

REGAL PETROLEUM PLC
PRELIMINARY AUDITED RESULTS FOR THE YEAR
ENDED 31 DECEMBER 2004

Regal Petroleum plc (“Regal”, “the Company” or “the Group”), the oil and gas exploration and production company, today announces its audited results for the year ended 31 December 2004.

FINANCIAL HIGHLIGHTS

- Turnover increased to \$42.5 million (2003: \$10.2 million).
- Production averaged 4,129 boepd (2003: 4,063 boepd).
- Loss for the year of \$13.7 million (2003: \$2.9 million).
- Depreciation charge for the year of \$7.7 million (2003: \$2.2 million).
- Hedging charge for the year of \$11.0 million (2003: \$Nil).
- Capital cash expenditure of \$71.6 million (2003: \$16.8 million).
- Placing of 13,333,334 ordinary shares which raised \$69.8 million (net of expenses).
- Net cash at year end of \$25.6 million (2003: \$28.5 million).

OPERATIONAL HIGHLIGHTS

Greece

- Completed the drilling of the first Kallirachi exploration well to a depth of 2,556 metres in January 2004 and commenced the drilling of the second Kallirachi well in October 2004.

Ukraine

- The drilling of production well MEX102 was completed in March 2004 with a high condensate flow rate.
- Awarded 100 per cent. interest in two new 20 year production licences in Ukraine. These licences replace the exploration licences which Regal previously operated under.

Romania

- Government ratification of the 4,103 square kilometre exploration, development and production licence for Suceava Block.
- Drilling of the first exploration well on the Suceava Block commenced in December 2004.

Egypt

- Acquisition of an onshore exploration concession in the East Ras Budran Area, Gulf of Suez, Egypt.
- The existing data for the concession area has been evaluated and four prospective structures have been identified.

London

- Roger Phillips appointed as Finance Director in September 2004. Roger has in excess of 25 years experience in the oil and gas industry including 19 years at Amerada Hess Corporation.

2005 UPDATE

- **Greece:** the new Managing Director in Greece is currently assessing the production operations at Kavala Oil SA and will report to the Board in due course.
- **Romania:** following the successful completion of exploration well SE-1 in the Suceava licence in April 2005, a drilling programme is currently being finalised and it is expected that a series of shallow, low cost appraisal/development wells will be drilled in 2005 and 2006.
- **Placing:** in April 2005 the Company successfully raised £42.6 million (net of expenses) through a placement of 11,500,000 new ordinary shares at a price of 390p per share.

For further information, please contact:

Regal

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Definitions

bopd: barrels of oil per day

boepd: barrels of oil equivalent per day

CHAIRMAN'S STATEMENT

During 2004 the Company achieved major milestones in all assets with the successful increase in the interest in the Greek operations through the investment in preference shares, the awarding of 100% owned 20 year production licences in Ukraine, the government ratification of the Suceava licence block in Romania and the acquisition of an onshore exploration concession in Egypt.

Investment in Kavala Oil SA

In August 2004 the Company negotiated to increase its interest in Kavala Oil through the investment in preference shares for €10 million cash, with the funds being used towards the Greek asset development programme.

Due to mechanical, technical and operational difficulties with existing offshore facilities the average daily production for the year was only 2,761 bopd (2003: 3,061 bopd), however, the Company remains confident of realising the full potential of Kavala Oil's producing assets in the medium term.

In January 2004 the Company successfully completed the drilling of the first exploration well in the Greater Kallirachi Area with positive results. Based on these well results and existing seismic data a second well location was identified and drilling commenced in October 2004.

The Company has engaged independent reserve auditors McDaniel & Associates Consultants Ltd to estimate the remaining recoverable reserves in Kavala. The report has not been finalised, however, a preliminary presentation of findings by the auditors indicates that a more conservative estimate than that currently in place should be used to estimate its remaining recoverable reserves. Accordingly the Company has decided to revert from 80 million barrels of recoverable reserves to the previous report issued by Troy Ikoda in 2003 which stated remaining recoverable reserves of 24 million barrels of oil.

Ukraine Operations

On 30 June 2004 Regal was awarded a 100% interest in two production licences: Mekhedivsko-Golotovshenske (MEX/GOL) and Svyrydivske (SV). The licences are for 20 years and allow full exploitation and production of hydrocarbons.

The Ukraine operations were profitable during the year and generated positive cash-flow for the Group.

Average daily production for the year in Ukraine was 1,368 boepd (2003: 1,002 boepd) from four wells on production: MEX102, MEX3, GOL1 and GOL2. Regal will continue to increase production by exploiting western oil technology and by performing well interventions on the MEX/GOL field.

The construction of extra storage plant to cope with the unexpectedly high condensate flow from well MEX102 commenced in Q3 2004 and was completed in Q4 2004.

Romania Operations

Formal government ratification of the 4,103 square kilometre exploration, development and production licence for the Suceava Block was achieved in 2004. A comprehensive seismic survey was completed in November 2004 which confirmed three well locations and firmed up other structures for future drilling to confirm the volume and deliverability of the identified fields. Drilling of the first exploration well commenced in December 2004.

The 6,285 square kilometre exploration, development and production licence for the Barlad Block licence was submitted to various government ministries during the year in order to obtain formal government ratification of the licence (which was achieved in January 2005).

Egypt Concession Area

In 2004 Regal acquired an exploration concession in the East Ras Budran Area, Gulf of Suez, Egypt. The concession provides Regal with exclusive exploration rights in the East Ras Budran Area for an initial period of 3 years with the right to extend this for a further 4 years. In the event that a commercial oil discovery is made in the concession area, Regal has the right (subject to certain conditions) to convert the concession into a 20 year development and production lease. Under the terms of the concession Regal is committed to spending a total of US\$4 million during the exploration stage.

Four prospective structures have been identified following the evaluation of existing data. Seismic data is currently being re-processed and interpreted and exploration drilling is expected to commence in late 2005.

Placement of Shares

On 27 February 2004 the Company raised £37.5 million (\$69.8 million), net of expenses, through an institutional placing of 13,333,334 new ordinary shares at a price of 300 pence per share.

Board Appointment

We are currently strengthening the composition of the Board of Directors by adding executives with substantial industry experience. Roger Phillips was appointed Group Finance Director in September 2004. Roger has in excess of 25 years experience in the oil and gas industry including 19 years at Amerada Hess Corporation where most recently he was the Vice President and Director in charge of London finance for Europe, North Africa and Asia. In addition, Dr Rex Gaisford was appointed as Executive Director responsible for Production in May 2005 and we are currently seeking a new Chief Executive Officer.

Strategy and Outlook for 2005

The Company has experienced both positive and negative operational results during the first part of 2005. On the one hand, we successfully completed the drilling of Regal's first exploration well on the Suceava Block resulting in a significant gas discovery in Romania, whilst on the other hand the second Kallirachi well was completed in Greece with flow rates that were deemed non-commercial.

In order to ensure that the Company realises the full potential of its assets the Directors have appointed industry recognised independent experts to evaluate data and reserves in Ukraine and Greece, and will appoint the same for Romania in due course. These evaluation reports will be pivotal in the Company's future strategic planning.

On a final note I would like to reiterate that the Board believes that the quality of the Company's assets, all of which are located in proven hydrocarbon regions, will underpin the future growth of the Company. The Company is committed to increasing production and cash flow in order to finance an increasing proportion of its exploration costs from self generated cash.

V. Frank Timis
Chairman

FINANCIAL REVIEW

Turnover

Turnover for the year was \$42,459,000 generated from the sale of gas and condensate production from wells MEX102, MEX3, GOL2 and GOL1 in Ukraine (\$7,633,000) and the sale of oil and sulphur production from Kavala in Greece (\$34,826,000).

All gas and condensate production in Ukraine was sold locally at an average price of \$50 per thousand cubic metres of gas and \$28 per barrel of condensate.

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

Loss for the Financial Year

The loss after tax and after minority interests of \$13,681,000 included a loss on crude oil hedging of \$11.0 million (2003: \$Nil) and a larger than anticipated charge for depreciation on the Greek assets of \$5.5 million (2003: \$2.1 million).

The crude oil hedging loss resulted from a twelve month contract taken out for 2004 to hedge fifty percent of forecast Greek production of 5,000 barrels of oil a day at IPE Brent of \$30.50. Higher oil prices contributed to a larger hedge loss in the second half of 2004.

For the year ended 31 December 2004 the Directors consider, for financial statement purposes, that the previous Greek remaining recoverable reserves figure of 80 million was not appropriate and therefore the Company has decided to revert to 24 million barrels of remaining recoverable reserves in Greece. The Company calculates depreciation on its exploration and development costs on a unit of production basis and accordingly this revision to the Greek reserves has contributed to a larger than anticipated charge of \$5.5 million for depreciation on the Greek assets.

Institutional Placing

In March 2004, Regal successfully raised \$69.8 million net of expenses through an institutional placing of 13,333,334 shares at 300 pence. Part of these funds were applied against the drilling of production wells in the Prinos field and an exploration well in the Kallirachi oil prospect.

Following the institutional placement, the Company had a total of 116,374,868 shares in issue at 31 December 2004 (31 December 2004: 100,541,534 shares).

Cashflow

Net cash outflow from operating activities was \$5,901,000 (2003: outflow \$1,060,000).

The capital expenditure outflow of \$71,586,000 (2003: \$16,766,000) mainly represented drilling expenditure on the Company's assets in Greece.

As at 31 December 2004, the Group had no long term bank borrowings.

As at 31 December 2004, the Group had total cash balances of \$25,643,000 (2003: \$28,539,000).

Financial Risk

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

Certain resource risk and counterparty risk is minimised through short-term forward sale contracts. Longer term contracts will be negotiated once production levels have increased.

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

Summary

The financial results for the year to 31 December 2004 after accounting for crude oil hedging and additional depreciation on Greek assets are in line with the Company's expectations.

With an institutional placing completed subsequent to year end in April 2005, Regal is well placed to continue the development and growth of its projects in Ukraine, Greece, Romania and Egypt.

Roger Phillips
Finance Director

Regal Petroleum plc
Consolidated profit and loss account
for the year ended 31 December 2004

	2004	2003
	Total	Total
	\$000	\$000
Group turnover	42,459	10,194
Cost of sales	(48,371)	(8,973)
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Gross profit/(loss)	(5,912)	1,221
Administrative expenses	(15,517)	(8,528)
Other operating income	3,386	2,966
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Group operating loss	(18,043)	(4,341)
Loss on sale of fixed assets - continuing operations	(36)	-
Interest receivable and similar income	1,244	254
Interest payable and similar charges	(325)	(129)
	<hr/>	<hr/>
Loss on ordinary activities before taxation	(17,160)	(4,217)
Tax on profit on ordinary activities	(884)	-
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Loss on ordinary activities after taxation	(18,044)	(4,217)
Minority interests - equity	4,363	1,309
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Loss for the financial year	(13,681)	(2,908)
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Loss per ordinary share (cents)		
Basic	12.4¢	4.5¢
Diluted	12.4¢	4.5¢
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Regal Petroleum plc
Consolidated balance sheet
at 31 December 2004

	2004	2003
	Total	Total
	\$000	Restated
		\$000
Fixed assets		
Intangible assets	6,183	2,350
Tangible assets	97,877	36,188
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	104,060	38,538
Current assets		
Stocks	10,166	3,626
Debtors (including \$2,791 (2003: \$2,206) due after more than one year)	14,919	10,169
Investments	3,342	3,770
Cash at bank and in hand	25,643	28,539
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	54,070	46,104
Creditors: amounts falling due within one year	(30,777)	(15,441)
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Net current assets	23,293	30,663
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Total assets less current liabilities	127,353	69,201
Creditors: amounts falling due after more than one year	(682)	-
Provisions for liabilities and charges	(1,854)	(1,253)
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Net assets	124,817	67,948
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Capital and reserves		
Called up share capital	9,678	8,212
Share premium account	134,254	62,369
Other reserves	5,036	4,273
Profit and loss account	(24,151)	(10,854)
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Shareholders' funds – equity	124,817	64,000
Minority interests - equity	-	3,948
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Total equity	124,817	67,948
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Regal Petroleum plc
Consolidated cash flow statement
for the year ended 31 December 2004

	Note	2004 Total \$000	2003 Total \$000
Net cash flow from operating activities	3	(5,901)	(1,060)
Returns on investments and servicing of finance			
Interest received		1,241	280
Interest paid		(324)	(130)
		<hr/>	<hr/>
		917	150
Taxation		(771)	-
Capital expenditure and financial investment			
Purchase of tangible and intangible fixed assets		(71,586)	(16,766)
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		(71,586)	(16,766)
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(1,547)
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		-	(1,547)
Cash outflow before management of liquid resources and financing		(77,341)	(19,223)
Management of liquid resources			
Purchase of current non-listed investments		-	(3,168)
Increase in monies on deposit		(119)	-
		<hr/>	<hr/>
		(119)	(3,168)
Financing			
Issue of ordinary share capital		73,350	42,025
Debt due within one year:			
Increase in short-term borrowing		1,080	-
Repayment of secured loan		-	(185)
		<hr/>	<hr/>
		74,430	41,840
Increase/(decrease) in cash in the period		(3,030)	19,449
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Regal Petroleum plc
Consolidated statement of total recognised gains and losses
for the year ended 31 December 2004

	2004	2003
	Total	Total
	\$000	\$000
Loss for the financial year	(13,681)	(2,908)
Gross exchange differences on the retranslation of net investments and related borrowings	1,147	488
Total recognised gains and losses relating to the financial year	(12,534)	(2,420)

Reconciliations of movements in shareholders' funds
for the year ended 31 December 2004

	2004	2003
	Total	Total
	\$000	Restated \$000
Loss for the financial year	(13,681)	(2,908)
Other recognised gains and losses relating to the year (net)	1,147	488
New share capital subscribed (net of issue costs)	73,351	51,214
Purchase of own shares	-	(149)
Net addition to shareholders' funds	60,817	48,645
Opening shareholders' funds – previously reported	64,203	15,409
Prior year adjustment *	(203)	(54)
Opening shareholders' funds - restated	64,000	15,355
Closing shareholders' funds	124,817	64,000

** restated for the adoption of UITF38 Accounting for ESOP Trusts*

Regal Petroleum plc
Notes forming part of the financial statements
for the year ended 31 December 2004

1 Statutory Accounts

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2004 or 2003. The statutory accounts for 2004 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts and their report was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

2 Analysis of continuing and discontinued operations

	2004	2003		
		Total	Continuing	Total
	\$000	operations	Acquisitions	\$000
		\$000	\$000	\$000
Group turnover	42,459	2,844	7,350	10,194
Cost of sales	(48,371)	(888)	(8,085)	(8,973)
Gross profit/(loss)	(5,912)	1,956	(735)	1,221
Administrative expenses	(15,517)	(4,788)	(3,740)	(8,528)
Other operating income	3,386	1,566	1,400	2,966
Group operating loss	(18,043)	(1,266)	(3,075)	(4,341)

All amounts for 2004 relate to continuing activities.

Regal Petroleum plc
Notes forming part of the financial statements
for the year ended 31 December 2004

3 Reconciliation of operating profit to operating cash flows

	2004	2003
	Total	Total
	\$000	\$000
Operating loss	(18,043)	(4,341)
Depreciation, amortisation and impairment charges	7,696	2,259
Exchange differences	(349)	(1,007)
Movement in provisions	601	86
(Increase)/decrease in stocks	(6,541)	1,735
Decrease in debtors	(4,750)	(4,888)
Increase in creditors	14,256	3,841
Shares issued in lieu of cash	-	1,255
Loss on gift of shares to minority interest	682	-
Current asset investment – expiration of oil hedge put options	547	-
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Net cash outflow from operating activities	(5,901)	(1,060)
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4 Analysis of net funds

	At beginning of year \$000	Cash flow	Other non cash movements \$000	Exchange movement \$000	At end of year \$000
Cash in hand, at bank	28,539	(3,030)	-	134	25,643
Overdrafts	-	(1,080)	-	-	(1,080)
Current asset investments	3,770	119	(547)	-	3,342
Debt due after one year	-	-	(682)	-	(682)
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Total	32,309	(3,991)	(1,229)	134	27,223
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