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## Press Release

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26 April 2010

### REGAL PETROLEUM PLC

#### 2009 FINAL RESULTS

Regal Petroleum plc ('Regal', 'the Company' or 'the Group'), the AIM-listed (RPT) oil and gas exploration and production group, today announces its audited results for the year ended 31 December 2009.

#### HIGHLIGHTS

##### Financial:

- Revenues, at \$19.9 million are up 74% on the prior year and gross profit has increased 136%;
- The net loss after tax has been cut by 81% from \$50.8 million in 2008 to \$9.8 million in 2009;
- Regal realised an average price for its gas equivalent to \$244 per Mm<sup>3</sup>, a 31% rise on the previous year;
- Gas sales volumes are up 64% on 2008, contributing to a 120% rise in gas revenue over the previous year;
- Condensate average price realised for 2009 was \$57/bbl; being a 32% fall on 2008 reflecting oil price movement. Condensate sales volumes rose 45%;
- \$105 million (gross) of new capital was raised by the secondary placing of 104,000,000 new ordinary shares at 61 pence per share on 1 July 2009;
- As at 31 December 2009, Regal held \$118.6 million in cash and had no debt.

##### Operational:

- Ukraine continues to be the main focus of operational activity and investment;
- Drilling performance improvement from previous drilling on the licences;
- Jet perforating coupled with Stimtube fracturing has resulted in significant improvements in production rates;
- Production has risen from below 500 boepd in the fourth quarter of 2008 to over 2,000 boepd by January 2010;
- Four new production wells were spud in Ukraine during 2009;
- Subsurface model of the field was completed by the end of 2009;
- Near term focus shifting to development of the shallower B-Sands to target increased gas production;



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- Two million man-hours of staff and contractor time recorded without any Lost Time Incidents to date;
- In the Barlad concession in Romania, a further 104.7 km of 2D seismic was acquired and a shallow gas exploration well is planned for later in 2010 as well as evaluation of shale gas potential;
- In the Suceava concession in Romania, 2D seismic data acquired resulted in the identification of a gas prospect and a gas exploration well is planned for later in 2010.

### Future Strategy

During 2009, Regal continued to pursue the strategy that was established during the previous year in the development of its Ukrainian assets. Despite the worldwide recession and resultant stemming of liquidity in global financial markets that has tested many companies, Regal has continued to follow its initial objectives to try to unlock the true value of its Ukrainian assets. This foundation should provide a stable platform for significant future growth in production and increased revenues, with such increasing production giving a positive earnings outlook. The Company continues to have no debt and sufficient cash and materials to maintain operating activity into the foreseeable future.

However, the experience gained in the drilling of the first four new generation wells, and particularly in drilling to the deeper sections in the wells on the SV field where drilling conditions have proven to be challenging at depth, has caused the Company to re-evaluate and refine its objectives for the development of the Ukrainian field. In this regard, the Company has determined that its immediate primary focus should be on securing production from the B-Sands reservoirs in both the MEX-GOL and SV fields. Appraisal of the T and D-Sands in the MEX-GOL field will be carried out on the MEX-106 well, where work-over operations are planned to complete the perforation of the B, T and D-Sands using advanced perforation techniques and to replace the well completion. It is considered that by focussing on increasing production from the B-Sands and the resultant operational revenue in the near term, the Company will be able to establish sustainable business growth by conserving and ultimately building its cash position and retaining maximum optionality, whilst continuing to evaluate the most effective method of appraising the potential upside of the deeper T and D-Sands in the future.

Accordingly the Company has determined to complete the SV-66 well as a B-Sands production well, whilst deferring the appraisal of the T and D-Sands in this and subsequent new wells to allow further work to be undertaken in the assessment of the most effective method of appraising the deeper T and D-Sands.

### For further information, please contact:

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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

km:	kilometres
km <sup>2</sup> :	square kilometres
m <sup>3</sup> /d:	cubic metres per day
Mm <sup>3</sup> :	thousand cubic metres
Mm <sup>3</sup> /d:	thousand cubic metres per day
MMcf/d:	million cubic feet per day
bbi:	barrel
boepd:	barrels of oil equivalent per day
MMboe:	million barrels of oil equivalent
\$:	United States Dollar
hp:	horsepower



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## Chairman's Statement

I am pleased to introduce the 2009 Annual Report and Accounts. Despite a very difficult worldwide financial environment, the Company has continued to pursue its strategy of investment and growth through the application of modern technology, supported by its team of highly experienced industry professionals. Revenues, at \$19.9 million are up 74% on the prior year, despite a lower average condensate price. Gross profit has increased 136% and the net loss after tax has been cut from \$50.8 million in 2008 to \$9.8 million in 2009. Although the quantum of this improvement in the Company's financial performance is relatively modest for now, it is clear that a number of major milestones were successfully achieved during 2009. Since the year end we have seen significant success with the testing of the SV-58 well which, if replicated through the planned 2010 programme, offers a positive earnings outlook. Technical challenges remain in accessing the deeper reservoirs and we intend to focus our investment programme on building production whilst evaluating the considerable resource upside in a cost effective manner. The first four of a series of new generation wells were spud on Regal's Ukrainian licences during the year, using two, modern, 2,000 hp top-drive rigs contracted from Saipem S.p.A. . The introduction of these new rigs has not only enabled us to substantially reduce the time historically taken to drill these wells in Ukraine, but also affords us the opportunity to appraise the deeper, potential resources. Our current strategy of focussing in the near term on developing the shallower B-Sands to increase our gas production bodes well in a market that is heavily dependent on imported gas and where the Ukrainian Government is keen to encourage the growth of domestic production.

## Board Changes

I have pleasure in welcoming Dr Alastair Graham to the Board as a non-executive director, following his appointment in January, 2010. Alastair brings a wealth of oil and gas experience, predominantly from his time with BP where, prior to his retirement in 2009, he was leader of BP's Russia business unit and was BP's shareholder representative for the TNK-BP joint venture. He holds a PhD in Geology from the University of Edinburgh, an MBA from the University of Strathclyde and an MA in Natural Sciences from the University of Cambridge. Consequently, Alastair adds real depth of technical and regional knowledge to the non-executive team.

Also in January 2010, Lord Anthony St John of Bletso and Mr Antonio Mozetic stepped down as non-executive directors of the Company due to other business and personal commitments. On behalf of the Board, I would like to sincerely thank both Anthony and Tony for their valued contributions and advice during their tenure and we wish them well in the future.

## Outlook

As detailed later in this Report, the considerable experience gained whilst drilling the new generation wells in Ukraine and developing the novel techniques to improve their perforation, has enabled us to re-evaluate our immediate strategy whereby the majority of our resources will be concentrated on developing the B-Sands. Two of the initial four wells have recently been brought into production and the two remaining wells are expected to be completed shortly.

During 2010 we plan to drill two additional wells in Ukraine, two in Romania and one in Egypt.

Although global financial markets are expected to remain challenging, the team at Regal have the skills and experience necessary to build on the operational progress recently achieved, and to continue to grow the Company in future years. The results achieved to date are thanks to the dedication, professionalism and commitment of our staff and contractors and also with the support of our shareholders. On behalf of the Board, I would like to offer my sincere appreciation to them all.

**Keith Henry**  
Chairman



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## Chief Executive Officer's Statement

### Introduction

2009 was a year of sustained progress in Ukraine, most notably with the spudding of the first wells with the new top-drive drilling rigs. Work on the 3D sub-surface model was further refined following the completion of seismic acquisition in 2008 and with data from the new wells; governance procedures were strengthened further; and historic regulatory matters were finally brought to a close. The world-wide financial crisis and the resultant contraction in availability of investment capital threatened to derail Regal's development programme, but the support shown by shareholders in the \$105 million (gross) capital raising through a secondary placing on 1 July 2009, coupled with the funds raised in the preceding year, has enabled the Company to maintain momentum and to continue to build upon the achievements of last year.

The application of new technology and the appointment of experienced professionals with a wealth of industry experience continue to drive the Company forward. During 2009, four new generation wells were spud in Ukraine and by January 2010 production had risen to 2,072 boepd following the hook up of SV-58.

### Health, Safety, Environment and Security

Regal is committed to maintaining the highest standards of Health, Safety, Environment & Security (HSES) and the effective management of these areas is an intrinsic element of the overall business ethos. Through strict enforcement of the Company's HSES Management System, together with regular management meetings, training and the appointment of dedicated safety professionals, the Company strives to ensure that the impact of its business activities on its staff, contractors and the environment is as low as is reasonably practicable. Regal reports safety and environmental performance in accordance with the Association of Oil and Gas Producers (OGP) guidelines.

The number of safe man-hours worked by staff and contractors in 2009 totalled 900,549 man-hours with no Lost Time Incidents reported during the year. This brought the cumulative total without a Lost Time Incident to over 1.6 million hours by 31 December 2009 and since this date, the total has exceeded 2.0 million hours over two years without a Lost Time Incident. No environmental incidents were recorded during the year.

### 2009 – A Year in Review

Ukraine continues to be, by far, the main focus of operational activity and investment. The thrust of Regal's strategy is to apply modern technology, supported by highly experienced industry professionals, in a region that has not, hitherto, seen such widespread application. The first of a planned series of new-generation wells, was spud in the first quarter of 2009. Two new, top-drive, 2,000 hp drilling rigs, were contracted from Saipem S.p.A. (ENI Group) and four wells were spud during the year- MEX-106, SV-58, SV-61 and SV-66. Drilling performance has out-stripped all previous drilling activity on the licences (up to four times faster for equivalent depth) and it is expected that as a result of the learning acquired, new wells should be drilled faster resulting in future cost reductions. Furthermore, the new wells have been able to penetrate deeper owing to the capacity of the new rigs and the Company has started to gain data on possible upside from the Tournasian and Devonian age potential reservoirs.

There has inevitably been some degree of initial teething problems and challenges, but these are considered to be learning curve frustrations rather than fundamental problems, and are to be expected in the first few wells drilled with such new technology. These are the initial wells in a planned long term programme that is expected to continue into and beyond the next decade. However, given the quality and experience of the operations team on the ground, supported by senior professionals in London, solutions have been found, most notably in the jet perforating technique which was first applied to SV-58. Following an intermittent and poor flow from this well when first perforated using local,



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conventional guns, a liquidised, sand-based, jet-perforating process successfully trialled on two thin B-Sands, was subsequently rolled out over the remaining target reservoirs. This was further enhanced with Stimtube fracturing (again, a first in the Ukraine) resulting in significant improvements in production rates. The field is relatively deep and the stratigraphic nature of the reservoirs complex, but the structure is large and geographically extensive. The challenge now is to unlock the upside potential that is believed to exist in both the B and T-Sands, with each new well providing further refinement of our geological understanding. However, the plan is to modify our forward programme in the short-term to optimise production.

In Romania, work continues on both of Regal's licence interests. On Barlad, which is 100% Regal owned and operated, a further 104.7 km of 2D seismic was acquired and is being interpreted in advance of a further shallow gas exploration well planned for later in 2010. This will discharge the remaining work commitment for the licence. However, additional studies and field work are being undertaken to determine whether deeper prospects may reside within possible shale deposits of the Silurian Period. In the Suceava concession, which is 50% owned by Regal and operated by Aurelian Oil & Gas plc, 2D seismic data acquired during the year has resulted in the identification of a gas prospect located 2.5 km to the east of the Vicsani discovery in the neighbouring Brodina concession, which is also operated by Aurelian Oil & Gas plc. It is intended to drill a well to evaluate this gas prospect later in 2010.

In the East Ras Budran licence in Egypt, in which Regal holds a 25% interest and is operated by Apache, a work-over on well ERB-A-1X to replace an electrical submersible pump was undertaken. However, technical challenges encountered by Apache resulted in operations being suspended. The 2010 plan for Egypt includes further technical evaluation of the licence and the drilling of an additional well.

### **Ukraine Market and Regal's Approach to Unlocking Value**

Ukraine is very well positioned geographically, bridging the gas supplies of Russia and the markets of Europe. With the European Union ("EU") on Ukraine's western border and Russia on the east, approximately 80% of Russian gas exports to the EU travel via pipeline across the country, and gas infrastructure is extensive. Regal is confident about the domestic demand for its gas as the expected production from the MEX-GOL and SV licences rises. Consumption in Ukraine over the last 15 years or so has been reasonably static with nearly 80% of demand being satisfied by imported gas. Regal's predicted increase in production as each successful well is brought into production could, in due course, be material in terms of domestic supply, but will still be small in comparison with imported volumes, which heavily influence domestic prices. Importantly, Ukrainian fiscal terms actively encourage exploitation of domestic reserves and, particularly, through the royalty regime, the recovery of deep gas and condensate.

Production has risen from below 500 boepd in the fourth quarter of 2008 to over 2,000 boepd by January 2010. This represents the first contributions from the significant drilling investment which began in earnest in 2009. The overall philosophy of the Company is to use modern technology, much of which has not been applied in Ukraine previously, to drill wells both faster and deeper, thereby increasing and accelerating production and, consequently, revenues. This approach, if successful, should enhance the economic value of anticipated future cash flows and is expected to result in earlier enhanced revenues than from conventional, local drilling practice. In terms of investment, the bulk of the cost lies in the capital expenditure for the drilling and completion of these new wells. Conversely, the surface infrastructure and variable operating costs are relatively low, since the gas and condensate require little surface treatment and the sales of gas are made from the licence boundary, free of additional transportation tariffs or costs.

The political situation in Ukraine has continued to attract market attention in the run-up to the Presidential elections which concluded with the former Prime Minister, Mr Viktor Yanukovich, taking office as President in February 2010 and a new governing coalition being formed. Regal has operated with the support of both Regional and National Government for a number of years, including the period when Mr Yanukovich held the position of Prime Minister prior to the "Orange Revolution", and



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accordingly the Company remains confident in the business environment and is committed to supporting the development of Ukraine and to maintaining a strong relationship with the Government at all levels.

Following the formation of the new Government, there are already indications of an improvement in relations between Ukraine and Russia. This is reflected in the recent dialogue between their respective Governments which has resulted in a review of the current imported gas price from Russia and a fall in the imported gas price from Russia to Ukraine for the remainder of 2010. As a consequence, the weighted average anticipated price for 2010 is likely to be similar or slightly higher than the average price for 2009 because the year to date price for 2010 has been considerably higher than the 2009 average price. It should be noted that the imported price is distinct from the domestic internal prices that are capped by the Ukrainian authorities. As at the time of preparing this report, no amendments to the price cap and correspondingly Regal's realised price had been made. The realised gas price for Regal in 2009 was higher than the imported price.

### Future Strategy

During 2009, Regal continued to pursue the strategy that was established during the previous year in the development of its Ukrainian assets. Despite the worldwide recession and resultant stemming of liquidity in global financial markets that has tested many companies, I am pleased to say that Regal has continued to follow its initial objectives to try to unlock the true value of its Ukrainian assets. This foundation should provide a stable platform for significant future growth in production and increased revenues, with such increasing production giving a positive earnings outlook. The Company continues to have no debt and sufficient cash and materials to maintain operating activity into the foreseeable future.

However, the experience gained in the drilling of the first four new generation wells, and particularly in drilling to the deeper sections in the wells on the SV field where drilling conditions have proven to be challenging at depth, has caused the Company to re-evaluate and refine its objectives for the development of the Ukrainian field. In this regard, the Company has determined that its immediate primary focus should be on securing production from the B-Sands reservoirs in both the MEX-GOL and SV fields. Appraisal of the T and D-Sands in the MEX-GOL field will be carried out on the MEX-106 well, where work-over operations are planned to complete the perforation of the B, T and D-Sands using advanced perforation techniques and to replace the well completion. It is considered that by focussing on increasing production from the B-Sands and the resultant operational revenue in the near term, the Company will be able to establish sustainable business growth by conserving and ultimately building its cash position and retaining maximum optionality, whilst continuing to evaluate the most effective method of appraising the potential upside of the deeper T and D-Sands in the future.

Accordingly the Company has determined to complete the SV-66 well as a B-Sands production well, whilst deferring the appraisal of the T and D-Sands in this and subsequent new wells to allow further work to be undertaken in the assessment of the most effective method of appraising the deeper T and D-Sands.

I would like to thank our shareholders for their continued support, particularly during such a turbulent period. Regal is also indebted to the commitment and hard work of all of its staff and contractors who have worked tirelessly and professionally to understand the sub-surface and thereby begin to realise the true potential of our operated assets in Ukraine and Romania.

**David J Greer OBE**  
Chief Executive Officer



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### Chief Operating Officer's Review

Operationally, 2009 has been a year of high activity. In total, four wells were spudded, two of which are now on production. Despite the challenges encountered in drilling these first wells, we have achieved very considerable speed and efficiency improvements. We can now also say with some confidence that we have a better understanding of the reservoirs and their behaviour. Key contributors to this have been the application of different techniques and the use of modern materials and equipment specifically imported into the country. Uppermost is the operational team on the ground, with their experience and resourcefulness. Production started to rise in autumn 2009 and continued through into the first quarter of 2010, with average production in 2009 showing a 64% rise on that of 2008. No Lost Time Incidents were incurred and a total of 900,549 man hours were recorded for the year. Over two million man-hours of staff and contractor time without a Lost Time Incident have now been recorded to date.

### Regal's Assets

Regal's assets are located in three countries; Ukraine, Romania and Egypt.

The primary asset is a large gas and condensate field extending over two production licences (100% Regal owned and operated) in north eastern Ukraine. The reserves were independently audited by Ryder Scott in 2005 who provided an estimate for proven and probable ("2P") reserves of 169 MMboe. Regal also owns two large exploration licences in Romania - the Barlad and Suceava Blocks. These are held 100% and 50%, respectively, by Regal. Gas has been discovered on both blocks following exploration drilling.

In addition, the Company owns a 25% non-operated interest in the East Ras Budran concession in Egypt which is an onshore block operated by Apache.

### Ukraine

#### *Asset Overview*

Regal Petroleum Corporation Limited (a wholly owned subsidiary in the Regal Group) holds a 100% working interest and is the operator of the Mekhediviska-Golotvshinska ("MEX-GOL") and Svyrydivske ("SV") fields that extend over a combined area of 269 km<sup>2</sup>, approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field.

The field is located, geologically, towards the middle of the Dnieper-Donets sedimentary basin which extends across most of north-east Ukraine. The vast majority of Ukrainian gas and condensate production lies within this basin. The reservoir comprises a series of gently dipping Carboniferous sandstones of Visean Age ("B-Sands") interbedded with shales that form stratigraphic traps at around 4,700 metres below the surface, with a gross thickness between 800 metres and 1,000 metres. Analysis suggests that these deposits range from fluvial to deltaic in origin. Below these reservoirs is a thick sequence of shale above deeper, similar, sandstones which are encountered at a depth of around 5,800 metres. These are of Tournasian Age ("T-Sands") and also sandstones from the older Devonian Period ("D-Sands").

The field was originally discovered in the 1960s during the Soviet era, with wells being drilled sporadically over the years since then by State companies. Only limited investment had been made in developing the asset further with equally limited, consequential, production. Between 2000 and 2004, the former Regal/Chernihivnaftagasgeologia (CNGG) joint venture drilled two development/appraisal wells, MEX-102 and SV-52, and successfully completed three work-overs on Soviet era wells. The Ukrainian Government declared the fields commercial in December 2003 and 20 year production licences (MEX-GOL and SV) were awarded to Regal in July 2004.



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Over 20 wells had been drilled into the B-Sands prior to 2004, resulting in the Ryder Scott 2P reserves estimate in 2005 of 169 MMboe. However, only five wells had managed to penetrate the deeper T-Sands sequence, and none of the rigs used at the time had the capacity to drill all the way through this T-Sands sequence and into the deeper D-Sands. The five wells provided, at the time, a tantalising glimpse of potential upside by the discovery of gas where, in some wells, individual T-Sands were tested and flowed at between 20 and 80 Mm<sup>3</sup>/d. It was not until the acquisition of 3D seismic data and its interpretation in 2008 that the huge, lateral extent of the T-Sands and underlying D-Sands became apparent. The new-generation wells in 2009 have targeted production from the B-Sands reservoirs, but have also been drilled with the intention of properly appraising these deeper T and D-Sands deposits for the first time. Regal believes that there is significant upside potential from these deeper sands and the Company aims to continue to appraise and, hopefully, produce from such deeper sands in the future.

### ***Production***

2009 commenced with a significant production increase from MEX-102, which had been recently worked over and brought back on line in late 2008. The first contribution from the new-generation wells commenced in October 2009 from MEX-106, followed by SV-58 with initial production from this well commencing in January 2010. At present, the main contribution from both wells is from the B-Sands sequence. In MEX-106, an intervention is required to remove an obstruction from the production tubing that is preventing access to the lower T and D-Sand sections of the well and in SV-58 high pressures in the deeper sections of the well have restricted access to those sections.

The Company's average production over the 12 month period to 31 December 2009 was 163,982 m<sup>3</sup>/d (5.79 MMcf/d) of gas and 42.5 m<sup>3</sup>/d of condensate, which equates to a combined total oil equivalent of 1,232 boepd, which is a 64% increase on the previous year. The monthly average production with both MEX-106 and SV-58 on line increased to 1,927 boepd in January 2010. This growth is significant as it represents a real turning point from below 500 boepd in late 2008, reflecting the tangible effect of investment starting to produce results.

### ***Field Development***

Regal contracted two new top-drive 2,000 hp Lewco rigs from Saipem S.p.A. in 2008 on a long term basis. These rigs arrived in the Ukraine, on schedule, to spud the first of the new-generation deep gas and condensate production wells in early 2009. The first rig spudded MEX-106 in the western side of the field in January 2009 and after reaching target depth (TD) of 6,020 metres in July 2009, the rig was relocated to the eastern side of the field to spud SV-61 in September 2009. The second rig spudded SV-58 in February 2009 and, after reaching TD at 6,309 metres in September 2009, was moved to the SV-66 location nearby, which was spud in November 2009. Consequently, four new production wells were spud on the Company's Ukrainian licences during 2009.

Drilling performance has been striking. Previous local rigs had typically taken between a year and two years to reach depths of 5,000 to 5,500 metres on Regal's MEX-GOL and SV licences. MEX-106 took little more than 120 days to reach comparable depth and there has been an improvement in drilling performance with each successive well. The combination of a rig equipped with high performance equipment including drilling motors, turbines and purposely selected and specifically designed bits, such as diamond impregnated and polycrystalline diamond compact (PDC) bits, has increased the rate of penetration, dramatically reduced the number of bits required and increased the bit on bottom time and bit life. The new rigs also have the capacity to drill deeper, with MEX-106 drilled to 6,020 metres, inside seven months and the successive wells even faster. SV-58 reached 6,309 metres and the fourth well, SV-66, reached 5,000 metres in less than 90 days (before drilling deeper), which is more than four times faster than with the previous local rigs. Lessons learned from each successive well should enable future wells to be drilled faster resulting in lower drilling time and consequent cost reduction. The main objective of MEX-106 was to determine the productivity of the B-Sands target and to bring this into production. Wireline logs identified 33 metres of net reservoir in the B-Sands sequence between 4,800 and 5,250 metres depth. In addition to this, a further 11 metres of net reservoir was identified in the secondary, T-Sand objective. At 5,830 metres the well encountered, for



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the first time on this field, potential Devonian reservoirs and 27 metres of net reservoir was logged between this depth and the bottom of the well. However, whilst perforating to flow the well in the deeper section one of the perforation guns became lodged in the production tubing, thereby restricting access to the lower part of the well. Only the upper reservoirs in MEX-106, therefore, were initially brought on stream. Flow from these reservoirs had built up to approximately 75,000 m<sup>3</sup>/day (2.6 MMcf/d) of gas and to 75 boepd of condensate towards the end of the year. It is the intention to remove the obstruction through work-over activities in Q2 2010.

The second well, SV-58, also encountered potential reservoirs in the B, T and D-Sands, with estimated net pay of 69 metres from the B-Sands to the T-3 Sands. The available logs from the T-4 Sands to the D-Sands show an estimated pay thickness of 65 metres. In addition to similar sands to those encountered in the MEX-106 well, a 120 metre thick limestone was also discovered towards the lower part of the B-Sands sequence. This well proved to be a real challenge as several over-pressured gas-kicks had to be controlled whilst drilling, with the first encountered upon entering the limestone. The mud-weight was loaded to a specific gravity of 1.95 in order to control the well. After this well section was cased, it was decided to defer bringing the lower part of the well into production pending further evaluation of the possible expected high pressures. Consequently, only the B-Sands sequence was selectively perforated. The well test indicated a low connectivity with the formation and a higher than expected ratio of gas to condensate. To increase the connectivity and productivity of the well, a jet perforating "trial" was undertaken whereby perforations were made using an abrasive jet slurry of water and sand. This technique resulted in a significant increase in productivity in the test zone. The well was taken on production while preparing for a full scale jet perforating intervention in combination with the use of other advanced perforation techniques to further enhance production.

The third well, SV-61, was spudded in September 2009 and drilled to a total depth of 5,969 metres, which was reached on 12 January 2010. A total of 22 metres of net pay was logged over the B-Sands (B-20 to the top of the B-23). A slotted liner was run to case the 6" hole section. The jet perforating trial was extended to SV-61 where a pipe conveyed jet perforating programme was executed to perforate the 7" casing using the drilling rig equipment.

The fourth well, SV-66, was spudded on 23 November 2009 and drilled to a depth of 5,894 metres and the fifth well, MEX 120, was spudded on 12 April 2010.

The subsurface model of the field was completed by the end of 2009. The model is being continuously updated with the data obtained from the newly drilled wells to refine the model and to increase its accuracy.

### Romania

The Company has continued to explore its Romanian assets, the Barlad block (Regal 100% and operator) and the Suceava block (Regal 50% non-operated).

In the Barlad block, 104.7 km of 2D seismic was acquired between November 2009 and early January 2010 with an interruption due to the severe winter weather. The remaining licence commitment on this block at year end was the drilling of an additional well, and this well is scheduled for spud in Q3 2010. A nine month extension on this drilling commitment was granted to allow the evaluation of the new seismic data so as to more accurately position this exploration well. Towards the end of the year, work commenced on assessing the shale gas potential of the block. The initial reservoir target within the concession area is the shallower Palaeozoic Formation which has six potential structural leads that can also be seen in the deeper Silurian on 2D seismic data. Additional confirmation of the presence of the Silurian Formation has been confirmed by the Regal SE1 well in the adjacent Suceava block, where the formation was intercepted at a depth of 1,950 m. Based on the information available all the necessary requirements for a successful shale gas play can be found within the Barlad block.

In the Suceava block, the 2D seismic data acquired during the year has enabled the identification of a modest sized gas prospect 2.5km to the east of the Vicsani discovery in the neighbouring Brodina Concession, also operated by Aurelian Oil & Gas plc. It is intended to drill a shallow gas well to meet



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the remaining work programme obligations during 2010. Work has established that the Vicsani field in the adjacent Brodina Concession extends into the Suceava block and further work to assess the relative contribution of reserves from the Suceava and Brodina concessions respectively is currently underway. It is anticipated that a net share of between 7.5% and 15% of the field's production will be assigned to Regal on settlement of a proportional contribution to the historic cost associated with this field.

### **Egypt**

The Company holds a 25% non-operated interest in the East Ras Budran concession in the Gulf of Suez, Egypt through a joint venture with Apache as operator. Exploration and appraisal work has continued at the concession although the overall level of activity has been relatively low this year. The main focus has been the identification of new prospects. Data was acquired to develop a digital elevation model (DEM) of an area which was less accessible to seismic acquisition. This was followed by a ground control point (GCP) survey. The geo-rectification, interpretation and field mapping was ongoing at the year end. In addition, a survey was undertaken on the fractured Eocene carbonates in the East Ras Budran area to further understand reservoir behaviour.

A work-over on the ERB-A-1X well, drilled in 2007, was required to replace a failed Electric Submersible Pump (ESP). Owing to difficulties experienced pulling the ESP, operations were suspended.

The 2010 plan for Egypt includes the further development of the field on the back of the discovery in the ERB-A-1X well.

**Harry Verkuil**  
Chief Operating Officer



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## Finance Review

### Overview

In last year's Annual Report, the emphasis of the Finance Review was on the strength of the balance sheet; being focused both on cash and development capital expenditure. Through the support of Regal's shareholders, \$105 million (gross) of new capital was raised by the secondary placing of 104,000,000 new shares at 61 pence per share on 1 July 2009. As at 31 December 2009, Regal held \$118.6 million in cash, \$20.1 million in stock and had no debt. Whilst the balance sheet strength remains the major aspect of the financial statements for 2009, this year's results begin to reveal a real shift in the Company's fortunes as the investment to date starts to make a positive impact on the income statement. Revenues are up 74% on the prior year and gross profit has increased 136%. The net loss after tax has been cut from \$50.8 million in 2008 to \$9.8 million in 2009. Whilst these numbers are modest, when compared to future expectations, the change is significant. Given the further increase in production following the year end, 2010 appears to be gaining momentum towards a positive earnings outlook.

### Operational Performance

At 31 December 2009, Regal held non-current assets of \$182.2 million. This had risen from \$87.8 million the previous year end since, during 2009, \$94.9 million was incurred on capital expenditure, of which 98% related to development expenditure in Ukraine. At 31 December 2009, the Company held \$20.1 million in stock, being mostly long-lead items held for future drilling, such as casing, drill bits and christmas trees. The receivables include \$16.8 million of purchase tax, which is recoverable against sales tax on future sales revenue.

The majority of Regal's turnover is derived from gas sales from its Ukrainian gas and condensate field. The Ukrainian Government sets the gas price cap, typically on an annual basis, for gas sold to industrial and domestic retail customers. Such gas prices are driven by the imported, US Dollar-based, gas price from Russia, since the majority of Ukrainian consumption is satisfied by Russian imports. Approximately 20% of Ukrainian demand is met from domestic production with the balance being supplied by Gazprom. Since the fall of communism in 1992, Ukraine has enjoyed a discounted gas price from Russia rather than the European market price. In recent years, this discounted price has been converging with the European market price which, when coupled with higher oil prices in recent years, has driven a higher market price for gas and has led to a dramatic year on year increase in Ukrainian gas prices. This trend continued into 2009, where Regal realised an average price for its gas equivalent to \$244 per Mm<sup>3</sup>, being a 31% rise on the previous year. Furthermore, gas sales volumes are up 64% on 2008. The combined effect is a 120% rise in gas revenue over the previous year. Condensate prices are achieved at regular auctions and are, therefore, effectively sold at a spot price to a number of customers. This price is driven by the prevailing oil price and fluctuates, depending on demand and season. Occasionally, such as during the late summer harvest period, condensate prices can exceed oil prices. The average price realised for 2009 was \$57/bbl; being a 32% fall on 2008, following the collapse in oil prices that had seen a peak of over \$140/bbl in the summer of 2008. Mitigating this, condensate sales volumes rose 45% and, as such, overall condensate revenue rose 9%.

Cost of sales includes Government royalties. The Ukrainian Government incentivises the exploitation of deeper resources by reducing the royalty rate on production that is sourced from below 5,000 metres. The income statement includes a lower combined royalty rate than in the previous year for this reason and also because of the lower price realised on the condensate sales reflecting the lower oil prices generally. Consequently, although sales have risen by 74%, cost of sales has risen by only 10%, thereby delivering a gross profit of \$13.6 million; being a 136% increase on 2008. Variable operating costs remain relatively low. The paradox of the Company's Ukrainian field is that the relatively high capital cost of drilling deep wells is, in the overall field economics, somewhat mitigated by the low production costs and favourable fiscal regime.



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## Press Release

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The income statement includes other administrative expenses of \$15.1 million, compared to \$18.0 million in 2008. This 16% decrease was largely achieved as a result of austere cost cutting measures, particularly with regard to staff and related costs, legal fees and consultancy arrangements. The expenses also include a charge of £0.6 million (\$1 million) arising from the AIM Disciplinary Committee's decision in final resolution of the regulatory matters arising during the period 2003-05. These events predate the appointment of the current Board, who are pleased to have finally divorced themselves from this historic episode.

The share-based charge in the income statement of \$7.6 million is a non-cash item as calculated for the period in accordance with the provisions of IFRS 2 and relates to share options issued to directors and staff. The total number of shares under option at the end of the year was 7,950,229.

The income tax expense of \$2.9 million includes a net deferred tax charge of \$2.8 million reflecting the accelerated capital allowances on expenditure in Ukraine.

Regal manages its treasury function by forecasting short and longer term cash flows, by currency. These are then used to determine estimated functional need, by currency denomination, and deposits are held accordingly. Such deposits are also placed on varying term deposits so as to optimise interest income. Investment revenue of \$0.9 million for 2009, being derived from funds held on deposit, is significantly lower than for 2008 (\$5.5 million). Whilst this is attributable, in part, to lower average cash balances held, it is more notably influenced by the markedly reduced interest margins available to depositors as a result of the recent financial crisis. The foreign exchange gain of \$1.5 million contrasts sharply with last year's loss of \$28.9 million, although the majority of the latter was unrealised and reflected the extreme currency movements towards the end of 2008.

### 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. Under the new Long Term Incentive Programme (LTIP), options previously included under the 2004 share option plan have been modified and new options granted subject to the satisfactory achievement of a comprehensive set of performance criteria over target vesting periods which have been established. The performance criteria encompasses, *inter alia*, certain financial, operational/drilling, corporate health and safety targets and completion of a new independent reserves report. In this manner, the interests of the Company's management and staff are aligned to shareholder interests.

**Robert Wilde**  
Finance Director



## Press Release

**Regal Petroleum plc**  
**Consolidated Income Statement**  
**for the year ended 31 December 2009**

	Note	2009 \$000	2008 \$000
Revenue	2	19,872	11,450
Cost of sales		(6,230)	(5,667)
<b>Gross profit</b>		<b>13,642</b>	<b>5,783</b>
Other administrative expenses		(15,068)	(18,023)
Share-based charge		(7,618)	(9,120)
Total administrative expenses		(22,686)	(27,143)
Other operating expenses: exploration costs written off		(95)	(3,467)
<b>Operating loss</b>		<b>(9,139)</b>	<b>(24,827)</b>
Investment revenue		939	5,501
Finance costs		(144)	(525)
Other net gains and (losses)		1,514	(28,888)
<b>Loss on ordinary activities before taxation</b>		<b>(6,830)</b>	<b>(48,739)</b>
Income tax expense		(2,989)	(2,074)
<b>Loss on ordinary activities after taxation</b>		<b>(9,819)</b>	<b>(50,813)</b>
<b>Loss per ordinary share (cents)</b>			
Basic and diluted		(3.7c)	(25.6c)

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

**Regal Petroleum plc**  
**Consolidated Statement of Comprehensive Income**  
**for the year ended 31 December 2009**

	2009 \$000	2008 \$000
Equity – foreign currency translation	(627)	(2,028)
Net expense recognised directly in equity	(627)	(2,028)
Loss for the year	(9,819)	(50,813)
<b>Total comprehensive loss for the year</b>	<b>(10,446)</b>	<b>(52,841)</b>



## Press Release

Regal Petroleum plc  
Consolidated Balance Sheet  
at 31 December 2009

	2009 \$000	2008 \$000
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	27,067	26,200
Property, plant and equipment	151,492	61,588
Trade and other receivables	3,593	-
	<b>182,152</b>	<b>87,788</b>
<b>Current assets</b>		
Inventories	20,066	19,021
Trade and other receivables	16,752	7,507
Cash and cash equivalents	118,592	106,078
	<b>155,410</b>	<b>132,606</b>
<b>Total assets</b>	<b>337,562</b>	<b>220,394</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Current tax liabilities	-	(171)
Trade and other payables	(23,489)	(9,038)
	<b>(23,489)</b>	<b>(9,209)</b>
<b>Net current assets</b>	<b>131,921</b>	<b>123,397</b>
<b>Non-current liabilities</b>		
Trade and other payables	(41)	(101)
Provisions	(3,878)	(2,358)
Deferred tax	(5,892)	(3,093)
	<b>(9,811)</b>	<b>(5,552)</b>
<b>Total liabilities</b>	<b>(33,300)</b>	<b>(14,761)</b>
<b>Net assets</b>	<b>304,262</b>	<b>205,633</b>
<b>Equity</b>		
Called up share capital	27,710	19,094
Share premium account	555,090	462,249
Other reserves	23,772	17,383
Retained earnings	(302,310)	(293,093)
<b>Total equity</b>	<b>304,262</b>	<b>205,633</b>



## Press Release

**Regal Petroleum plc**  
**Consolidated Cash Flow Statement**  
**for the year ended 31 December 2009**

	Note	2009 \$000	2008 \$000
<b>Operating activities</b>			
Cash from / (used in) operations	3	7,151	(13,159)
Interest paid		(144)	(193)
Taxation paid		(391)	(302)
<b>Net cash from / (used in) operating activities</b>		<b>6,616</b>	<b>(13,654)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(67,356)	(24,175)
Increase in related purchase tax receivable		(15,040)	(4,173)
Purchase of intangible assets		(838)	(8,244)
Purchase of materials inventory		(16,107)	(18,797)
Proceeds from sale of property, plant and equipment		63	-
<b>Net cash used in investing activities</b>		<b>(99,278)</b>	<b>(55,389)</b>
<b>Financing activities</b>			
Proceeds from borrowings		-	1,500
Settlement of borrowings		-	(10,500)
Funds received in connection with share options		-	7,075
Proceeds from issue of shares		105,110	206,030
Payment of share issue costs		(3,653)	(9,407)
Interest received on surplus funds from share issue		1,063	5,364
<b>Net cash from financing activities</b>		<b>102,520</b>	<b>200,062</b>
<b>Net increase in cash and cash equivalents</b>		<b>9,858</b>	<b>131,019</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>106,078</b>	<b>5,565</b>
Effect of foreign exchange rates		2,656	(30,506)
<b>Cash and cash equivalents at end of year</b>		<b>118,592</b>	<b>106,078</b>



# Press Release

## Regal Petroleum plc Notes forming part of the financial information for the year ended 31 December 2009

### 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 Company expects to distribute the full financial statements that comply with IFRS in May 2010.

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2009 or 2008, but is derived from those accounts. The Auditors' Report on the 2009 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 statements under sections 498(2) or (3) of the Companies Act 2006. The statutory accounts for 2009 will be delivered to the Registrar of Companies following the Company's annual general meeting.

The accounting policies applied are consistent with those adopted and disclosed in the Group's annual financial statements for the year ended 31 December 2008.

### 2. Segmental Information

The Group's only class of business activity is oil and gas exploration, development and production. The Group's primary operating segments are geographical, and are located in Ukraine, Romania and Egypt, with its head office in the United Kingdom. These geographical regions are the basis on which the Group reports its segment information, and are consistent with the primary segments reported in the prior year under IAS 14.

	Ukraine		United Kingdom		Romania		Egypt		Total	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
<b>Turnover</b>										
Gas sales	14,589	6,625	-	-	-	-	-	-	14,589	6,625
Condensate sales	5,283	4,825	-	-	-	-	-	-	5,283	4,825
Total sales (and sales to third parties)	19,872	11,450	-	-	-	-	-	-	19,872	11,450
<b>Segment result</b>	12,612	3,037	(10,534)	(12,569)	(160)	(2,971)	(351)	(1,182)	1,567	(13,685)
<b>Depreciation and amortisation</b>									(3,088)	(2,022)
<b>Share-based charge</b>									(7,618)	(9,120)
<b>Operating loss</b>									(9,139)	(24,827)
<b>Segment assets</b>	191,236	88,654	118,109	104,658	22,815	22,273	5,402	4,809	337,562	220,394
<b>Capital additions</b>	93,048	29,984	78	229	1,028	4,361	696	2,036	94,850	36,610



## Press Release

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 \$14,589,000 (2008: \$6,625,000) are with one single external party with which the Group has an agreement.

Total of revenue generated from operating and interest revenue is \$20,811,000 (2008: \$16,951,000).

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

	2009 \$000	2008 \$000
Operating loss	(9,139)	(24,827)
Depreciation, amortisation and impairment charges	3,088	2,022
Movement in provisions	61	(1,249)
Share option charge	7,618	9,120
Exploration costs written off	95	3,467
(Increase) / decrease in stock	(100)	73
Decrease / (increase) in debtors	3,802	(233)
Increase / (decrease) in creditors	1,726	(1,532)
<b>Cash from / (used in) operations</b>	<b>7,151</b>	<b>(13,159)</b>

### 4. Post Balance Sheet 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 2009 were \$699,000 (2008: \$2,090,000). 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 early 2011 of \$59,220,000 (2008: \$103,554,000). However, the Company has the legal right to subcontract these rigs which may partially or wholly mitigate any exposure.