

DIRECTORS' REPORT

The Directors present their Annual Report together with the audited financial statements of Petroceltic International plc (the "Company") and its subsidiaries (collectively "the Group"), for the year ended 31 December 2014.

Directors

The following are the Directors of Petroceltic International plc – all of whom were in office for the full year except as stated:

Robert Adair, Non-executive Chairman

Brian O'Cathain, Chief Executive Officer.

Tom Hickey, Chief Financial Officer (resigned 4 July 2014 and re-appointed 23 March 2015)

David Thomas, Chief Operating Officer (resigned as director on 4 July 2014 and resigned as executive on 10 April 2015)

James Agnew, Non-Executive Director (resigned 11 January 2015)

Hugh McCutcheon, Non-Executive Director and Deputy Chairman (resigned 4 July 2014)

Rob Arnott, Non-Executive Director (resigned 4 July 2014)

Alan Parsley, Non-Executive Director

Ian Craig, Non-Executive Director

Joe Mach, Non-Executive Director (appointed 4 July 2014, resigned 27 February 2015)

Don Wolcott, Non-Executive Director (appointed 4 July 2014, resigned 27 February 2015)

Neeve Billis, Senior Non-Executive Director (appointed 26 February 2015)

Nicholas Gay, Non-Executive Director (appointed 26 February 2015)

Please refer to page 34 and 35 for biographical details of the Directors currently serving office.

Group activities and results

The Group is involved in oil and gas exploration and production and it has a portfolio of producing and high impact development and exploration assets. A detailed business review is included in the Chairman's Statement, the Chief Executive's Review and the Financial Review.

A loss of \$282m was recorded for the year (2013: loss of \$19m). Net assets of the Group at 31 December 2014 amounted to \$330m (2013: \$511m). No dividends are proposed (2013: no dividend).

Details of the state of the Group's affairs, the development of its various activities, key performance indicators and the Group's plans for 2015 are provided on pages 16 to 27.

The Group's policy in relation to managing financial and related risks is set out in note 24 of the financial statements and on pages 51 to 53 of the Corporate Governance Statement.

Going concern

The Group has announced on 29 June 2015, a proposed up to \$175m Bond Issue, further detail of which are set out in the Finance Review and in notes 1 and 27 to the financial statements. The Board has analysed the Group's cash flow requirements through to 30 June 2016 in detail. The principal assumptions underlying the forecast are that:

- The Senior Secured Bond Issue to be arranged by Pareto Securities and announced on 29 June 2015 completes as scheduled and funds become available in accordance with its terms
- The \$140m carry of Petroceltic's obligations in relation to the Ain Tsila development is expended in accordance with current forecasts
- Production revenue cashflows and operating and capital expenditure are in line with commitments and current expectations
- The Senior Bank Facility continues to operate in accordance with its amended terms

As at the date of approval of these financial statements, no commitment has been received in respect of the provision of new Bond financing to the Group and there can be no certainty that additional funding will ultimately be received.

These circumstances represent a material uncertainty that may cast significant doubt upon the Group and the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and taking appropriate professional advice, and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and the Company will have adequate resources to continue in operational existence for the period set out above. For these reasons, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Further details on funding and liquidity are included in the Statement of Accounting Policies (note 1 to the financial statements).

Future developments

A review of future developments of the business is included in the Chairman's Statement and Chief Executive's Review on pages 2 to 13.

Legal proceedings

In July 2013, the Group issued legal proceedings in the Irish High Court against, inter alia, Mr Seghir Maza, Mr Samir Abdelly ("Mr Abdelly") and Abdelly and Associates International Consulting ("AAIC"), former consultants to the Group, seeking to set aside a number of consultancy agreements entered into in 2004 and 2005 with respect to the Group's North African business activities. In November 2013, the High Court of Ireland granted Petroceltic judgement, in default of appearance, against Mr Seghir Maza. Mr Abdelly and AAIC counterclaimed against the Company in the proceedings and in August 2014, the Company entered into a settlement agreement in respect of the proceedings. The Company has withdrawn all claims made in the proceedings. Mr Abdelly and AAIC have withdrawn their counterclaims against the Company and no other legal or contractual arrangements exist between the parties. The proceedings were brought to a conclusion and were struck out in the Irish High Court.

In December 2014, the Group was issued with legal proceedings by Worldview. Worldview alleged a number of breaches of a Shareholder Agreement entered into between the Group and Worldview, and sought specific performance of a business review and Capital Markets Day. On 21 May 2015, the English High Court dismissed Worldview's action and awarded costs on a standard basis to Petroceltic.

Principal risks and uncertainties

The Group has a risk management structure in place which is designed to identify, manage and mitigate business risk, details of which are as set out in the Corporate Governance Statement on page 51. Risk assessment and evaluation is an essential part of the Group's internal control system.

Share price

The share price movement in the year ranged from a low of Stg98.5p to a high of Stg221.0p (2013: Stg133.0p to Stg196.5p). The share price at year end was Stg128.5p (2013: Stg175.0p).

DIRECTORS' REPORT

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Directors' interests

The beneficial interests of the Directors and their families who held office at the date of approval of the Annual Report and at 31 December 2014 in the share capital of the Company are as follows:

	29 June 2015	31 Dec 2014	31 Dec 2013*
Robert Adair	41,136,078	41,136,078	41,136,078
Brian O'Cathain	377,733	377,733	171,073
Alan Parsley	11,608	11,608	5,760
Ian Craig	-	-	-
Joe Mach	-	-	-
James Agnew**	-	8,784	5,600
Don Wolcott	-	-	-
Neeve Billis	-	-	-
Nicholas Gay	-	-	-
Tom Hickey	349,314	349,314	249,314

* Or date of appointment if later.

** Resigned on 11 January 2015.

The beneficial interest of Robert Adair at 29 June 2015 includes 40,445,802 ordinary shares held by Skye Investments Limited, a company in which he has a controlling interest.

All the above shareholdings are beneficially held. No Director or any member of their immediate families had an interest in any subsidiary.

Details of the share options held by the Directors are contained in the Directors' Remuneration Report on pages 42 to 44.

Significant shareholdings

The Company has been informed that as at 22 June 2015, the following shareholders own 3% or more of the issued share capital of the Company:

	22 June 2015	31 Dec 2014
Worldview Capital Management SA	29.01%	28.14%
Robert Adair/Skye Investments Ltd	19.21%	19.21%
Dovenby Capital Limited	8.88%	8.88%
Ingalls & Snyder LLC	4.10%	4.10%
Lars Ernest Bader	3.63%	3.63%
Henderson Global Investors Ltd	3.34%	3.34%
Aberforth Partners LLP	3.20%	3.20%

The Directors are not aware of any other holding of 3% or more of the issued share capital of the Company.

Political and charitable donations

No political donations were made by the Group during the year (2013: nil). Charitable donations made by the Group during the year amounted to \$186,000 (2013: \$262,000).

Subsidiary undertakings

Details of principal subsidiary undertakings are given in note 25 to the financial statements.

Additional information

The rights and obligations attaching to the Company's Ordinary Shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained from the Company's website, Companies Registration Office or by writing to the Company Secretary. The holders of Ordinary Shares are entitled to receive the Company's Annual Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. The Company may amend its Articles of Association by special resolution at a general meeting.

Annual General Meeting

Your attention is drawn to the Notice of Meeting enclosed with this Annual Report which sets out the resolutions to be proposed at the forthcoming AGM on Friday 24 July 2015 at 2.00 pm to be held at the Royal College of Physicians, 6 Kildare Street, Dublin 2.

Books and accounting records

The Directors are responsible for ensuring adequate accounting records, as outlined in Section 281 of the Companies Act 2014, are kept by the Company. The Directors, through the use of appropriate procedures and systems and the employment of competent persons, have ensured that measures are in place to secure compliance with these requirements. These books and accounting records are maintained at 3 Grand Canal Plaza, Grand Canal Street Upper, Dublin 4.

Auditor

The auditor, KPMG, Chartered Accountants, will continue in office in accordance with Section 383(2) of the Companies Act, 2014.

On behalf of the Board



Robert Adair
Director
29 June 2015



Brian O'Cathain
Director