FINANCIAL REVIEW

The Group's financial results for 2014 reflect what has been a challenging period for the oil and gas sector with the significant decline in the oil prices and the resultant impact on both direct revenue and also the balance sheet values of assets. Given the nature of Petroceltic's production portfolio which generates the majority of its revenue from gas production, the Group's 2014 revenue has not been materially affected by the reduction in commodity prices. However, the current low price environment does impact on the asset value of the Group's oil and gas assets, which has contributed to the significant impairment charges reflected in the 2014 results.

The Group's policy is to fund operations through a combination of operating cash flow, available financial facilities and the proceeds of portfolio management. The approval for the transfer of Petroceltic's Interest in Ain Tsila to a subsidiary company in June 2015 is an important step in the overall financing process. This process has also enabled the launch of the recently announced contemplated Bond Issue for up to $175m which will be a crucial step towards providing the financial resources to continue to implement the Group's strategy with regards to delivering shareholder value from the core assets and in particular Algeria.

Revenue and Commodity Prices

The Group recorded revenue in 2014 of $157m (2013: $197m) which comprised of $106m for oil and gas sales in Egypt and $51m for gas sales in Bulgaria. Working interest production was in line with guidance and averaged 22.5 Mboepd, a decrease of 10% for the year (2013: 25.2 Mboepd). The Group's gas production in Egypt is sold under long term fixed contracts with the average price for 2014 being $2.76/Mcf, whilst the average price achieved in 2014 for sales in Bulgaria was $8.34/Mcf. On average, the liquid prices in 2014 were lower than in 2013 due to the oil price falling significantly in the second half of 2014. However sales of liquids in Egypt constituted approximately 30% of the Group's revenue for 2014 and liquids revenue averaged approximately $90.57/bbl during the year.

Operating costs, impairments and expenses

The Group operates in low cost environments with an average operating cost in 2014 of $3.12 per boe (working interest basis) (2013: $2.29 per boe), this increase is due to the decrease in production levels versus prior year. Cost of Sales of $118m (2013: $119m) includes depletion and decommissioning cost of $89m and production costs of $30m.

The Group recognised an impairment charge of $86m of which $80m relates to its producing oil and gas interests, principally driven by lower forecast commodity prices, an adjustment to the Group's reserves in Egypt and an increase in anticipated capital expenditure in Bulgaria and the remaining $6m relates to inventory write off. Unsuccessful exploration costs of $183m, including $129m relating to Kurdistan, $47m relating to Romania and approximately $7m of Egypt and other new venture costs, have also been recorded in the income statement.

Financing activities and net debt

In June 2014, Petroceltic successfully completed a share placing raising approximately $100m in gross funds through an issue of new ordinary shares by way of a placing with institutional investors at a share price of Stg£1.57, a modest premium to the share price prior to the announcement. The Company also welcomed the participation of a new strategic shareholder, Dovenby Capital, who subscribed for approximately $50m as part of the placing. The funds raised through this process in conjunction with the Group's senior secured debt facility provided the Group with the financial flexibility to continue with the pace of progress on the Ain Tsila development pending the completion of the second farm-out to Sonatrach and also to progress the planned exploration programmes that were being undertaken.

The Company received $120m in the year from EGPC which has significantly reduced the year end receivable balance to $50m (2013:$81m).

As at 31 December 2014, the Group had bank loans, net of capitalised arrangement fees and amounts held in reserve accounts set aside for capital repayment, totalling $196m. The overall debt position of the Group continued to reduce in the year, with Net Debt position of $153m at 31 December 2014 (2013:$246m).

The year-end reserves adjustment to Egypt and Bulgaria, coupled with the on-going volatility in oil pricing has negatively impacted on availability under the Group's reserve based lending facility. The Group has been working with its existing lenders and new providers of finance to remedy this and to put in place a solution that addresses the Group's funding requirement. As part of this process, the Group's existing lenders have agreed to suspend the half yearly redetermination process under the Senior Financing Facility until 30 September 2016, in return for a scheduled programme of repayment totalling $77m over the same period. In conjunction with this, the recently announced proposed up to $175m Bond Issue is an important addition to the Group's overall financing mix and while further funding will be required as the Ain Tsila development progresses over the coming years, the Bond Issue will, once completed, represent the first step in diversifying the Group's funding base as part of its long term financing plan for Ain Tsila.

Profit/loss for the year

The loss for the year was $282m (2013: $19m). This loss primarily arose as a result of exploration costs written off of $183m (2013: $37m) and an impairment charge of $86m (as discussed above).

Dividend policy

No dividend is proposed in respect of 2014 (2013: Nil). However, the future dividend policy of the Group will be regularly reviewed based on performance, investment obligations and overall shareholder value.

Portfolio Management

In July 2014, the Group announced the completion of the farm-out of an 18.375% interest in the Isarene PSC to Sonatrach, the National oil and gas company of Algeria. The terms of the agreement with Sonatrach provide for a consideration of up to a maximum of $180m, of which $20m was due on completion with a further $140m to be payable by Sonatrach towards the Company's share of the development costs in Algeria. In addition, contingent payments of up to $20m are based on the achievement of certain milestones. Based on current forecasts, Sonatrach are expected to pay the Company's share of developments costs throughout 2015 and to Q2 2016. On the basis of the stage of development, the Group accounted for the farm-out transaction in accordance with the Group's accounting policy for farm-out arrangements in the exploration phase. Consequently, the initial $20m payment has been offset against the carrying value of the asset at the completion date and no gain or loss recognised. Subsequent payments received under the carry arrangement have been directly offset against the related capital expenditure. As at 31 December 2014, approximately $120m of the carry remained available. The Group's Algerian asset is now separately disclosed on the Balance Sheet and a new note to the accounts has been prepared under the heading 'assets under development' this is to distinguish it clearly from the Group's producing assets which are held as "property, plant and equipment" and where the Algerian asset was included in the prior year.

Capital expenditure programmes

During 2014, capital expenditure amounted to $109m, which was primarily invested in the on-going development activity in Egypt and exploration drilling in Romania, Kurdistan and Egypt.

Based on current work programmes and budgets, capital expenditure for 2015 is forecast to be circa $167m, of which $79m relates to development work on the Ain Tsila gas development in Algeria which is to be funded by Sonatrach following the completion of the farmout agreement. The Group is currently engaged in a number of farm-out initiatives relating to planned exploration activity and, should they be successfully completed, expenditure levels will be correspondingly reduced.

Corporate restructure

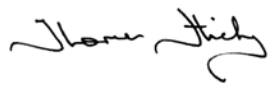
At the capital markets day in January 2015, the Group announced that in light of the current oil price and the planned investment focus and activity levels over the coming years, it would undertake a Group reorganisation to simplify the structure of the Group. This has now been completed and has resulted in a reduction in head count of 27, from 171 in December 2014 to 144 in May 2015 comprising 75 in operations and exploration and 69 in finance and administration.

Investor relations

During 2014, the CEO, COO and CFO as well as other members of the Petroceltic management team held regular meetings with analysts and institutional investors. In addition to these regular meetings, as part of the 2014 equity placing senior management held meetings with all the Group's major shareholders in addition to a number of prospective new holders. In January 2015 the Group held a successful capital markets day in London where Petroceltic senior management presented a detailed update on the significant progress that the Group has made in Egypt and Algeria to institutional investors and other finance professionals.

Accounting policies

The Group's accounting policies and standards comply with IFRS as adopted by the EU and as required by the rules of the AIM and the ESM Markets.



Tom Hickey
Chief Financial Officer