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## Press Release

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1 May 2009

### REGAL PETROLEUM PLC

#### A YEAR OF SIGNIFICANT PROGRESS, WITH THE MOMENTUM AND FOCUS FOR FUTURE SUCCESS

Regal Petroleum plc ('Regal', 'the Company' or 'the Group'), the AIM-listed (RPT) London based oil and gas exploration and production group, today announces its audited results for the year ended 31 December 2008.

#### HIGHLIGHTS

##### Financial:

- \$206 million of equity capital raised in 2008, bank debt subsequently discharged with no debt outstanding and cash of \$106 million held at year end. Cash held as at 30 April 2009 is \$78.5 million;
- Realised gas price in Ukraine increased by 32% in 2008;
- Despite expected production decline, revenue, at \$11.5 million, fell by only 19% while operating losses, after adjusting for non-cash share option charges, rose just 18% to \$15.7 million;
- Production and revenues should continue to rise with the first two new-generation wells expected to be brought on stream later in 2009.

##### Operational:

- Historical production decline stemmed with current production levels up to approximately 1,200 boepd;
- Acquisition of over 200km<sup>2</sup> of 3D seismic completed for the vast majority of the Company's Ukrainian licences, enabling the construction of a detailed subsurface model in order to optimise the development plan;
- Successful import of two, new, state-of-the-art top-drive drilling rigs ahead of the year end, as planned. First new-generation wells, spud in January and February 2009, are targeting production from the upper Visean sands and an appraisal of the deeper Tournasian sands;
- Completed the MEX-103 well and worked over three existing wells. Of these, MEX-102 was so prolific that it initially produced over 200,000 m<sup>3</sup>/d in November 2008, from a single horizon, thereby raising total field production to over 2,000 boepd;
- Transformation of the company largely completed, with a strong team of internationally experienced professionals brought together to realise the full potential of the assets;
- 750,000 man-hours of staff and contractor time recorded without any lost time incidents by the year end. Since then, the cumulative safe man-hours has now exceeded one million.



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### 2009 Update and Outlook

Although the 2008 income statement does not yet reflect the Company's recent work to increase production from its existing wells, the declining trend in production and revenue has now been reversed and this improvement should be more evident in 2009. A hike in production should also be delivered from the new generation development wells, MEX-106 and SV-58, which were spud in early 2009.

The Company now has a much strengthened balance sheet from last year as well as the cash, tools and resources required for the initial stages of development of the Ukrainian fields. With further investment in these assets from existing resources and additional capital, increased revenue and profits are expected. A number of options to secure this additional capital are currently under review and the Company will make an announcement in due course.

The Company has a strong focus and direction, and the task now is to maintain this momentum, to build on the achievements of 2008 and to deliver a steadily increasing revenue stream.

#### David Greer, Chief Executive Officer said:

"I am very pleased with the Company's achievements in 2008. All of the major managerial, operational and transformational targets that were set at the beginning of the year were delivered successfully.

I am confident in the scale and strategic importance of our Ukrainian assets, the robustness of our gas and condensate reserves base, our drilling rig capability and performance and I am hopeful that the ongoing subsurface modelling and drilling will result in an increase in our reserve base. I also have the great personal belief that we now have a management team with the experience and determination to realise the full potential of the Company, which will undoubtedly benefit our shareholders going forward."

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In accordance with the rules of the AIM market of the London Stock Exchange, Ronan McElroy, PhD Geology, SPE, Chief Technologist of Regal Petroleum plc, is the qualified person that has reviewed the technical information contained in this press release.



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### Definitions

|                   |                                   |
|-------------------|-----------------------------------|
| boepd:            | barrels of oil equivalent per day |
| MMboe:            | million barrels of oil equivalent |
| Mm <sup>3</sup> : | thousand cubic metres             |
| \$:               | United States Dollars             |



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### CHAIRMAN'S STATEMENT

I am pleased to report that the Company's key business and corporate transformational targets set at the beginning of 2008 have been delivered successfully, despite the challenging economic and business environment that has affected all companies in our industry. During the year additional capital was raised, the Board and executive team were strengthened and significant investments were made. The work that commenced in early 2008 to overhaul the direction of the Company has been implemented and a clear strategy has been put in place to deliver value from the Company's assets, particularly in Ukraine. In addition, major strides have been made in the spheres of financing, improved governance, HSES management, drilling techniques and technology deployment.

As a company operating in an emerging market, against a backdrop of dropping oil prices and in an environment where political rhetoric between Ukraine and Russia has hit the headlines worldwide, Regal's share price declined dramatically from the middle of 2008, making all standard comparisons with industry valuation fundamentals virtually impossible. Paradoxically, and contrary to the generally accepted perception, the gas dispute between Ukraine and Russia actually resulted in an increase in the gas sales prices received by Regal and has encouraged the Ukrainian Government to seek to expand the country's domestic production. Both of these events potentially offer significant benefits and upside opportunities for the Company.

As a result of the capital raising in early 2008, the financial statements presented herein reflect a considerably strengthened balance sheet from 2007. This enabled the Company to make significant investments throughout the year and, during the fourth quarter, the declining trend in production and revenue in Ukraine was reversed. The Company's strategy is to continue to invest in its drilling and production programme and it will seek additional funding opportunities to support its planned operations.

### Board Changes

Mr Harry Verkuil joined as Chief Operating Officer and a Director in January 2008.

Mr Francesco Scolaro resigned as a Non-Executive Director in March 2008.

I was appointed to the role of Non-Executive Chairman in April 2008.

Mr Robert Wilde joined as Finance Director in May 2008.

Mr Adrian Coates was appointed as a Non-Executive Director in July 2008

The Audit Committee and Remuneration Committee now comprise myself and all Non-Executive Directors.

### Outlook

While we expect the current business environment to remain challenging, Regal has made significant progress in the development of its Ukrainian fields and in the work required to re-appraise its gas and condensate reserves. Under Regal's new leadership and management the Company now has real focus and direction, momentum has gained pace, and a buzz of activity is clearly evident across all levels. Going forward the task is to maintain this momentum, to build on the achievements of 2008 and to deliver a steadily increasing revenue stream, ultimately based on a successful drilling programme.

None of the progress achieved in 2008 would have been possible without a great deal of hard work and dedication by our management and staff. I would like to extend my thanks to them on behalf of the Board for all of their efforts that I am sure will continue in 2009 and beyond as the Company continues on its journey to realise its full potential.

**Keith Henry**  
Chairman



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### CHIEF EXECUTIVE OFFICER'S STATEMENT

#### Introduction

2008 was a tremendous year for Regal management and staff alike as the pace and level of transformational and field activity increased steadily throughout the year. After a prolonged period of limited field activity in Ukraine, the new management team took the reins of a company that, in January 2008, had little cash, bank debt of \$9 million and a reputational history over recent years that few companies would desire.

In less than a year, Regal has raised significant finance, been restructured and transformed, corporate governance has been significantly strengthened and international oilfield practices and procedures have been introduced.

Regal's principal focus remains its wholly-owned gas and condensate field development in Ukraine, where significant forward strides have been taken during 2008. The development objective here is two-fold. Firstly, to dramatically increase production from existing proven and probable ("2P") reserves of 169 MMboe in the Carboniferous Visean Sands. Secondly, to appraise additional gas discoveries made in horizons below these reservoirs (Carboniferous; Tournasian Sands) with the aim of making a notable addition to the 2P reserve base.

As a result of the Company's improved governance, refinancing and rebranding efforts, the Company bears little resemblance to its former self and the historical downward drift in investment and decline in gas and condensate production have both been reversed. Furthermore, in contrast to the dramatic fall in oil prices in the latter half of the year, gas prices in Ukraine have continued to rise as the country's Russian imports move closer to market rates.

Consequently, although additional funding is required to maintain the pace of Ukrainian development after the first two new generation wells, the Company's longer term prospects look bright in terms of potential increased reserves, production and revenue.

#### Health, Safety, Environment & Security

Regal believes that effective management of Health, Safety, Environment & Security (HSES) is intrinsic to the achievement of overall business excellence and results. The Company strives to ensure the impact of its business activities on the health and safety of its staff and contractors and on the environment within which the Company operates is reduced to a level, which is as low as reasonably practical by ensuring strict adherence to the Company's HSES Management System. Regal reports safety and environmental performance in accordance with the Association of Oil and Gas Producers (OGP) guidelines.

I am very pleased to report that during 2008, only one lost time incident (owing to a slip on ice) was recorded and that, since then, by the end of the year, over 750,000 man-hours of staff and contractor time had been recorded without a lost time incident occurring. The total number of safe man-hours has since risen to well over one million man-hours without a lost time incident. No environmental incidents were recorded during the year.

#### 2008 Activity

In the first half of the year, efforts were directed toward strengthening the Board and management team and in raising over \$200 million of new funding to support Regal's field development plans in Ukraine. These funds were partially used to complete the acquisition, processing and interpretation of 3D seismic over Regal's production licences in Ukraine and to lease and successfully import two brand new top drive American-built Saipem operated drilling rigs, the first and only of their kind in Ukraine. The first two new generation wells to be drilled using these state of the art drilling rigs were spud in January and February 2009. I am pleased to report that both drilling rigs are performing extremely well at penetration rates considerably higher than previous drilling campaigns on the field.



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The objective is to utilise the detailed sub-surface model that was constructed using the acquired 3D seismic to support the pursuit of an aggressive field development plan, expected to require around \$1.6 billion invested over the next decade to produce an anticipated sustained plateau production level of over 40,000 boepd.

A comprehensive 3D seismic survey was completed over the SV field in early 2008 and the data was added to the 3D survey acquired over the MEX-GOL field in 2007. This data (over 200km<sup>2</sup>) now provides Regal with 3D coverage over the vast majority of the licence areas. This 3D coverage has enabled the Company to implement a major change in the approach to managing the subsurface in the last 12 months. During the year, this new seismic data was correlated to existing well data and a 3D subsurface computer model developed with the support of Horizon B.V. of the Netherlands. This model represents a huge improvement in the Company's understanding of the subsurface. It provides Regal's subsurface team with the means to better delineate the form and structure of the gas and condensate reservoirs, thereby supporting the drilling operations. Furthermore, it provides encouraging indications of the extent of the deeper, gas-bearing T Sands that were encountered in five of the earlier wells drilled on the licences.

The Company has identified and filled key data gaps in the subsurface, deployed increased analytical resources, and adopted a systematic approach to integrating all available historical information. The data integration process has provided a comprehensive petrophysical database and delivered an accurate and reliable definition of the reservoir character and quality for the first time. The Company has also acquired and processed a 3D seismic volume over the entire MEX-GOL-SV area. The new data has provided a robust and consistent structural framework in which to describe and delineate the reservoir architecture in appropriate detail. An integrated static petroleum geological model for the MEX-GOL-SV subsurface volume was constructed, which incorporates all of the available geological, petrophysical and seismic data.

The new model has also allowed an internal redetermination of the gas volumes in place, an assessment of the measurement uncertainties around that estimate, and quantification of the likely gas volume distributions in the subsurface. Well test and gas production historical data have been evaluated in the context of the model to give reliable estimates of remaining developed reserves, undeveloped reserves and resources. This new understanding will form the basis for an independent reserve auditor to estimate the remaining reserves in autumn 2009, which is expected to demonstrate a material re-evaluation of the proven and probable reserves associated with the Ukrainian fields.

The new geomodel is currently being used as the primary tool for planning wells to confirm the subsurface understanding, to optimise the development plan and to deliver value from the Ukrainian asset. The new approach has provided a framework within which the long-term objective of materially increasing gas recovery can be achieved and sustained.

In Romania, Regal has exploration interests in the Barlad and Suceava Blocks, held 100% and 50% respectively. Gas discoveries have been made in both licences and further appraisal work is needed.

The Company also has a 25% non-operating joint venture in Egypt, where an oil discovery was made and limited production tied in. As with Romania, further appraisal work is required.

### **Outlook**

I am very pleased with the Company's achievements in 2008. All of the major operational, HSES and transformational targets that were set at the beginning of the year were delivered successfully.

A clear strategy has been put in place to sustain the momentum that has been building in the newly transformed Company and to deliver future value from the Company's Ukrainian gas and condensate assets. The Company is dealing with current market uncertainties and irrationalities by developing a strategy based upon either financing or strategic partnerships (or a combination of both) to ensure survival of the Company in the event that the current economic situation does not improve. The Company currently has no debt and has adequate cash and materials to continue drilling its two



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exciting new generation wells. Thereafter, the Company has several potential business continuity options available to it ranging from care and maintenance at one end of the spectrum to accelerated development at the other. The choice of option to be pursued will ultimately depend upon whichever financing or strategic partnership proposition is considered to be optimal for shareholders.

I am confident in the scale and strategic importance of our Ukrainian assets, the robustness of our gas and condensate reserves base, our drilling rig capability and performance and I am hopeful that the ongoing subsurface modelling and drilling will result in an increase in our reserve base. I also have the great personal belief that we now have a management team with the experience and determination to realise the full potential of the Company, which will undoubtedly benefit our shareholders going forward.

I would like to thank all of our shareholders and staff for their support and commitment throughout 2008 and look forward to realising our future potential in 2009 and beyond as we continue to carefully chart our way through these challenging macro-economic times.

**David J Greer *OBE***  
Chief Executive Officer



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### FINANCE REVIEW

#### Overview

2008 witnessed a strengthening of the Company's financial position with the injection of cash, through the placing of \$206 million of fresh equity, to kick-start the development of its Ukrainian gas and condensate assets. This enabled the debt of \$9 million outstanding at the start of the year to be discharged and, more significantly, the commencement of real investment in the Ukrainian gas and condensate field after several years in which the Company was either constrained by a lack of cash or by disputation in relation to the validity of its licences. This investment included the contracting of the two new top-drive American rigs from Saipem SpA, both of which were imported into Ukraine before the year end, and the purchase of significant long-lead items for the first six wells, such as casing and drill bits. It also included the work-over of an existing well, MEX-102, with the result that from the fourth quarter, the decline in production and revenue was reversed. Production should continue to rise in 2009 as the anticipated production from the new generation wells is brought on stream.

#### Results for the Year

The Company's work programmes during the year meant that the 2008 results were always expected to include a low point in revenues prior to the benefits of completing those work programmes that resulted in the reversal of the decline in production in the latter part of the year. However, after adjusting for non-cash share option charges, the Group's underlying operating loss of \$15.7 million was not significantly worse than in 2007 (\$13.3 million). This clearly illustrates the effect of a 32% rise in Regal's realised gas price to \$ 187/Mm<sup>3</sup> for 2008, from \$ 142/Mm<sup>3</sup> the previous year. The price rose again, in January 2009, to \$US 242/Mm<sup>3</sup>. The benefit of this further increase should manifest itself in next year's results and mark a turn-around in the Company's historical financial fortunes.

The stemming of the historical production decline led to a rise from a daily rate of approximately 460 boepd in November 2008 to a peak of over 2,000 boepd later that month following the completion of the MEX-102 work-over, before being temporarily scaled back to allow for the well intervention and production management activity in the first quarter of 2009. As a result of this activity, production is forecast to return to higher levels and is anticipated to increase still further in the third quarter of 2009 as new generation wells are brought on stream.

Cost of sales includes Government royalties on Ukrainian gas and condensate production of \$2.3 million. Royalties vary depending on the nature of the hydrocarbons and the depth from which they are produced, with deeper production attracting better fiscal terms. The charge incurred by Regal represents an amalgamated average rate of approximately 20%.

The results include a charge of \$28.9 million for foreign exchange, although the majority of this (\$23.3 million) is unrealised. This arises not only from underlying transactions in different currencies, but also because the Group holds a variety of currencies in addition to funds held in the reporting currency of US Dollars. The cash proceeds from the equity placings in February 2008 and July 2008 were predominantly received in Sterling, but currencies were then purchased to match future expected capital and operating expenditure needs, thereby mitigating exchange rate exposure. The US Dollar enjoyed a dramatic rise in strength in the latter part of the year against Sterling and, to a lesser extent, against the Euro. At the balance sheet date, the Group held \$106.1 million in cash, comprising the US Dollar equivalent of Euro 64.9 million, \$7.8 million and £32.3 million with the remaining balance held in Ukrainian and Romanian currencies.

#### Gas and Condensate Sales

The Company has a long term agreement with OJSC Ukrzakordongeology (an affiliate of the Ferrexpo Group) to act as its exclusive offtaker of gas in Ukraine. The sales price of \$187/Mm<sup>3</sup>, referred to above, is consistent with the Government capped sales price.



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Condensate is commercially tendered to a number of buyers and is typically sold in contracted units of 230 to 1,400 barrels. Condensate prices are seasonal with the highest prices (relative to the spot price of oil) achieved in the summer because of sales to the agricultural industry. The average price achieved during the year was \$84 per barrel, with the price on occasions being higher than the prevailing oil spot price.

### **Cash Flow**

From a cash flow perspective, 2008 was fundamentally a year in which capital was raised and preparations made for the field development ahead of the main drilling programme that commenced shortly after the balance sheet date. This included investment in understanding the subsurface, leasing the two new top-drive drilling rigs, civil works for well site preparation and the acquisition of \$18.8 million in stock, such as casing and drill bits for the first few wells. \$106.1 million of the cash raised remained at the balance sheet date. The effect of the capital raising and the preparations made for the field development on the balance sheet are reflected in both the increase in net current assets at \$132.6 million at 31 December 2008 (2007:\$8.0 million) and an increase in fixed assets at \$87.8 million at 31 December 2008 (2007: \$59.6 million).

### **Operating Environment, Principal Risks and Uncertainties**

As planned, the Company reviewed the risks across all material aspects of the business during the course of 2008 and now has in place a risk evaluation methodology. This highlights technical, operational, external and fiduciary risks. It assesses the level of risk and potential consequences. This has been presented to the Board and Audit Committee and will be reviewed on a quarterly basis to bring to their attention potential concerns and, where possible, suggest mitigating action. Key risks already recognised are detailed below.

#### *Financial Markets and Global Economic Outlook*

The performance of the Company will be influenced by global economic conditions and, in particular the conditions prevailing in the United Kingdom, Ukraine, Romania and Egypt. The global economy has been experiencing difficulties during 2008, with the oil and gas industry, in particular, being affected from the autumn. The financial markets have deteriorated dramatically in this period. This has led to unprecedented levels of illiquidity, resulting in the development of significant problems at a number of the world's largest commercial banks, investment banks and insurance companies and considerable downward pressure and volatility in share prices. In addition, recessionary conditions are present in the United Kingdom, as well as in other countries around the world. If these levels of market disruption and volatility continue, worsen or abate and then recur, the Company is likely to experience difficulty in securing debt finance, if required, to fund its long term development strategy. The Group may be exposed to increased counterparty risk as a result of business failures in the countries in which it operates and will continue to be exposed if counterparty's fail or are unable to meet their obligations to the Group. The precise nature of all the risks and uncertainties the Group faces as a result of the current global financial crisis and global economic outlook cannot be predicted and many of these risks are outside of the Group's control.

#### *Risks relating to the Ukraine, Romania and Egypt*

Emerging markets such as Ukraine and Romania are subject to greater risks than more developed markets including, in some cases, significant legal, economic and political risks. Such economies may also be subject to rapid change and the Group needs to adapt and alter itself, as needed, relatively quickly. Although both of these economies endured difficult times during the 1990s - largely because of the transition to a market economy and the close, former ties to the Russian economy - many recent changes have been encouragingly positive. Both countries appear to be attempting to align their respective interests with NATO and gain closer ties to Western Europe.

The Ukrainian Government is keen to develop the country's domestic production of hydrocarbons since Ukraine imports the majority of its gas needs from Russia. Russian suppliers have stated their intention to bring gas prices for supplies to the Ukraine in line with western European countries.



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Whilst this should put Regal in a well-placed position, there is also the risk of the Ukrainian Government seeking to address this in its fiscal structure.

The Group's management has considerable experience of operating in countries which were once part of the Soviet Union, consequently sharing similar customs and practices. The operations in Ukraine are also managed by a local national. Additionally, the Group operates within a working agreement with local state-owned companies, under which terms for co-operation in relation to the development of the Ukrainian fields have been outlined.

Romania is already a member of the European Union and has moved a long way down the path of changes to the political and economic framework required of such a member state. The operations in Romania are managed by a local national with extensive experience of working in the oil and gas sector.

Egypt has a long and established track record of foreign investment into the country's oil sector. Whilst the current Government remains in power, the political risks posed in this country are not currently considered to be significant.

### *Currency risk*

The Company's main activities are i) the significant investment into the development of the Group's Ukrainian gas and condensate assets; ii) the production and sale of gas, oil and condensate; and iii) the continued exploration for further hydrocarbon reserves. The majority of costs and revenues are US Dollar or Euro related, but with significant elements of the same being exposed to local currencies. Where possible, risks relating to local currencies are mitigated contractually by tying into the US Dollar and Euro. The placing of new shares in February 2008 and July 2008 predominantly raised new funds in Sterling for the Company giving US Dollar and Euro exposure. Where practical, a proportion of funds are converted into relevant currencies, when known, to effectively hedge against this exposure. Much of these funds were converted soon after receipt.

It should be noted that Regal prepares its financial statements in US Dollars and that the sudden rise in value of the US Dollar in the latter part of 2008 gave rise to a relatively large, unrealised foreign exchange loss based on cash held in currencies other than US Dollars. Such funds are intended for use against non-US Dollar related future costs.

### *Oil price risk*

The Company currently derives its revenue from the sale of Ukrainian gas and condensate. Whilst these revenues are relatively modest, because of the development stage at which Regal finds itself, these revenues are still subject to oil price volatility. A prolonged period of low oil prices may impact the Group's ability to maintain its long-term investment programme with a consequent effect on growth rate which may impact the share price or any shareholder returns. Lower gas and condensate prices may not only decrease the Group's revenues on a per unit basis, but also may reduce the amount of gas and condensate that the Group can produce economically.

Although set in Hryvnia, Ukrainian gas prices are largely dictated by Russian, US Dollar-based, import prices because of the dependency of Ukraine on imported gas. Following the statement by Gazprom in 2008 of its intention to converge the Ukrainian gas prices with the higher market prices of Western Europe (which are themselves intrinsically linked to oil price), it is likely that this will result in further upward pressure on the gas price, as was seen with the increase in January 2009 with the Company's realised price rising to \$242/Mm<sup>3</sup> from \$187/Mm<sup>3</sup> in 2008.

Given the relatively low production volumes at present, compared to anticipated future volumes, the overall project economics (being the net present value of the future cash flows from the Ukrainian project) are far more sensitive to long term oil (and hence gas) prices than short term oil price volatility. However, short term volatility does affect liquidity risk, as in the early stage of the project, income streams from production revenues are outweighed by capital investment.



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Sales of the Company's Ukrainian condensate are directly tied to the oil price. These commodities have in recent years witnessed a surge in price and there is a risk that world demand for oil subsidies, bringing with it a corresponding decline in price.

### *Production risks*

Producing gas and condensate reservoirs are generally characterised by declining production rates that vary depending upon reservoir characteristics and other factors. Any future gas and condensate reserves of the Group, production and, therefore, the Group's cash flow and income are highly dependent on the Group's success in efficiently developing and exploiting any reserves and finding or acquiring additional reserves. The Group may not be able to develop, find or acquire reserves at acceptable costs.

### *Industry risks*

The Company's ability to execute its strategy is subject to risks that are generally associated with the oil and gas industry. For example, the Group's ability to pursue and develop its projects and development programmes depends on a number of uncertainties, including the availability of capital, seasonal conditions, regulatory approvals, gas, oil and condensate prices, costs and drilling success. As a result of these uncertainties, it is unknown whether potential drilling locations identified on proposed projects will ever be drilled or be able to produce gas, oil or condensate from these or any other potential drilling locations. In addition, drilling activities are subject to many risks, including the risk that commercially productive reservoirs will not be discovered. Drilling for hydrocarbons can be unprofitable, not only from dry holes, but from productive wells that do not produce sufficiently to be economic. In addition, drilling and production operations may be curtailed, delayed or cancelled as a result of other factors.

### *Exposure to credit, liquidity and cash flow risk*

The Group does not currently have any outstanding loans. Most of its gas is paid for monthly in advance based on estimated production with a correcting settlement made in the following month. Debtors and risk of non-payment are, therefore, not particularly significant at present. Creditors are more relevant as the capital investment gathers pace. In most cases, endeavours are made to arrange for delivery before payment for the goods is made, but this is not always possible and a risk does exist. A proportion of invoiced sums is often retained until delivery and, where possible, orders are placed with reputable, known suppliers. Internal financial projections are regularly made based on the latest estimates available and various scenarios to assess the robustness of the liquidity of the Group are run. Following the capital raised in 2008, the Group currently holds sufficient cash for the medium term needs of the business, but these funds are insufficient for the level of capital expenditure required to fully develop the Company's Ukrainian gas and condensate assets. Whilst much of this capital need is expected to be derived from future operational cash generated from production from the wells to be drilled, further funding is also necessary, beyond the cash currently held. There is a risk that insufficient operational cash is generated, or that additional funding cannot be secured. However, the Directors have developed an alternate strategy that should enable the Company to survive as a going concern should additional financing not be forthcoming in the short term. The consequence of implementing this strategy would be a slowing down of the pace of field development to conserve cash, ensuring that the business operates within the cash generated from existing production and expected future production from the first two new-generation wells; MEX-106 and SV-58. This strategy is underpinned by a number of assumptions which involve making judgements about future events, such as gas price, successful drilling, expected future production levels and drilling rig commitments.

### *Risks relating to key personnel*

Regal has a relatively small team of executives and senior management. Whilst this is sufficient for a company of this nature, there is a dependency risk relating to the loss of key individuals.

### *Risks relating to further development and operation of the gas fields in Ukraine*

The planned development of the Ukrainian fields are susceptible to appraisal and development risk. This could include, but is not restricted to, delays in delivery of equipment into Ukraine; failure of key equipment; lower than expected production from the wells as they are brought on-stream; problematic wells; or complex geology that is difficult to drill or interpret. The generation of significant operational



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cash envisaged in the coming years from this development is dependent on the successful delivery and completion of the development of the fields. Furthermore, the optimisation of all of the Company's assets is dependent on maintaining constructive relationships between all of our business stakeholders.

### *Capital Risk Management*

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company has developed a strategy based upon either financing or strategic partnerships (or a combination of both) to ensure survival of the Company in the event that the current economic situation does not improve. The Company currently has no debt and has adequate cash and materials to continue drilling its two new generation wells. Thereafter and depending on the extent and timing of financing available, the Company has several potential business continuity options available to it ranging from care and maintenance at one end of the spectrum to accelerated development at the other.

### **Key Performance Indicators**

The Company has devised a strategy to monetise the Ukrainian gas and condensate assets, by means of a detailed field development and implementation programme and to assess its performance against a set of performance criteria. The Board and management are incentivised to deliver shareholder value in line with this strategy. Options have been granted to all key executive directors and staff which become exercisable only when, or if, performance milestones are accomplished. Details of these performance conditions have already been made public to the market, and are based around the following activities:

- Securing drilling locations and permits;
- Establishing a drilling base in-country;
- Increasing existing production volumes and proving-up additional reserves; and
- Securing interest amongst financial stakeholders to source funding for the continued programme of development.

In this manner, the interests of the Company's management and staff are aligned to shareholder interests.

### **Outlook**

The Company's balance sheet has been strengthened substantially over the year and, as a consequence, is now well positioned to deliver value from the Company's Ukrainian gas and condensate assets. The rate of value delivery will naturally depend upon the global economic climate and the impact that this will have on perceived Ukrainian country risk. Nevertheless, the Company has devised a range of strategies to cope with current uncertainties and to ensure that the Company can continue to operate as a going concern and to prosper during these challenging economic times. With no debt and adequate cash and materials to continue drilling its two new generation wells, the Company's development plans are on track. No effort will however be spared to ensure that the Company's future is one in which it can continue to sustain the momentum gained in 2008, to continue to grow and thereby realise the Company's full potential.

**Robert Wilde**  
Finance Director



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### Regal Petroleum plc Consolidated Income Statement for the year ended 31 December 2008

|   |      | 2008            | 2007     |
|---|------|-----------------|----------|
|   | Note | \$000           | \$000    |
| Revenue   | 2    | 11,450          | 14,264   |
| Cost of sales   |      | (5,667)         | (5,372)  |
| <b>Gross profit</b>                                     |      | <b>5,783</b>    | 8,892    |
| Other administrative expenses                           |      | (18,023)        | (20,799) |
| Share based charge                                      |      | (9,120)         | (7,489)  |
| Total administrative expenses                           |      | (27,143)        | (28,288) |
| Other operating income                                  |      | -               | 830      |
| Other operating expenses: exploration costs written off |      | (3,467)         | (2,266)  |
| <b>Operating loss</b>                                   |      | <b>(24,827)</b> | (20,832) |
| Sale of investment                                      |      | -               | 1,475    |
| Investment revenue                                      |      | 5,501           | 424      |
| Finance costs   |      | (525)           | (427)    |
| Other gains and losses                                  |      | (28,888)        | (252)    |
| <b>Loss on ordinary activities before taxation</b>      |      | <b>(48,739)</b> | (19,612) |
| Income tax expense                                      |      | (2,074)         | (2,423)  |
| <b>Loss on ordinary activities after taxation</b>       |      | <b>(50,813)</b> | (22,035) |
| <b>Loss per ordinary share (cents)</b>                  |      |                 |          |
| Basic and diluted                                       |      | <b>(25.6c)</b>  | (16.2c)  |

The income statement has been prepared on the basis that all operations are continuing operations.

### Regal Petroleum plc Consolidated Statement of Recognised Income and Expense for the year ended 31 December 2008

|   | 2008            | 2007     |
|---|-----------------|----------|
|   | \$000           | \$000    |
| Equity – foreign currency translation                   | (2,028)         | (269)    |
| Net expense recognised directly in equity               | (2,028)         | (269)    |
| Loss for the year                                       | (50,813)        | (22,035) |
| <b>Total recognised income and expense for the year</b> | <b>(52,841)</b> | (22,304) |



## Press Release

### Regal Petroleum plc Consolidated Balance Sheet at 31 December 2008

|   | 2008            | 2007            |
|---|-----------------|-----------------|
|   | \$000           | \$000           |
| <b>Assets</b>                             |                 |                 |
| <b>Non-current assets</b>                 |                 |                 |
| Intangible assets                         | 26,200          | 25,992          |
| Property, plant and equipment             | 61,588          | 33,561          |
|   | <b>87,788</b>   | 59,553          |
| <b>Current assets</b>                     |                 |                 |
| Inventories                               | 19,021          | 297             |
| Trade and other receivables               | 7,507           | 2,159           |
| Cash and cash equivalents                 | 106,078         | 5,565           |
|   | <b>132,606</b>  | 8,021           |
| <b>Total assets</b>                       | <b>220,394</b>  | <b>67,574</b>   |
| <b>Liabilities</b>                        |                 |                 |
| <b>Current liabilities</b>                |                 |                 |
| Current tax liabilities                   | (171)           | (250)           |
| Trade and other payables                  | (9,038)         | (10,487)        |
| Borrowings                                | -               | (8,625)         |
|   | <b>(9,209)</b>  | (19,362)        |
| <b>Net current assets / (liabilities)</b> | <b>123,397</b>  | (11,341)        |
| <b>Non-current liabilities</b>            |                 |                 |
| Trade and other payables                  | (101)           | (41)            |
| Provisions                                | (2,358)         | (1,283)         |
| Deferred tax                              | (3,093)         | (1,233)         |
|   | <b>(5,552)</b>  | (2,557)         |
| <b>Total liabilities</b>                  | <b>(14,761)</b> | <b>(21,919)</b> |
| <b>Net assets</b>                         | <b>205,633</b>  | 45,655          |
| <b>Equity</b>                             |                 |                 |
| Called up share capital                   | 19,094          | 12,378          |
| Share premium account                     | 462,249         | 265,899         |
| Other reserves                            | 17,383          | 12,681          |
| Profit and loss account                   | (293,093)       | (245,303)       |
| <b>Total equity</b>                       | <b>205,633</b>  | 45,655          |



## Press Release

### Regal Petroleum plc Consolidated Cash Flow Statement for the year ended 31 December 2008

|   |      | 2008            | 2007           |
|---|------|-----------------|----------------|
|   | Note | \$000           | \$000          |
| <b>Operating activities</b>                                   |      |                 |                |
| Cash used in operations                                       | 3    | (13,159)        | (7,326)        |
| Interest received   |      | -               | 366            |
| Interest paid   |      | (193)           | (59)           |
| Taxation paid   |      | (302)           | (962)          |
| <b>Net cash used in operating activities</b>                  |      | <b>(13,654)</b> | <b>(7,981)</b> |
| <b>Investing activities</b>                                   |      |                 |                |
| Purchase of property, plant and equipment                     |      | (28,348)        | (5,709)        |
| Purchase of intangible assets                                 |      | (8,244)         | (4,535)        |
| Purchase of materials inventory                               |      | (18,797)        | -              |
| Proceeds from sale of investment                              |      | -               | 1,475          |
| Proceeds from sale of intangible fixed assets                 |      | -               | 40             |
| Proceeds from sale of property, plant and equipment           |      | -               | 2              |
| <b>Net cash used in investing activities</b>                  |      | <b>(55,389)</b> | <b>(8,727)</b> |
| <b>Financing activities</b>                                   |      |                 |                |
| Proceeds from borrowings                                      |      | 1,500           | 9,000          |
| Settlement of borrowings                                      |      | (10,500)        | -              |
| Funds received in connection with share options               |      | 7,075           | 655            |
| Proceeds from issue of shares                                 |      | 206,030         | -              |
| Payment of share issue costs                                  |      | (9,407)         | -              |
| Interest received on surplus funds from share issue           |      | 5,364           | -              |
| Payment of debt issue costs                                   |      | -               | (671)          |
| <b>Net cash from financing activities</b>                     |      | <b>200,062</b>  | <b>8,984</b>   |
| <b>Net increase / (decrease) in cash and cash equivalents</b> |      | <b>131,019</b>  | <b>(7,724)</b> |
| <b>Cash and cash equivalents at beginning of year</b>         |      | <b>5,565</b>    | <b>13,048</b>  |
| Effect of foreign exchange rates                              |      | (30,506)        | 241            |
| <b>Cash and cash equivalents at end of year</b>               |      | <b>106,078</b>  | <b>5,565</b>   |



# Press Release

## Regal Petroleum plc Notes forming part of the financial information for the year ended 31 December 2008

### 1. Statutory Accounts

While the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS.

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2008 or 2007, but is derived from those accounts. The Auditors' Report on the 2008 accounts was unqualified, did not include reference to any matter to which the auditors draw attention by way of emphasis of matter without qualifying the report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for 2008 will be delivered to the Registrar of Companies following the Company's annual general meeting.

The financial information has been prepared in accordance with the going concern basis of accounting, taking into consideration the Group's current and forecast financing position, additional details of which are provided in the "Exposure to credit, liquidity and cash flow risk" and "Financial markets and global economic outlook" sections of the Finance Review.

### 2. Segmental information

The Group's only class of business activity is oil and gas exploration, development and production. The Group's primary operations are located in Ukraine, Romania and Egypt, with its head office in United Kingdom. These geographical regions are the basis on which the Group reports its primary segment information.

|   | Ukraine       |               | United Kingdom |               | Romania       |               | Egypt         |               | Unallocated   |               | Total         |               |
|---|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   | 2008<br>\$000 | 2007<br>\$000 | 2008<br>\$000  | 2007<br>\$000 | 2008<br>\$000 | 2007<br>\$000 | 2008<br>\$000 | 2007<br>\$000 | 2008<br>\$000 | 2007<br>\$000 | 2008<br>\$000 | 2007<br>\$000 |
| <b>Turnover</b>                             |               |               |                |               |               |               |               |               |               |               |               |               |
| Gas sales                                   | 6,625         | 7,430         | -              | -             | -             | -             | -             | -             | -             | -             | 6,625         | 7,430         |
| Condensate sales                            | 4,825         | 6,834         | -              | -             | -             | -             | -             | -             | -             | -             | 4,825         | 6,834         |
| Total sales<br>(and sales to third parties) | 11,450        | 14,264        | -              | -             | -             | -             | -             | -             | -             | -             | 11,450        | 14,264        |
| <b>Operating profit / (loss)</b>            | 1,215         | 4,939         | (21,878)       | (22,579)      | (2,982)       | (1,799)       | (1,182)       | (1,234)       | -             | (159)         | (24,827)      | (20,832)      |
| <b>Interest received</b>                    | 4             | 12            | 5,474          | 332           | 17            | 21            | 6             | 59            | -             | -             | 5,501         | 424           |
| <b>Segment assets</b>                       | 88,654        | 35,133        | 104,658        | 4,569         | 22,273        | 23,743        | 4,809         | 4,121         | -             | 8             | 220,394       | 67,574        |
| <b>Segment liabilities</b>                  | (2,969)       | (885)         | (7,552)        | (15,649)      | (222)         | (1,908)       | (753)         | (1,046)       | (3,265)       | (2,431)       | (14,761)      | (21,919)      |
| <b>Capital additions</b>                    | 29,984        | 5,679         | 229            | 33            | 4,361         | 3,450         | 2,036         | 3,671         | -             | -             | 36,610        | 12,833        |
| <b>Depreciation</b>                         | (1,821)       | (947)         | (190)          | (194)         | (11)          | (18)          | -             | (3)           | -             | -             | (2,022)       | (1,162)       |

There are no inter-segment sales within the Group and all products are sold in the geographical region they are produced in.

The Group's gas sales of \$6,625,000 (2007: \$7,430,000) are with one single external party with which the Group has an agreement.

Total of revenue generated from operating and interest revenue is \$16,951,000 (2007: \$14,688,000).



## Press Release

### 3. Reconciliation of Operating Loss to Operating Cash Flow

|   | <b>2008</b>     | 2007     |
|---|-----------------|----------|
|   | <b>\$000</b>    | \$000    |
| Operating loss                                    | <b>(24,827)</b> | (20,832) |
| Depreciation, amortisation and impairment charges | <b>2,022</b>    | 1,162    |
| Movement in provisions                            | <b>(1,249)</b>  | 333      |
| Decrease / (increase) in stock                    | <b>73</b>       | (260)    |
| (Increase) / decrease in debtors                  | <b>(233)</b>    | 1,189    |
| (Decrease) / increase in creditors                | <b>(1,532)</b>  | 5,673    |
| Share option charge                               | <b>9,120</b>    | 3,143    |
| Exploration costs written off                     | <b>3,467</b>    | 2,266    |
| <b>Cash used in operations</b>                    | <b>(13,159)</b> | (7,326)  |

### 4. Subsequent Events

There were no events after the balance sheet date which require adjustment to or disclosure in this financial information.

### 5. Capital Commitments

Amounts contracted in relation to the Ukraine field development but not provided for in the financial statements at 31 December 2008 were \$2,090,000 (2007: \$nil). In addition, the Company has entered into five year contracts with Saipem SpA for the provision of two drilling rigs. The contracts for these rigs have a break clause after two years which, if exercised, result in a total minimum commitment through to end 2010 of \$103,554,000 (2007: \$nil). However, the Company has the legal right to subcontract these rigs which may partially or wholly mitigate any exposure.