third quarter of 2018.

ADVISERS

Company Secretary and Registered Office
Chris Phillips
16 Old Queen Street
London SW1H 9HP
United Kingdom

Bankers
Lloyds Bank Corporate
London Chief Office
155 Bishopsgate
London EC2M 3YB
United Kingdom

Broker
Bank of America Merrill Lynch
Bank of America Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ
United Kingdom

Independent Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH
United Kingdom

Solicitors
Pinsent Masons LLP
30 Crown Place
London EC2A 4ES
United Kingdom

Share Registry
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZY
United Kingdom

Nominated Adviser
Strand Hanson Limited
26 Mount Row
London W1K 3SQ
United Kingdom

Solicitors
Holman Fenwick Willan LLP
Friary Court
65 Crutched Friars
London EC3N 2AE
United Kingdom

PR Advisers
Citigate Dewe Rogerson
3 London Wall Buildings
London EC2M 5SY
United Kingdom

GLOSSARY

bbl	barrels
boe	barrels of oil equivalent
Bscf	thousands of millions of scf
boepd	barrels of oil equivalent per day
HSES	health, safety, environment and security
km	kilometres
km²	square kilometres
LPG	liquefied petroleum gas
MEX-GOL	Mekhediviska-Golotvshinska
m³	cubic metres
m³/d	cubic metres per day
Mm³	thousand cubic metres
MMm³	million cubic metres
Mtonnes	thousand tonnes
MMbbl	million barrels
MMboe	million barrels of oil equivalent
%	per cent
scf	standard cubic feet measured at 14.7 pounds per square inch and 60 degrees Fahrenheit
SV	Svyrydivske
$	United States Dollar
UAH	Ukrainian Hryvnia
VAS	Vasyschevskoye
VED	Vvdenska

Regal Petroleum plc
16 Old Queen Street
London
SW1H 9HP
+44 (0)20 3427 3550
www.regalpetroleum.com

Stock code: RPT