

REGAL PETROLEUM PLC

PRELIMINARY AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

Regal Petroleum plc ('Regal', 'the Company' or 'the Group'), the oil and gas exploration and production company, today announces its audited results for the year ended 31 December 2005.

Financial Highlights

- Turnover from group operations was \$37.3 million (2004: \$42.5 million).
- Production averaged 3,600 boepd (2004: 4,100 boepd).
- Loss for the year of \$82.6 million (2004: \$13.7 million) includes a loss due to the reclassification of the Greek asset as an investment \$53.5 million (second half), writedowns principally of the King Alexander Rig of \$9.5 million (first half) and foreign exchange losses of \$10.6 million (mainly first half).
- Loss per share of 67.5 cents (2004: loss 12.4 cents)
- Capital cash expenditure of \$41.7 million (2004: \$71.6 million).
- Placing of shares which raised £42.6 (\$80.6) million net of expenses during the period.
- Net cash at year end of \$34.8 million (2004: \$25.6 million) and net assets of \$125.3 million (2004: \$124.8 million). At the date of this announcement the Company had net cash of approximately \$26 million.

Operational Highlights

Ukraine

- Average production for 2005 was 450 barrels of condensate and 5,100 thousand cubic feet of gas per day (total equivalent of 1,400 boepd) with four wells in production: MEX102, MEX3, GOL1 and GOL2.
- Operations remained cash flow positive and profitable during the period.
- Proved and probable reserves of 169 million barrels of oil equivalent were independently audited by Ryder Scott, L.C. ("Ryder Scott").
- Joint venture dissolution case: This case was successfully concluded when it reached the final appeal court in February 2006.
- Granting of licences case: This case continues and has passed through the third level of appeal court with Regal having lost at each level.

Romania

- Suceava Block: two wells were drilled on the block, SE-1 in April 2005 completed as a shallow biogenic gas discovery and RSD-1 in November 2005 found high quality sands which were water wet. Additionally 200 kilometres of seismic were shot in the second quarter.
- Barlad Block: the block was ratified in January 2005 and 200 kilometres of new infill seismic were shot in the second quarter.

Egypt

- Proposal for an initial exploration well has been accepted by the Egyptian General Petroleum Corporation and preparation for drilling undertaken.

Greece

- Period of industrial unrest has led to changed operational management arrangements being put in place. This in turn has led to a long term restriction and the Greek asset being considered as an investment. No further cash injections to Kavala Oil are likely while this situation persists.
- Proved and probable reserves of 22 million barrels of oil were independently audited by McDaniel & Associates Consultants Ltd (“McDaniels”).
- Kallirachi 2 well proved non-commercial.
- Average production for the first nine months of 2005 was 2,200 bopd.
- Increased economic interest in Kavala Oil to 95%.

Liberia

- Concession agreements were signed in June 2005 by the National Oil Company of Liberia and are awaiting ratification by the Liberian Government.

Board Appointments

- Sir Peter Heap (Chairman), Dr Rex Gaisford (CEO) and Richard Hardman were appointed in June 2005. They have subsequently resigned in 2006.
- Frank Timis (Chairman and CEO), William Humphries and Christopher Green resigned during 2005.

2006 Update

- **Ukraine:** In the granting of licences case, Regal intends to fully pursue all legal avenues to establish the validity of its licences. The matter with Peak Resources over a disputed Option has now been settled. Currently Regal production in Ukraine is shut in as a result of the outstanding licences court case.
- **Romania:** Around 340 kilometres of seismic has been acquired and a further 500 kilometres is currently being acquired for planned future drilling on the Barlad block.

- **Egypt:** A 100 square kilometre 3D seismic programme is planned for later in 2006 to reduce technical risk on the upcoming well.
- **Board Directors:** Paul Morgan was appointed Chairman and Chief Executive Officer in March 2006. Franco Scolaro was appointed non-executive director in June 2006.

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Buchanan Communications, 45 Moorfields, London EC2Y 9AE, United Kingdom on 2 August 2006 at 10.00am.

For further information, please contact:

Regal

Paul Morgan, CEO and Chairman
Roger Phillips, Finance Director

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Definitions

Bopd: barrels of oil per day

Boepd: barrels of oil equivalent per day

Chairman's Statement

We have experienced a difficult year. Our licences have been the subject of court action in Ukraine, the assets in Greece have been subject to industrial unrest as well as unsuccessful drilling and there have been a number of Board changes.

Ukraine

The Ukraine 'pilot production' operations continued to be profitable during the year and have generated positive cash flow for the Group.

Average production in Ukraine for 2005 was 450 barrels of condensate and 5,100 thousand cubic feet of gas per day (total equivalent of 1,400 boepd) with four wells in production: MEX102, MEX3, GOL1 and GOL2.

We engaged independent reserve auditors Ryder Scott Company, L.C. ('Ryder Scott') to estimate the remaining reserves in our Ukraine licences. In October 2005 the Company announced that the proved and probable reserves of the MEX-GOL-SV field were 169 million barrels of oil equivalent.

The liquidation of the Company's previous Joint Venture with its former partner Chernihivnaftogasgeologia ('CNGG') was successfully determined by a court process in Ukraine in February 2006. Court action was commenced by CNGG against its parent Ministry during the year over the granting of the production licences held by Regal. This court action has passed through the third level of appeal court with CNGG prevailing in each case.

Romania

The first commitment well, SE-1, was drilled on the Suceava block in April 2005 and completed as a shallow biogenic gas discovery. The second commitment well, RSD-1, was drilled on the block in November 2005 and found high quality sands which were water wet. All work commitments on the block were fulfilled in the second quarter with the shooting of an additional 200 kilometres of seismic.

Since ratification of the Barlad block in January 2005 we have reprocessed around 800 kilometres of 1980's and 1990's vintage seismic and shot 200 kilometres of new infill seismic. A number of leads have been identified in the southern part of the block and are being evaluated with further seismic being acquired this year.

Egypt

We have identified a proposed drilling location and sought and received Egyptian General Petroleum Corporation approval for such location. Preparations for drilling have commenced and drilling materials purchased.

In accordance with the Company's asset rationalisation policy, the Company is actively working to farm out its present acreage.

Greece

The industrial unrest in summer 2005 that we experienced has resulted in our subsidiary, Kavala Oil S.A., being operated by local Greek management and the unionised workforce. This resulted in our participation as majority shareholder in Kavala Oil S.A. having no effective control. This long term restriction has led us to reassess our investment in Kavala Oil S.A. and restate its value to \$44 million.

We engaged independent reserve auditors McDaniel & Associates Consultants Ltd ('McDaniels') to estimate the remaining reserves in our Greek licences. In September 2005 the Company announced that the proved and probable reserves of the Prinos basin group of fields were 22 million barrels of oil.

Average production in Greece for the first nine months was 2,200 bopd. The project is currently cash flow neutral to us.

Strategy and Outlook for 2006

Despite a difficult year the Company is in the process of transforming itself. We have an important group of assets, new management and we are in the process of realising the value of our assets through exploration, development, production and joint ventures.

We are continuing to work through the legal system to resolve the issue with the licences in Ukraine. We have faith in Ukrainian law and believe we will prevail in resolving the matters within a reasonable timeframe. We will seek to increase production by exploiting western technology on the MEX-GOL field. The field is not currently in production. We hope production will be restored in the next few months.

We are also looking for ways to build out the Ukrainian assets using the proven and probable reserves as a basis for funding its development.

In Greece we have commissioned a study on the entire field area and subject to the results of the study, we intend to reopen negotiations with the Greek Government and unions to see if a responsible and reasonable result can be obtained.

We are currently shooting 800 kilometres of seismic in the Barlad block in Romania, 3D seismic is planned in the Ukraine and a contract has been let for 3D seismic to be commenced in the third quarter in Egypt. Subject to the results of the seismic surveys, two wells are planned for Barlad and Egypt.

The Company is working to bring in partners on all our projects, subject to deals that are sensible for the Company and its shareholders.

I would like to thank our staff and Board of Directors for their continuing support and able assistance.

We are looking forward to a very successful and exciting year.

Financial Review

Turnover

Turnover for the year was \$37.3 million generated from the sale of gas and condensate production from wells MEX102, MEX3, GOL2 and GOL1 in Ukraine (\$13.9 million) and the sale of oil and sulphur production from Kavala Oil S.A. in Greece (\$23.4 million).

All gas and condensate production in Ukraine was sold locally at an average price of \$60 per thousand cubic metres of gas and \$35 per barrel of condensate.

Kavala Oil S.A. sells its oil at a price approximately equal to the prevailing IPE Brent price less a discount of US\$3 per barrel. Sulphur, being a bi-product of the oil production, is sold locally at market prices.

Loss for the Financial Year

The loss after tax of \$82.6 million includes a loss of \$53.5 million which is attributable to the reclassification of the Company's interest in Kavala Oil S.A., as an investment of \$43.7 million. Also included in the loss are write-downs of \$9.5 million resulting principally from the King Alexander Rig and foreign exchange losses of \$10.6 million.

Institutional Placing

In April 2005, Regal raised \$80.6 million net of expenses through an institutional placing of 11,500,000 shares at 390 pence per share.

Following the institutional placement and other minor activity, the Company had a total of 128,508,201 shares in issue at 31 December 2005 (31 December 2004: 116,374,868 shares).

Cash Flow

Net cash outflow from operating activities was \$30.5 million (2004: outflow \$5.9 million).

The capital expenditure outflow of \$41.7 million (2004: \$71.6 million) mainly represented drilling expenditure on the Company's assets in Greece.

As at 31 December 2005, the Group had no long term bank borrowings.

As at 31 December 2005, the Group had total cash balances of \$34.8 million (2004: \$25.6 million).

Financial Risk

The main financial risks Regal is exposed to are resource price, exchange rate, counterparty and liquidity risks in its Group operations. Wherever possible the Group attempts to minimise the impact of such risks.

To minimise exchange rate risks, Regal attempts to match currency receipts and payments wherever possible. Regal also seeks to retain sufficient liquidity, either in the form of cash or maturing deposits to manage the Group's ongoing programmes.

Contingent Liability

Arising out of the ongoing licences litigation in Ukraine, the Company has recognised a contingent liability.

Audit Qualification

The Group has received a limitation of scope audit qualification from its auditors UHY Hacker Young concerning its Greek asset. Their audit report is appended.

During the time Regal was in control of Kavala Oil S.A., January to September 2005, Kavala Oil S.A.'s financial results were consolidated in the Group results. Subsequent to September 2005, access to records including accounting records at Kavala Oil S.A. has been withheld leading to a long term restriction over the control of Kavala Oil S.A. and a change of accounting policy. As a result the Company's shareholding in Kavala Oil S.A. has been reclassified as an investment for accounting purposes and has been valued by the directors at \$43.7 million. This accounting policy treatment has been audited accordingly.

Summary

The Company is committed to realising the full potential of its assets. This means instigating development programmes on its licences with proved and probable reserves and raising funds by either selling down a percentage interest or using financial instruments based on future cash flows.

Regal Petroleum plc
Consolidated profit and loss account
for the year ended 31 December 2005

	2005	2004
	\$000	\$000
Group turnover	37,255	42,459
Cost of sales	(38,505)	(48,371)
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Gross loss	(1,250)	(5,912)
Administrative expenses	(28,564)	(15,517)
Other operating income	1,083	3,386
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Group operating loss	(28,731)	(18,043)
Loss on deconsolidation of excluded subsidiary	(53,477)	-
	<hr/>	<hr/>
	(82,208)	(18,043)
Loss on sale of fixed assets	(113)	(36)
Interest receivable and similar income	1,115	1,244
Interest payable and similar charges	(145)	(325)
	<hr/>	<hr/>
Loss on ordinary activities before taxation	(81,351)	(17,160)
Tax on profit on ordinary activities	(1,213)	(884)
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Loss on ordinary activities after taxation	(82,564)	(18,044)
Minority interests - equity	-	4,363
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Loss for the financial year	(82,564)	(13,681)
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Loss per ordinary share (cents)		
Basic	67.5¢	12.4¢
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Regal Petroleum plc
Consolidated balance sheet
at 31 December 2005

	2005	2004
	\$000	\$000
Fixed assets		
Intangible assets	14,731	6,183
Tangible assets	29,356	97,877
Investments	43,700	-
	<hr/>	<hr/>
	87,787	104,060
Current assets		
Stocks	38	10,166
Debtors (including \$nil (2004: \$2,791) due after more than one year)	4,995	14,919
Investments	136	3,342
Cash at bank and in hand	34,796	25,643
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	39,965	54,070
Creditors: amounts falling due within one year	(2,267)	(30,777)
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Net current assets	37,698	23,293
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Total assets less current liabilities	125,485	127,353
Creditors: amounts falling due after more than one year	-	(682)
Provisions for liabilities and charges	(196)	(1,854)
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Net assets	125,289	124,817
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Capital and reserves		
Called up share capital	10,934	9,678
Share premium account	217,640	134,254
Other reserves	4,282	5,036
Profit and loss account	(107,567)	(24,151)
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Shareholders' funds – equity	125,289	124,817
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Regal Petroleum plc
Consolidated cash flow statement
for the year ended 31 December 2005

	Note	2005 \$000	2004 \$000
Net cash flow from operating activities	2	(30,470)	(5,901)
Returns on investments and servicing of finance			
Interest received		1,115	1,241
Interest paid		(145)	(324)
		<hr/>	<hr/>
		970	917
Taxation		(1,227)	(771)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		(41,681)	(71,586)
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		(41,681)	(71,586)
Acquisitions and disposals			
Deconsolidation of current non-listed investments		(669)	-
Purchase of subsidiary undertaking		(1,185)	-
		<hr/>	<hr/>
		(1,854)	-
Cash outflow before management of liquid resources and financing		(74,262)	(77,341)
Management of liquid resources			
Disposal of current non-listed investments		3,000	-
Decrease/(Increase) in monies on deposit		113	(119)
		<hr/>	<hr/>
		3,113	(119)
Financing			
Issue of ordinary share capital		84,642	73,350
Debt due within one year:			
(Decrease)/Increase in short-term borrowing		(1,064)	1,080
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		83,578	74,430
		<hr/>	<hr/>
Increase/(decrease) in cash in the period		12,429	(3,030)
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Regal Petroleum plc
Consolidated statement of total recognised gains and losses
for the year ended 31 December 2005

	2005	2004
	\$000	\$000
Loss for the financial year	(82,564)	(13,681)
Gross exchange differences on the retranslation of net investments	(1,606)	1,147
Total recognised gains and losses relating to the financial year	(84,170)	(12,534)

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2005

	2005	2004
	\$000	\$000
Loss for the financial year	(82,564)	(13,681)
Other recognised gains and losses relating to the year (net)	(1,606)	1,147
New share capital subscribed (net of issue costs)	84,642	73,351
Net addition to shareholders' funds	472	60,817
Opening shareholders' funds	124,817	64,000
Closing shareholders' funds	125,289	124,817

Regal Petroleum plc
Notes forming part of the financial statements
for the year ended 31 December 2005

1 Statutory Accounts

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2005 or 2004. The statutory accounts for 2005 will be delivered to the Registrar of Companies following the Company's annual general meeting.

2 Reconciliation of operating loss to operating cash flows

	2005	2004
	\$000	\$000
Operating loss	(28,731)	(18,043)
Depreciation, amortisation and impairment charges	14,840	7,696
Exchange differences	771	(349)
Movement in provisions	276	601
Increase in stocks	(4,522)	(6,541)
Increase in debtors	(887)	(4,750)
(Decrease) / increase in creditors	(12,310)	14,256
Loss on gift of shares to minority interest	-	682
Current asset investment	93	547
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Net cash outflow from operating activities	(30,470)	(5,901)
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3 Analysis of net funds

	At beginning of year \$000	Cash flow \$000	Other non cash movements \$000	Exchange movement \$000	At end of year \$000
Cash in hand, at bank	25,643	12,429	-	(3,276)	34,796
Overdrafts	(1,080)	1,064	-	-	(16)
Current asset investments	3,342	(3,113)	(93)	-	136
Debt due after one year	(682)	-	682	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	27,223	10,380	589	(3,276)	34,916
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Report of UHY Hacker Young Independent Auditor to the Members of Regal Petroleum plc

We have audited the Group and parent Company financial statements (the 'financial statements') of Regal Petroleum plc for the year ended 31 December 2005 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's statement, the operational review, the financial review, the corporate governance statement, the Director's report and the reserves statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However the evidence available to us in respect of the results of Kavala Oil S.A. ('Kavala') included in the consolidated profit and loss account to the date of loss of control was limited, in that we have not had access to the accounting records of Kavala or to the audit working papers of Kavala's auditor SOL S.A. Certified Public Accountants Auditors, nor have SOL S.A. provided information or explanations in response to our requests.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we received the information and explanations we required concerning the results of Kavala Oil S.A. included in the consolidated profit and loss account to the date of loss of control, in our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group and the Company as at 31 December 2005 and of the loss of the Group for the year then ended; and have been properly prepared in accordance with the Companies Act 1985.

In respect solely of the limitation on our work relating to the results of Kavala Oil S.A. included in the consolidated profit and loss account to the date of loss of control:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper accounting records had been maintained.

Emphasis of matter: possible outcome of legal proceedings

In forming our opinion, which is not qualified in this regard, we have considered the adequacy of the disclosure made in note 30 to the financial statements concerning the possible outcome of legal proceedings involving the granting of the Company's licences in Ukraine. As stated in note 30, the Company intends to continue the legal process until the validity of its production licences is successfully upheld; however, should the Courts of Ukraine rule that the licences were improperly awarded and annul the existing licences, the Company may be required to impair the value of its assets in Ukraine. As stated in note 2 to the financial statements net assets in Ukraine amounted to \$31 million as at 31 December 2005. The ultimate outcome of these proceedings cannot precisely be determined and no provision for any liability that may result has been made in the financial statements.