CHAIRMAN'S STATEMENT

Dear Shareholder

I am pleased with Petroceltic's production and development business which performed well in 2014. Production was in line with guidance and a series of contract awards in respect of the Ain Tsila development asset in Algeria confirm the encouraging progress of this project. During 2015, we are focussing strongly on delivering value from our core producing assets and de-emphasising certain exploration initiatives, while maintaining exposure to long term growth.

Operations

Average 2014 production from the Company's interests in Egypt and Bulgaria was in line with guidance at 22.5 Mboepd on a working interest basis (11.9 Mboepd on a net entitlement basis). The average daily production rate for 2015 is expected to be in the range of 14 to 15 Mboepd, comprising approximately 85% gas and 15% liquids. Egypt and Bulgaria are expected to contribute 85% and 15% of the total production volume, respectively.

While production remains an important element of our business, the Algeria project is the largest asset in the portfolio, accounting for over 80% of proved plus probable reserves. The decision by Sonatrach to pre-empt the Ain Tsila farm-out is a clear indication of the high quality of the Ain Tsila asset and the quality of the relationship between Sonatrach and the Petroceltic team leading the development. A crucial milestone that was achieved during the year was the signing of the fully termed Gas Sales Agreement in September 2014. The carry by Sonatrach will enable a number of critical project activities to be achieved at no cost to Petroceltic; critical amongst these is the award of the Engineering Procurement and Construction (EPC) Contract and commencement of development well drilling before the end of 2015. While many other important workstreams are also making encouraging progress, these will be the key determinants of the schedule to ensure the delivery of plateau production – and thus return of joint venture partner investments – following first gas in 2018.

In Egypt, 2014 saw an encouraging return to economic and political stability, with presidential elections and the initiation of a more progressive economic policy including measures designed to mitigate the impact of subsidies on the state finances. These positive developments, combined with the strong payment performance demonstrated by EGPC during the year – Petroceltic's receivable reduced by over 30% and most other international oil and gas companies also recorded significant reductions - further support the attractiveness of Egypt as an investment location for oil and gas companies.

Our experience in Kurdistan is an illustration of the fundamental risks of exploration – the blocks are located in a prolific basin, very close to some of the largest discoveries of recent years and with numerous oil seeps evidencing the existence of a working hydrocarbon system. The joint venture conducted a structured and comprehensive programme of geological work, which strongly supported the potential for commercial discoveries. Unfortunately, the ultimate test – that of drilling the wells – did not yield the result we had hoped for, and did not suggest that any further work was justified. In recognition of this, and despite our investment of over $120m since 2011, Petroceltic (along with Hess as operator) took the decision to withdraw, and to refocus the business on regions where risks and costs are lower, particularly given the overall industry environment at present.

Petroceltic's Italian portfolio contains both onshore and offshore prospects of material scale and both made encouraging progress during 2014 and we are now at a point where all environmental permitting processes could be completed during 2015, leading to potential drilling in 2016. As part

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of the preparations for drilling, Petroceltic will consider farmouts or similar partnering initiatives to mitigate our financial exposure to these projects and has commercially concluded farmout negotiations for one of its Italian licences. In parallel, the passing of the "Restart Italy" decree in late 2014 represented an important advance in the planning and permitting framework for oil and gas projects and has already had a positive impact on the activities of Petroceltic and other operators.

Financing

The bulk of Petroceltic's 2014 revenue came from Egypt providing $106m of the total $157m, where improved availability of external capital to the Egyptian Government facilitated material payments to international oil and gas companies operating in the country, including Petroceltic. As a result, the level of receivables in Egypt at year end was $50m (2013: $81m) and net debt at year end was significantly reduced to $153m (2013: $246m). The remaining revenue of $51m was from gas sales in Bulgaria. The loss for the year was $282m (2013: $19m) which primarily arose from exploration costs written off of $183m and an impairment charge of $86m, of which $80m relates to oil and gas assets and $6m relates to inventory write off.

Petroceltic invested $109m in capital expenditure during 2014 and has a relatively active exploration and development programme scheduled for 2015 with forecasted capital expenditure of $167m (of which $79m relates to development of Ain Tsila to be carried by Sonatrach pursuant to the terms of the Algerian farm-out agreement completed in July 2014). Some of this planned exploration expenditure could be reduced if the farm-out initiatives currently under way are successfully concluded.

The year-end reserves adjustment in Egypt and Bulgaria and the current volatility in oil pricing has negatively impacted on the availability of funds under the Group's reserve based lending facility which has resulted in the Group working with the existing lenders and new providers of finance to put in place a finance solution that addresses the funding requirement for the Group. In June 2015, the Group announced plans to issue up to $175m 3 year Secured Bond; while further financing will be required to fully fund the Algerian development, successful conclusion of this Bond is a critical step in the Groups long term financing strategy. The Group has appointed Pareto Securities to advise and assist us in this process.

Board and Governance

The period since January 2014 has been one of major transition for the Board of Petroceltic, with only four Directors having served consistently throughout. As part of an agreement with Worldview Capital Management, the largest shareholder in the Company, the Petroceltic Board was reduced from nine to seven members in July 2014. Hugh McCutcheon and Dr Robert Arnott resigned as Non-Executive Directors; Rob and Hugh had been on the board since January 2010 and December 2011 respectively and we will miss their insights and support. David Thomas and Tom Hickey stepped down from the Board, but continued to hold their executive roles in the Company. David, who was formerly the CEO of Melrose from June 2007 to October 2012 and made a major contribution to the business, has since left the Company. The Company welcomed Don Wolcott and Joe Mach to the Board as Non-Executive Directors in July 2014.

In December 2014, James Agnew advised the Board of his intention to resign with effect from January 2015. James was on the Melrose Board from November 2007 and throughout his time on the Board, made a major contribution to the business. In January 2015, Worldview requisitioned an EGM to seek to remove Brian O'Cathain as a director and appoint two of its own nominees, Angelo Moskov and Maurice Dijols. Petroceltic in turn nominated Neeve Billis and Nicholas Gay as independent Non-Executive Directors. At the EGM, shareholders rejected all the Worldview resolutions, while Neeve Billis and Nicholas Gay were appointed to the Board with effect from February 2015. Don Wolcott and Joe Mach resigned from the Board in February 2015, and in March 2015, Tom Hickey was re-appointed to the Board. The series of changes to Board composition, coupled with uncertainty surrounding financing, has prevented the Group from progressing its plan to step up to the official lists of the London and Irish stock exchanges as previously planned. We remain committed to undertaking this at the earliest opportunity.

In December 2014, the Company announced that Worldview had issued legal proceedings against it. The proceedings alleged that the Company had failed to undertake a review of its business and sought direction from the Court as to the manner in which the review was undertaken. On 21 May 2015, the English High Court dismissed Worldview's action and awarded costs on a standard basis to Petroceltic.

CHAIRMAN'S STATEMENT
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> We expect to benefit from the current price weakness in oil markets to attract competitive bids for our main Ain Tsila EPC contract.

Dragon Oil Approach

In October 2014, the Company announced that it was in detailed discussions with Dragon Oil Plc ("Dragon Oil") regarding a possible offer to be made by Dragon Oil for the Issued, and to be issued, share capital of the Company.

Dragon Oil confirmed to the Company that it had completed its due diligence and planned to seek an irrevocable undertaking to support its making of an Offer of 230 pence Sterling per share in cash from its majority shareholder, the Emirates National Oil Company L.L.C. ("ENOC"). The Board of Petroceltic had agreed, subject to consultation with its shareholders, that it would be willing to recommend such an Offer to shareholders, if this irrevocable undertaking was obtained from ENOC, noting that such Offer would be subject to the approval of Dragon Oil's shareholders.

In December 2014, Dragon Oil announced that it would no longer be making an Offer at that time for the Company, citing prevailing oil and gas pricing market conditions. While we devoted significant resources to supporting the Dragon process, and were disappointed that Petroceltic shareholders did not get the opportunity to fully consider the potential offer, we continue to believe that Petroceltic has a strong and positive future as an independent company.

Sector and Market Sentiment

Oil and Gas is a global industry, with supply and demand driven by technology, pricing, global economic performance and geopolitical stability. Each of these factors has exerted a material influence on the prices received by producers, and caused a reduction of over 40% in the Brent oil price over the period since mid-2014; similar uncertainty also surrounds the forecasts of future pricing. Against this backdrop, smaller exploration and production companies have struggled to secure finance and attract investor attention, while larger ones have undertaken material portfolio rationalisation, with exploration budgets and personnel the most impacted. Petroceltic was no exception in this regard and in 2015 made 40% of Head Office and corporate personnel redundant as part of an overall effort to refocus the Company on its tangible reserve base of existing production, developments and discoveries.

While we greatly regretted doing this, and have lost talented colleagues as a result, our business is now significantly streamlined from a geographical and operational perspective, and a number of existing or anticipated farmout and portfolio management initiatives have materially mitigated our exposure to future capital investment. By taking these actions, we believe we have preserved and protected value in our core assets for the benefit of all shareholders, but also retained sufficient exposure to potentially material future exploration and appraisal projects to renew and expand our portfolio at modest cost as industry conditions improve. We also expect to benefit from the current price weakness in oil markets to attract competitive bids for our main Ain Tsila Engineer Procure Construct ("EPC") contract.

This environment has, however, provided a focus on delivering efficiencies and the recent restructuring of the organisation will ensure that Petroceltic is resourced appropriately to effectively deliver the planned work programme. Finally, the contemplated bond issue is a crucial step towards providing the financial resources to continue to implement the Group's long term strategy of delivering value from core assets.

Robert Adair
Chairman