

**REGAL PETROLEUM PLC**

**TRADING STATEMENT AND INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2003**

**TRADING UPDATE**

The Directors of Regal Petroleum plc advise that, due to lower than expected production of gas and condensate from their Ukraine operations, earnings for the second half of 2003 will be substantially lower than previously forecast.

At Regal's inception in October of last year, Management elected to pursue early cash flow through the 'work-over' of seven to eight exploration wells completed by the State run company Naftagas in the late 1980s, all of which had returned promising test flows.

It was estimated that each 'work-over' would be completed in approximately a tenth of the time required for the drilling of a new production well and at a fraction of the cost.

However, the 'workovers' on the first three wells: Mex 3; Gol 1 and SV 10 have met with unexpected technical problems and delays, due predominantly to previous poor work practices and the present sub-contractors' lack of materials and equipment. Some of these problems have yet to be rectified, resulting in current production from these wells being less than anticipated (see chart below).

As a result of the above, Management have decided to postpone the 'work-over' programme until a technical review, including new down-hole testing, has been completed on all remaining work-over candidates.

In addition, Gol 2, a new well started by Naftagas as an exploration well and completed by Regal as a production well, has not lived up to expectations with the present flow rate of 100,000 M3/d being half the initial rate of flow in February. It is intended to carry out extensive testing to determine the cause of this drop.

Accordingly, the new forecast production at December 2003 has been reduced to 800,000 M3/d with 1,500,000 M3/d being reached by fourth quarter 2004.

The Directors are pleased to report that, the new works being carried out by Regal are proceeding well. Production well SV 52, started in October of last year, has reached the first gas bearing structure at 5,300 metres (target depth 5,400 metres) and is currently having this zone tested. SV52 is expected to be completed in October and have production to the gas plant together with SV 10 in November 2003.

Production well Mex 102, started in January of this year has reached 4,600 metres and is estimated to reach its target depth of 5,200 metres in October and have production to the gas plant by year-end.

The new onsite supervision, experienced in both Soviet and modern Western drilling techniques, have already improved the drilling rates substantially by introducing up to date gear, machinery and work practices. For example, the last 650 metres drilled on Mex 102 was

at a rate of 17.5 metres/day which is more than double (8.2 metres) that achieved by the same drilling company last year on Gol 2, also only using a third of the drill-bits thus saving substantial time and costs.

Construction of the export, 325mm diameter 6,400 metre long, pipeline, connecting Regal's Gas Plant with the main National trunk system, has commenced and is scheduled for completion in November 2003. This will allow Regal to be completely independent of the local system eliminating costly service charges. At the same time, with SV 52 and SV 10 coming on stream, there will be sufficient production to negotiate export sales, which attract a substantial premium to the local sales. The Company is also pursuing local sales at a substantially higher price than the \$54 currently being achieved.

The new gas plant, opened in mid July, is functioning well and will meet all of Regal's production requirements until three additional new wells planned for 2004 are completed. Planning and permitting has commenced for the second and main gas plant construction which is scheduled to commence in the second quarter 2004.

The required documentation for the Production Licence application is nearing completion and is scheduled for submission in October 2003. Regal is currently permitted to sell under the exploration and pilot production licence.

### REGAL PETROLEUM PLC UKRAINE PRODUCTION FORECAST

Well Name	Original		Revised	
	Gas Rate (M3/d)	Cond. (M3/d)	Gas Rate (M3/d)	Cond. (M3/d)
Gol 2	175,000	15.75	100,000	9.00
Mex 3	100,000	2.50	100,000	2.50
Gol 1	175,000	15.75	130,000	11.70
SV 10	100,000	1.50	100,000	1.50
SV 6	30,000	45.00	0	0
SV 7	35,000	29.75	0	0
SV 52	300,000	30.00	185,000	18.50
Mex 102	300,000	30.00	185,000	18.50
<b>TOTAL</b>	<b>1,215,000</b>	<b>170.25</b>	<b>800,000</b>	<b>61.70</b>
BOE	7,636.28	1,069.17	5,028.00	387.48
<b>TOTAL BOE</b>		<b>8,705.45</b>		<b>5,415.48</b>

**Kavala Oil SA.** Regal signed a Heads of Agreement in June 2003 to acquire a 60.3% interest in Kavala Oil SA, a private company incorporated in Greece with assets which comprise a producing oil project in the North Aegean Sea. The transaction is due to be completed by 30th September 2003.

**Romania.** Work has commenced on digitising and reprocessing data relating to the two known gas discoveries on the Suceava project.

**For further information please contact:**

**Regal**

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## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003**

### **REVIEW OF RESULTS**

The financial results for the six months to 30 June 2003 reflect the increase in gas and condensate production together with the significant investment in the Company's well development programme and the construction of the new gas processing plant.

Turnover for the six months was \$1,228,000 reflecting gas and condensate production from the only wells operational during the period: MEX 3 and GOL2. All production was sold locally at domestic prices of an average rate of \$54 per thousand cubic metres of gas and \$186 per metric tonne of condensate. In order to minimise counterparty risk all sales are for payment in advance.

The operating loss for the six months was \$1,382,000. As at 30 June 2003 the Group had no long term external borrowings. Total interest receivable for the six months was \$71,000.

Net cash outflow from operating activities was \$1,821,000. The capital expenditure and financial investment outflow of \$4,035,000 represented the aggressive investment towards well development and construction of the 1<sup>st</sup> phase gas plant in the first half of 2003. As at 30 June 2003 the Group had total cash balances of \$2,775,000.

### **OUTLOOK FOR 2<sup>nd</sup> HALF 2003**

During the 2<sup>nd</sup> half of 2003 Regal will continue its development plan in the Ukraine to achieve the revised daily gas production target of 800,000 sm<sup>3</sup> per day by the end of the year and complete the construction of the high capacity pipeline. The Group expects an increase in the price for local sales and continues to work towards exporting gas in the fourth quarter of 2003 to take advantage of the higher sales prices available.

We intend to develop Regal into an international oil and gas company with a clear focus on geographic areas and assets where we can add value. To achieve this goal and to diversify our operations we intend completing the acquisition of a 60.3% interest in Kavala Oil SA by 30th September 2003 and to develop our Suceava licence area in North East Romania during 2004.

**V. Frank Timis**  
Chairman

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE HALF YEAR ENDED 30 JUNE 2003**

	Note	Unaudited Half Year 30 Jun 2003 \$'000	Audited Full Year 31 Dec 2002 \$'000
<b>Turnover</b>	1	1,228	583
Cost of sales		<u>(317)</u>	<u>(92)</u>
<b>Gross profit</b>		<b>911</b>	491
Administrative expenses		<u>(2,364)</u>	<u>(4,663)</u>
<b>Operating loss</b>		<b>(1,453)</b>	(4,172)
Interest receivable		71	110
Interest payable and similar charges		<u>-</u>	<u>(430)</u>
<b>Loss on ordinary activities before and after taxation</b>		<u><b>(1,382)</b></u>	<u>(4,492)</u>
<b>Loss per ordinary share (cents)</b>			
Basic		<b>2.4¢</b>	10.1¢
Diluted		<u><b>2.4¢</b></u>	<u>10.1¢</u>

All amounts relate to continuing activities.

The notes form part of these financial statements.

**CONSOLIDATED BALANCE SHEET  
AT 30 JUNE 2003**

	Note	Unaudited Half Year 30 Jun 03 \$'000	Unaudited Half Year 30 Jun 03 \$'000	Audited Full Year 31 Dec 02 \$'000	Audited Full Year 31 Dec 02 \$'000
<b>Fixed assets</b>					
Tangible assets			9,882		5,873
Investments			54		54
			<b>9,936</b>		<b>5,927</b>
<b>Current assets</b>					
Debtors		3,220		1,652	
Cash at bank and in hand		2,775		8,974	
		<b>5,995</b>		<b>10,626</b>	
<b>Creditors: amounts falling due within one year</b>		<b>(1,299)</b>		<b>(1,044)</b>	
<b>Net current assets/(liabilities)</b>			<b>4,696</b>		<b>9,582</b>
<b>Total assets less current liabilities</b>			<b>14,632</b>		<b>15,509</b>
<b>Provision for liabilities and charges</b>			<b>(100)</b>		<b>(100)</b>
<b>Net assets</b>			<b>14,532</b>		<b>15,409</b>
<b>Capital and reserves</b>					
Called up share capital	3		4,737		4,613
Share premium			15,273		14,754
Merger reserve			(3,281)		(3,204)
Capital contributions			7,477		7,477
Profit and loss account deficit			(9,674)		(8,231)
<b>Shareholders' funds – equity</b>			<b>14,532</b>		<b>15,409</b>

The financial statements were approved by the Board on 29 Aug 2003

**G R Featherby**  
Director

The notes form part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED 30 JUNE 2003**

	Unaudited Half Year 30 Jun 03 \$'000	Unaudited Half Year 30 Jun 03 \$'000	Audited Full Year 31 Dec 02 \$'000	Audited Full Year 31 Dec 02 \$'000
<b>Net cash outflow from operating activities</b>		(1,821)		(5,281)
<b>Returns on investments and servicing of finance</b>				
Interest received	70		110	
Interest paid	-		(430)	
<b>Net cash outflow from returns on investments and servicing of finance</b>		70		(320)
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(4,049)		(3,207)
Sale of Fixed Assets		14		-
<b>Cash outflow before use of liquid resources and financing</b>		(5,786)		(8,808)
<b>Financing</b>				
Secured loan	-		(1,337)	
Other Loans	(413)		186	
Capital contributions received	-		2,741	
Issues of ordinary share capital (net of issue costs)	-		16,094	
		(413)		17,684
<b>Increase / (Decrease) in cash</b>		(6,199)		8,876

The notes form part of these financial statements.

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 30 JUNE 2003**

**1 Turnover and net assets**

	<b>Unaudited Half Year 30 Jun 03 \$'000</b>	<b>Audited Full Year 31 Dec 02 \$'000</b>
Analysis of turnover by activity:		
Gas Sales	1,088	550
Condensate Sales	71	26
Other	69	7
	<u>1,228</u>	<u>583</u>

The turnover of the group arose wholly within the territory of Ukraine and was wholly attributable to the group's primary activity.

	<b>Unaudited Half Year 30 Jun 03 \$'000</b>	<b>Audited Full Year 31 Dec 02 \$'000</b>
Analysis of net assets by geographical origin:		
United Kingdom	2,000	9,204
Ukraine	12,531	6,205
	<u>14,531</u>	<u>15,409</u>

**2 Loss for the financial year**

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group loss for the period includes a loss after tax of \$1,613,395, for the period 1 January 2003 to 30 June 2003, which is dealt with in the financial statements of the parent company.

**3 Share capital**

	<b>Authorised Number</b>	<b>\$'000</b>
Ordinary shares of 5p each (Approximately 8c each)	80,000,000	6,440
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	<b>Allotted, called up and fully paid Number</b>	<b>\$'000</b>
Ordinary shares of 5p each (Approximately 8c each)	57,466,667	4,737
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