

REGAL PETROLEUM PLC

PRELIMINARY AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

Regal Petroleum plc ('Regal', 'the Company' or 'the Group'), the AIM listed London based oil and gas exploration and production group, today announces its audited results for the year ended 31 December 2006.

Highlights

Ukraine

- The legal dispute over the licences in Ukraine was successfully resolved by the Supreme Court of Ukraine in December 2006.
- Realised prices for gas increased by over 40% from January 2006 to January 2007.
- Dormant production well SV-10 was successfully restarted and tested at commercial rates.
- Average daily production between 1 August and 31 December 2006 was 3.85 MMcf of gas and 447 bbls of condensate, totalling 1,134 boepd.

Romania

- Suceava Block: a Joint Venture agreement was signed in September 2006 with Aurelian Oil and Gas plc (Aurelian) farming out a 50% working interest in return for their acquiring a minimum of 150 kilometres of 2D seismic and the drilling of one exploration well at their sole cost.
- Barlad Block: over 800 kilometres of 2D seismic was acquired and several leads identified of which two are planned to be drilled during 2007.

Egypt

- The East Ras Budran Concession was farmed out to Apache Khalda Corporation LDC (Apache) in October 2006 with a work programme of 3D seismic and two exploration wells.

2007 Update

- **Ukraine:** Regal has acquired 100 square kilometres of 3D seismic, which is currently being processed. A 4.3 kilometre pipeline connecting well SV-10 to the Group's gas gathering facility has been constructed increasing production by 33%. Tristone Capital has been appointed to assist the Company in seeking a strategic partner to participate in the acceleration of the field development plan.

- **Romania:** It is planned that at least three exploration wells will be drilled during 2007, one in the Suceava block and two in the Barlad block.
- **Egypt:** It is planned to drill two back-to-back exploration wells in the East Ras Budran Concession, the first well commenced in June 2007.

Commenting on the Company's results, Frank Scolaro, Chairman said:

“Regal made significant progress in 2006 on many fronts. The confirmation of the validity of Regal's licences in Ukraine, the Joint Venture arrangements with Apache and Aurelian, together with the strengthening of our management team, now led by Neil Ritson, has put the Company in a much stronger position to deliver material returns to shareholders in the future. The developments in 2006 have paved the way for a bright future for Regal.”

Neil Ritson, Chief Executive Officer, also said:

“During the second half of 2006 the new management at Regal have sought to establish a strong and sustainable foundation for growth by successfully resolving the legal problems in Ukraine and identifying new partners in Egypt and Romania. I am confident that the actions taken in 2006, which included the full impairment of our Kavala Oil investment, have provided the Company with a strong platform for the future. The impairment of the Greece assets and the non-cash costs associated with Ukraine give rise to an exceptional one off loss; however, underlying profitability from operations has improved. As our Ukrainian fields are developed we anticipate this trend to continue.”

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 Wednesday 15 August 2007 at 10.00am.

For further information, please contact:

Regal

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Definitions

MMcf: million cubic feet

Mcf: thousand cubic feet

bbls: barrels

boepd: barrels of oil equivalent per day

Chairman's Statement

The Company continues to focus its resources on assets in Eastern Europe and on value creation through both exploration and field development. Our strategic proposition remains unchanged; however, our ability to achieve our goals has been greatly enhanced in the past year.

The last year was a key period for the Company following the legal challenge to its major assets in Ukraine. Those legal proceedings were successfully concluded by year end when the Supreme Court of Ukraine endorsed Regal's title to 20 year production licenses. The Company has now embarked on a strategy that we believe will maximise value from its exciting portfolio of production and exploration assets.

The year also saw some notable developments including establishing new joint ventures in both Egypt and Romania to spread risk whilst simultaneously allowing us to deploy our capital on the production and field development activities underway in Ukraine. We have also rebuilt our senior management team to ensure the right skills and relevant experience are available within the Company for the longer term future. We will continue to employ joint ventures and have engaged Tristone Capital as advisors to assist us in finding a partner for our Ukrainian assets during 2007.

Ukraine

We entered the year with concerns over our title to the key Mekhediviska/Golotvshinska (MEX-GOL) and Svyrydivske (SV) production licences granted to Regal in July 2004 due to a legal dispute which arose in 2005 between our previous joint venture partner Chernihivnaftagasgeologia (CNGG) and the Ministry of Environmental Protection (MEP). To assist us in the process of managing the legal and strategic aspects of our business in Ukraine we appointed a new legal team and on their recommendation a strategic partner, Alberry Limited (Alberry), was introduced to support Regal on a success fee basis.

The dispute over the validity of the licences was finally resolved in December 2006 when the Supreme Court of Ukraine dismissed all claims brought by CNGG. The Court thereby affirmed the validity of the 20 year licences granted to Regal.

During the year, as a result of the ongoing litigation, the MEX-GOL and SV field pilot production facilities were shut-in twice. Uninterrupted production, however, recommenced in August 2006 and through to the year end, average daily production from the five Regal wells was 3.85 million standard cubic feet of gas and 447 barrels of condensate. Free cash flow was generated from these operations and was partially repatriated to the UK. Upper limits on gas prices set by the Ukrainian Government rose from \$2.37 per thousand cubic feet in January 2006 to \$3.07 per thousand cubic feet by year end. A further significant upward revision to \$4.03 per thousand cubic feet occurred in early 2007 as Russia progressively seeks to eliminate the discount paid by Ukraine for imported gas. This trend of increasing prices appears set to continue in the coming years and underpins value in our field development operations.

To accelerate the development of the fields it was decided to acquire 3D seismic data over the MEX-GOL field and, if successful, to extend the survey over the SV field in subsequent

years. Mobilisation of the Ukrgeofizika crew was under way at year end and the survey was successfully completed in May 2007.

Additionally, we were able to re-open the SV-10 well and after coiled tubing conveyed nitrogen lift, we obtained a stable and commercial flow rate which has been tied in to the existing facilities. We also expect to recommence drilling on the delayed development plan as soon as the required rig can be refurbished and a commercial contract agreed.

Egypt

Regal acquired a 100% interest in a prospective onshore concession, East Ras Budran, in the Gulf of Suez in 2004. In 2006 Regal sought a joint venture partner and in October farmed-out the concession to Apache Khalda Corporation LDC (Apache) who entered the partnership with a 75% working interest and returned to Regal back costs totalling \$4.85 million. Apache immediately acquired an aeromagnetic survey and have subsequently acquired an extensive new 3D seismic survey. Two exploration wells are committed in the concession. Apache, as operator, will drill those in 2007, with the first commencing in June.

Romania

The Company holds two large under-explored licences in Romania where there is considered to be good potential to find gas accumulations. In September 2006 we concluded a 50% farm-out with Aurelian Oil and Gas plc (Aurelian) on the northern, Suceava block, under which Aurelian agreed to carry Regal on a 2D seismic programme and an exploration well. Their 2D seismic (totalling 160km) has been completed and drilling of a well is planned for July 2007. In the Barlad block, where Regal maintains a 100% working interest, an additional 800km of 2D seismic was acquired and interpreted. Using the new seismic data drilling locations have been defined for two wells which are scheduled to commence in late third quarter 2007.

Greece

Throughout the year the status quo has been maintained on the Company's Greek interests. Kavala Oil S.A. (Kavala Oil) has been operated by local management and the Workers Union and Regal has neither invested nor received any dividend on its previous investments. In the second half of the year active approaches were made to potential buyers with a view to Regal divesting its holding in Eurotech S.A. (Eurotech), the Kavala holding company. Sales discussions were not concluded by year end and are ongoing in 2007; however, I remain confident that a partner for the Regal position can be found.

Financial

Regal posted a consolidated loss of \$109.2 million in 2006 which reflects exceptional non-cash charges resulting from the agreement with Alberry to assist in securing the validity of the Ukrainian licences (\$48.9 million) and \$43.7 million reflecting the impairment of the Greek assets carried as an investment.

Turnover from sales of gas and condensate in Ukraine was \$10.9 million (2005: \$13.9 million) down due largely to the shut-ins associated with the legal dispute, although partially

offset by higher commodity prices. Over the year the Company received an average price of \$105 per thousand cubic metres (\$2.95 per Mcf) for gas and \$53 per barrel for condensate.

Net cash outflow from operating activities for the year was \$11.8 million (2005: outflow \$30.5 million) and at the end of 2006 the Group had no long-term borrowings and cash balances of \$13.0 million (2005: \$34.9 million). This places the Company in a secure position going forward with various options available for future financing.

Management

During the year, with the support of our shareholders, we have had a number of management and Board changes. The result is that we have simplified and strengthened our management approach. We have been successful in appointing a new CEO, Neil Ritson, who has a wealth of industry experience and have appointed a new COO, David Scott. Early in 2007, we also appointed a new CFO, Gordon Stein.

Outlook for 2007

The year ahead is set to be a critical one in terms of short-term value creation within the Company. Our focus will be on four key areas: the ongoing field development operations in Ukraine which we hope will lead to a reserves update in the fourth quarter; the search for a joint venture partner to work with us to accelerate the Ukrainian development project; a significant exploration programme with the drilling of five wells in Romania and Egypt; and finally the continued process of strengthening corporate governance with the probable addition of new Board members and advisors; a process which commenced with the appointment of Mirabaud Securities as joint broker in February 2007.

The developments in 2006 have paved the way for a bright future for Regal. We hold excellent assets and have a strong and experienced management team, which together can drive future value creation. I would like to thank the shareholders, the Board and the staff for their ongoing support.

Financial Review

Overview

The financial performance of the Group in 2006 was detrimentally impacted by the legal actions in Ukraine and by the continuing lack of operational control throughout the year in Greece. As a result, the Group was required to post two exceptional non-cash charges totalling \$92.6 million in 2006 for Ukraine and Greece which contributed significantly towards the \$109.2 million loss for the year; \$48.9 million related to an exceptional charge resulting from the agreement with Alberry to assist in securing the validity of the Ukraine licences and \$43.7 million was attributable to the impairment in the value of the Group's investment in Greece. In taking these actions in 2006, however, the Group is in a much stronger position to deliver shareholder value from its Ukrainian, Romanian and Egyptian assets in 2007 and beyond.

Despite its problems in Ukraine and Greece, the Group continued to invest in its asset portfolio in 2006, increasing its fixed asset position throughout the year by \$16.1 million, offset by \$4.2 million received from Apache as a proportionate reimbursement of capitalised back-costs from the Egyptian farm-out. This programme of investment in 2006 has provided a solid platform for the five well drilling campaign in Romania and Egypt which is due to commence in mid 2007.

Turnover

The Group's turnover for the year was adversely affected by the legal issues in Ukraine which resulted in two production shutdown periods in the year totalling 131 days. Turnover for the year generated from the sale of gas and condensate production from wells MEX-102, MEX-3, SV-10, GOL-2 and GOL-1 in Ukraine was down from \$13.9 million in 2005 to \$10.9 million in 2006 due largely to the shut-ins associated with the legal dispute, although partially offset by higher commodity prices. Included in turnover for 2005 was \$23.4 million relating to the sale of oil and sulphur production from Kavala Oil in Greece. The results for Kavala Oil for the 2006 year have not been consolidated in the Group's financial statements as the Group's interest in Kavala Oil is treated as an investment, the value of which has been fully impaired at the end of 2006.

All gas and condensate production in Ukraine was sold locally at an average price of \$105 per thousand cubic metres of gas and \$53 per barrel of condensate over the year.

Cash Flow

Net cash outflow from operating activities totalled \$11.8 million (2005: outflow \$30.5 million). The capital expenditure outflow of \$11.8 million (2005: \$41.7 million) relates to development and exploration expenditure across the Group.

As at 31 December 2006, the Group had total cash balances of \$13.0 million (2005: \$34.9 million). The Group, at 31 December 2006, had no long-term bank debt.

Financial Risk

The main financial risks Regal are 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. The farm-out campaigns in Romania and Egypt in 2006 were, for example, undertaken to reduce the portfolio risk within the Group.

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 activities.

During the year the Group recognised foreign exchange gains of \$0.5 million in the profit and loss account as well as a \$4.3 million movement in the foreign exchange reserve. This is attributable to currency fluctuations during the year.

Funding Position

The Company will fund its share of field developments from a mixture of funds raised from the potential partial divestment of Ukraine, development carries by the new partner from that partial divestment, cash flows generated from production, or from debt raised from banks or financial institutions based on future cash flows. The Company continues to examine all potential funding options and has been in active discussions with some major banks in this regard in 2007.

Contingent Liabilities

As the licence litigation in Ukraine has been finalised by the Ukraine Supreme Court, the Group no longer recognises a contingent liability in this respect.

Summary

The Company is committed to realising the full potential of its assets. This means instigating development work 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. With the resolution of the legal title issue in Ukraine, and with the support of new partners in Romania and Egypt, the Company is in a much stronger financial position going into 2007 than was the case at the start of 2006. This enhanced platform will enable the Group to seek to optimise its asset portfolio in 2007 and beyond through a focused programme of investment to significantly improve shareholder value and returns.

Regal Petroleum plc
Consolidated Profit and Loss Account
for the year ended 31 December 2006

	2006	2005
	\$000	as restated \$000
Group turnover	10,845	37,255
Cost of sales	(8,306)	(38,505)
Gross profit/(loss)	2,539	(1,250)
Normal administrative expenses	(14,765)	(30,228)
Exceptional administrative expenses	(54,801)	–
Total administrative expenses	(69,566)	(30,228)
Other operating income	861	1,083
Group operating loss	(66,166)	(30,395)
Impairment of investment	(43,700)	–
Loss on deconsolidation of excluded subsidiary	–	(53,477)
Loss on sale of fixed assets	–	(113)
Interest receivable and similar income	1,183	1,115
Interest payable and similar charges	(2)	(145)
Loss on ordinary activities before taxation	(108,685)	(83,015)
Tax on profit on ordinary activities	(491)	(1,213)
Loss on ordinary activities after taxation	(109,176)	(84,228)
Retained loss for the financial year	(109,176)	(84,228)
Loss per ordinary share (cents)		
Basic	(85.0c)	(68.9c)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

Regal Petroleum plc
Consolidated Balance Sheet
at 31 December 2006

	2006	2005
	\$000	as restated \$000
Fixed assets		
Intangible assets	26,867	14,731
Tangible assets	29,761	29,356
Investments	–	43,700
	56,628	87,787
Current assets		
Stocks	37	38
Debtors	3,368	4,995
Investments	–	136
Cash at bank and in hand	13,048	34,796
	16,453	39,965
Creditors: amounts falling due within one year	(2,171)	(2,267)
Net current assets	14,282	37,698
Total assets less current liabilities	70,910	125,485
Provisions for liabilities and charges	(950)	(196)
Net assets	69,960	125,289
Capital and reserves		
Called up share capital	10,934	10,934
Share premium account	217,640	217,640
Other reserves	10,644	6,073
Equity reserve	49,049	–
Profit and loss account	(218,307)	(109,358)
Shareholders' funds – equity	69,960	125,289

Regal Petroleum plc
Consolidated Cash Flow Statement
for the year ended 31 December 2006

	Note	2006 \$000	2005 \$000
Net cash flow from operating activities	2	(11,840)	(30,470)
Returns on investments and servicing of finance			
Interest received		1,183	1,115
Interest paid		(2)	(145)
		1,181	970
Taxation		(491)	(1,227)
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		(16,076)	(41,681)
Sale of intangible assets		4,245	–
		(11,831)	(41,681)
Acquisitions and disposals			
Deconsolidation of subsidiary undertaking		–	(669)
Purchase of subsidiary undertaking		–	(1,185)
		–	(1,854)
Cash outflow before management of liquid resources and financing			
		(22,981)	(74,262)
Management of liquid resources			
Disposal of current non-listed investments		–	3,000
Decrease in monies on deposit		20	113
		20	3,113
Financing			
Funds received in connection to the exercise of share options		80	–
Issue of ordinary share capital		–	84,642
Debt due within one year:			
Decrease in short-term borrowing		(16)	(1,064)
		64	83,578
(Decrease)/increase in cash in the period		(22,897)	12,429

Regal Petroleum plc
Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 December 2006

	2006	2005
	\$000	as restated \$000
Loss for the financial year	(109,176)	(84,228)
Gross exchange differences on the retranslation of net investments	(4,331)	(1,606)
Total recognised gains and losses relating to the financial year	(113,507)	(85,834)
Prior year adjustment*	(1,791)	
Total recognised gains and losses since the last annual report	(115,298)	

Reconciliations of Movements in Shareholders' Funds
for the year ended 31 December 2006

	2006	2005
	\$000	\$000
Loss for the financial year	(109,176)	(82,564)
Prior year adjustment*	–	(1,664)
Restated loss for the financial year	(109,176)	(84,228)
Credits to equity in respect of share based payments recognised in the profit and loss account	49,436	–
Other recognised gains and losses relating to the year (net)	4,411	(1,606)
New share capital subscribed (net of issue costs)	–	84,642
Prior year adjustment to reserves	–	1,664
Net (deficit)/addition to shareholders' funds	(55,329)	472
Opening shareholders' funds	125,289	124,817
Closing shareholders' funds	69,960	125,289

*Restated for the adoption of FRS 20 Share-Based Payments.

Regal Petroleum plc
Notes forming part of the financial statements
for the year ended 31 December 2006

1 Statutory Accounts

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2006 or 2005. The statutory accounts for 2006 will be delivered to the Registrar of Companies following the Company's annual general meeting.

2 Reconciliation of operating loss to operating cash flows

	2006	2005
	\$000	as restated \$000
Operating loss	(66,166)	(30,395)
Depreciation, amortisation and impairment charges	2,977	14,840
Exchange differences	(343)	771
Movement in provisions	754	276
Decrease/(increase) in stocks	1	(4,522)
Decrease/(increase) in debtors	1,580	(887)
Decrease in creditors	(195)	(12,310)
Current asset investment	116	93
Share option charge	387	1,664
Exceptional share based payment charge	49,049	–
Net cash outflow from operating activities	(11,840)	(30,470)

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	34,796	(22,897)	–	1,149	13,048
Overdrafts	(16)	16	–	–	–
Current asset investments	136	(20)	(116)	–	–
Total	34,916	(22,901)	(116)	1,149	13,048