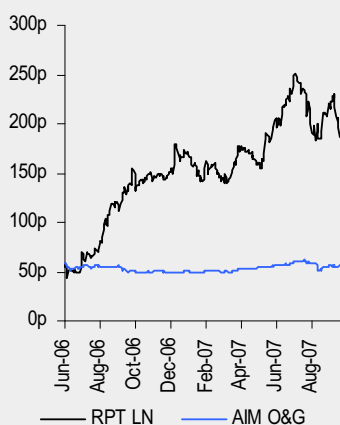


BUY

| | |
|--------------------------|-----------|
| Bloomberg | RPT LN |
| Price | 180p |
| Target Price | 275p |
| 12mth high/low | 257p/132p |
| Shares out (mill) | 143 |
| Fully diluted (mill) | 149 |
| Mkt Cap (US\$m) | 558 |
| Enterprise Value (US\$m) | 582 |



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Egypt oil discovery & valuation recap

Following the recent oil discovery in Egypt, we met with management this week to discuss the go forward plan in Egypt, the up and coming drilling programme in Romania, and progress on finalising the MND deal in Ukraine. We came away with the following conclusions:

- The immediate valuation impact of the discovery in Egypt is minimal (4p addition to core valuation), but it has upside (8p risked / 18p unrisked) and should add momentum moving into a busy Q4 exploration drilling programme. Regal plans to spud four more exploration wells (one in Egypt and three in Romania) by the year end offering investors exposure to a further 27p per share of risked upside (82p unrisked).
- The muted share price reaction to the oil find in Egypt appears to relate to continued uneasiness over the MND transaction, which in our view, has been misunderstood by the market. With the shares now trading at around 180p, we believe there is significant near term upside as the market comes to terms with the valuation impact of the MND deal. We currently value Regal's proforma stake in the GOL-MEX & SV fields at 269p on a risked basis or 299p unrisked. We are therefore maintaining our BUY recommendation and 275p target price.

Regal hits oil in Egypt: good for sentiment but valuation impact minimal

The ERB-A-1X was essentially a re-drill of a Tullow well drilled in 1995 which failed to flow after encountering oil shows in an Eocene, fractured limestone interval. Not surprisingly then, the key pre-drill risk for ERB-A-1X was well productivity and the effectiveness of drilling horizontally into the target reservoir. On this basis, a flow rate of 1,910 bopd is a decent result and, in our view, could improve substantially following acid and fracture stimulation.

Our pre-drill estimate of 5mmbbl recoverable looks about right and values a stand alone, one well development at 4p per share (see figure 1 below). ERB-A-1X is located less than 1km from the Ras Budran processing facilities and could be hooked up at low cost (less than US\$6m). This may happen as early as Q1 next year but there is also a bigger prize to consider: the structure extends southwards (onshore and offshore) into open acreage and could be as large as 50 mmbbls in total.

Apache (on behalf of the JV) is likely to approach the Egyptian authorities regarding an extension. Encouragingly, the Egyptian authorities have a long history of awarding open acreage extensions and given Apache's reputation in country, there is a good chance of a positive outcome. In a success scenario whereby the licence extension is awarded and the whole structure is proved up, we estimate there is an additional 18p per share of unrisked upside (8p risked).

MND deal: a recap on the valuation impact

The oil find in Egypt appears to have gone unnoticed amid continued uneasiness over the MND deal, which we believe has been misunderstood by the market. It is too simplistic to value Regal's pro-forma stake (50%) on the basis of what MND are spending to acquire their share (50%) in the project. The respective working interests are the same, but clearly the value of the

project is going to be significantly less for MND than it is for Regal. MND is putting up all the risk capital, whereas Regal is getting more or less a free carry. The price being paid by MND reflects this fact. The correct way to value Regal's pro-forma stake is to model the impact of the deal on future cash flows, and on this basis, our risked valuation remains largely unchanged (see figure 1 below).

The disappointing share price performance since the deal relates primarily to the difficulty in seeing a clear read-through value for the project, however, it may also reflect some over inflated expectations ahead of the announcement. Nevertheless, we have always said that Regal requires a partner to develop its Ukrainian fields and therefore the importance of this deal should not be underestimated. The project is not without risk and requires deep pockets than Regal's to take it through to the point where it becomes cash flow positive.

The choice of MND as a partner retains the maximum amount of upside for shareholders, and aligns Regal with a company that is focused on extracting value from the project in a timely manner. There were other offers on the table which may have had a more dramatic impact on the share price in the short-term, but at the very least, the timetable for the development would have slipped, and in the worse case, the project could have found itself "parked" in a cul-de-sac if the Ukraine happened to slip down the investment agenda of the major in question.

Valuation summary

The two tables below summarise our current valuation and are the basis behind our 275p price target.

Figure 1: Core valuation

| Field name | Interest | Mboe(1) | Unrisked | | | | Risked | | | |
|---------------------------------|----------|-----------|-------------|------------|------------|--------|-----------|------------|------------|--|
| | | | US\$/boe | US\$m | p/share | CoS(2) | Mboe(1) | US\$m | p/share | |
| GOL-MEX & SV fields (pro-forma) | 50% | 85 | 10.1 | 853 | 299 | 90% | 76 | 768 | 269 | |
| ERB "A field" base case | 25% | 2 | 7.2 | 11 | 4 | 100% | 2 | 11 | 4 | |
| Oil & Gas Assets | | 86 | 10.0 | 864 | 303 | | 78 | 779 | 273 | |
| Add: cash balance (Dec, 2006) | | | | 13 | 5 | | | 13 | 5 | |
| Add: options & warrants | | | | 11 | 4 | | | 11 | 4 | |
| Deduct: exploration costs | | | | (7) | (2) | | | (7) | (2) | |
| Core Asset Value | | | | 881 | 309 | | | 796 | 279 | |

Source: Mirabaud Securities Ltd; Regal Petroleum; Ryder Scott

Figure 2: Exploration and appraisal upside

| Licence / Prospect | Interest | Mboe(1) | Unrisked | | | | Risked | | | |
|-----------------------------|----------|-----------|------------|------------|------------|--------|-----------|-----------|-----------|--|
| | | | US\$/boe | US\$m | p/share | CoS(2) | Mboe(1) | US\$m | p/share | |
| ERB - "A field" upside | 25% | 11 | 4.7 | 53 | 18 | 45% | 5 | 23 | 8 | |
| ERB - Prospect B | 25% | 3 | 5.1 | 13 | 4 | 25% | 1 | 3 | 1 | |
| Suceava - Dornesti Prospect | 50% | 1 | 11.1 | 9 | 3 | 33% | 0 | 3 | 1 | |
| Barlad - Prospect RBN-3 | 100% | 13 | 11.1 | 138 | 48 | 33% | 4 | 46 | 16 | |
| Barlad - Prospect RBN-4 | 100% | 7 | 11.1 | 74 | 26 | 33% | 2 | 24 | 9 | |
| Exploration upside | | 34 | 8.5 | 287 | 100 | | 12 | 99 | 35 | |

Source: Mirabaud Securities Ltd; Regal Petroleum; Ryder Scott

(1) Million barrels of oil equivalent, net to RPT

(2) CoS = Chance of success

RECOMMENDATIONS HISTORY

| Market index | FTSE AIM O&G | | | | |
|-----------------------------|--------------|--------------------|-----------------|------------------|---------|
| Date | | Market Index level | Stock Price (p) | Target Price (p) | Opinion |
| 15 th May, 2007 | | 5162.49 | 162p | 275p | BUY |
| 25 th June, 2007 | | 5470.78 | 225p | 275p | BUY |
| 14 th Sept, 2007 | | 5323.25 | 214p | 275p | BUY |
| 26 th Sept, 2007 | | 5390.49 | 180p | 275p | BUY |

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- BUY:** The stock is expected to generate absolute positive price performance of over 20% during the next 12 months.
- ACCUMULATE:** The stock is expected to generate absolute positive price performance of 10-20% during the next 12 months
- NEUTRAL:** The stock is expected to generate absolute price performance of between 10% positive and 10% negative during the next 12 months.
- REDUCE:** The stock is expected to generate absolute negative price performance of 10-20% during the next 12 months
- SELL:** The stock is expected to generate absolute negative price performance of over 20% during the next 12 months.
- RISK Qualifier:** Speculative

Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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