

15 July 2009

Regal Petroleum plc
("Regal" or the "Company")

Company Update

Surrender of Share Options and Grant of New LTIP Awards

Regal, the AIM-listed (RPT) oil and gas exploration and production group operating in Ukraine, Romania and Egypt, is pleased to provide the following operational update and details of new incentivisation arrangements for the Company's directors and key senior employees.

Company Update

The drilling of MEX-106 and SV-58 in Ukraine, the first in the Company's series of "new generation" development wells intended to establish additional production from the proven Visean formation reservoirs ("B-sands") and to appraise and develop the deeper Tournasian formation reservoirs ("T-sands"), remains on schedule with their respective target depths of 5,900 metres and 6,200 metres expected to be reached at the end of July and early September respectively. As at 14 July 2009, MEX-106 had reached a depth of 5,775 metres and SV-58 had reached a depth of 5,153 metres. It is currently anticipated that following completion of drilling, wireline logs will be obtained and initial production testing will be undertaken on both wells during the course of September/October 2009. As a result, the Board of directors (the "Board") anticipates being able to release preliminary production test results for both wells during the course of September and October.

As previously announced, the Company has for some time been evaluating a number of financing and strategic options with potential lenders and commercial or joint venture partners aimed at strengthening its financial position.

Further to the announcement of 12 June 2009 and the subsequent successful completion of the placing to raise approximately £63.4 million (gross) on 1 July 2009, the Company has now terminated discussions with such potential lenders and strategic partners in relation to possible financing options and joint ventures in respect of its gas and condensate fields in Ukraine or the acquisition of shares in the Company or its subsidiary, Regal Petroleum (Jersey) Limited. As a result, the Company is no longer in a close period for the first time since last year.

In light of current economic and market conditions, the directors believe it is in the best interests of shareholders for the Company to continue with its existing phased development plan, utilising the proceeds of the recent placing and existing cash resources, with a view to achieving a significant increase in production from current drilling activities.

Furthermore, the Board anticipates that as new wells are brought on stream, the resulting increase in operational cash flow should assist the Company in accessing debt and/or similar markets to further increase the pace of development and production by increasing the number of wells in the phased development plan, should the Company wish to pursue this route.

The Company's unaudited interim results for the six months ended 30 June 2009 are expected to be released on or about 18 September 2009.

Surrender of Share Options and Grant of New LTIP Awards

On 13 July 2009, the Board agreed, following a review of the Company's existing incentive and reward scheme and a recommendation from the Company's Remuneration Committee, to move away from the use of options. These recommendations have since been discussed with, and endorsed by, a number of the Company's shareholders. As a result, it was agreed to afford certain directors and senior employees holding options under the Company's existing Share Option Scheme the opportunity to surrender their existing options, in full, in exchange for the grant of awards under a new Long-Term Incentive Plan (the "LTIP") and to grant additional awards in respect of 2009 under the LTIP.

A total of 9,490,000 share options (the "Options"), of which 3,365,000 have already vested, are being surrendered in exchange for awards to certain directors and senior employees, over 3,436,000 ordinary shares of 5 pence each ("Ordinary Shares") under the LTIP (the basis of the exchange having been determined, *inter alia*, using an indicative Black Scholes Option pricing analysis of the value of the holder's existing Options). Awards over a further 2,853,125 Ordinary Shares have been granted under the LTIP in respect of 2009.

The LTIP awards are time and performance based (see the Notes to the table below), vest in three tranches on 31 December 2009, 31 March 2011 and 31 March 2012 and are in the form of a right to acquire Ordinary Shares at their nominal value, being a price of 5 pence per Ordinary Share.

The Board believes that the new LTIP awards are necessary to incentivise, motivate and reward our key employees and senior management, who remain within the group over the longer term, and reflect a more realistic price level given the current market in the Company's shares, the unprecedented period of ongoing global economic uncertainty and difficult market conditions.

The Options surrendered, and LTIP awards granted, to Directors are as follows:

Director ⁽⁵⁾ / Vesting Period	Existing Options held	Exercise Price	Options Surrendered	LTIP Awards Granted in Exchange for surrendered Options	Additional LTIP Awards Granted for 2009 ⁽³⁾	Total LTIP Awards held
Keith Henry (see note 1)						
Vesting in 2009 ⁽⁴⁾	250,000	£1.50	(250,000)	100,000	41,667	141,667
Vesting in 2010 ⁽⁴⁾	250,000	£1.50	(250,000)	100,000	41,667	141,667
Vesting in 2011 ⁽⁴⁾	250,000	£1.50	(250,000)	100,000	41,666	141,666
	<u>750,000</u>		<u>(750,000)</u>	<u>300,000</u>	<u>125,000</u>	<u>425,000</u>
David J Greer (see note 2)						
Vesting in 2009 ⁽⁴⁾	1,000,000	£1.50	(1,000,000)	400,000	250,000	650,000
Vesting in 2009 ⁽⁴⁾	500,000	£2.50	(500,000)	150,000	250,000	400,000
Vesting in 2010 ⁽⁴⁾	1,000,000	£1.50	(1,000,000)	400,000	250,000	650,000
	<u>2,500,000</u>		<u>(2,500,000)</u>	<u>950,000</u>	<u>750,000</u>	<u>1,700,000</u>
Hendrikus (Harry) Verkuil (see note 2)						
Vesting in 2009 ⁽⁴⁾	500,000	£1.50	(500,000)	200,000	109,375	309,375
Vesting in 2009 ⁽⁴⁾	500,000	£2.50	(500,000)	150,000	109,375	259,375
Vesting in 2010 ⁽⁴⁾	500,000	£2.00	(500,000)	165,000	109,375	274,375
	<u>1,500,000</u>		<u>(1,500,000)</u>	<u>515,000</u>	<u>328,125</u>	<u>843,125</u>

Robert Wilde (see note 2)

Vesting in 2009 ⁽⁴⁾	500,000	£1.50	(500,000)	200,000	109,375	309,375
Vesting in 2010 ⁽⁴⁾	500,000	£2.00	(500,000)	165,000	109,375	274,375
Vesting in 2011 ⁽⁴⁾	500,000	£2.50	(500,000)	150,000	109,375	259,375
	<u>1,500,000</u>		<u>(1,500,000)</u>	<u>515,000</u>	<u>328,125</u>	<u>843,125</u>

Adrian Coates (see note 1)

Vesting in 2009 ⁽⁴⁾	83,334	£1.9125	(83,334)	30,000	16,667	46,667
Vesting in 2010 ⁽⁴⁾	83,333	£1.9125	(83,333)	30,000	16,667	46,667
Vesting in 2011 ⁽⁴⁾	83,333	£1.9125	(83,333)	30,000	16,666	46,666
	<u>250,000</u>		<u>(250,000)</u>	<u>90,000</u>	<u>50,000</u>	<u>140,000</u>

NOTES:

- 1) As per the existing option plan, these LTIP share awards are not subject to performance criteria prior to their scheduled vesting in order to maintain the independence of the Non-Executive Directors.
- 2) Vesting of the LTIP shares awarded in exchange for the surrendered Options for each of 2009, 2010 and 2011 is subject to the satisfactory achievement of a comprehensive set of performance criteria over the target vesting periods which have been established, and will be monitored, by the Company's Remuneration Committee. The performance criteria encompass, *inter alia*, certain financial, operational/drilling, corporate and health and safety targets and completion of a new independent reserves report showing an increase in the Company's current published proved and probable reserves. Where the criteria have already been satisfied at the time of the exchange, no additional performance criteria will apply to the replacement LTIP awards. Where the performance criteria have not been met at the time of the exchange, the same performance criteria will continue to apply to the replacement LTIP awards.
- 3) Of the additional LTIP awards granted for 2009, 33 per cent. have been made in recognition of employees' contributions in 2008 and therefore will require the individual to remain with the group until 31 December 2009 but will not be subject to the attainment of performance criteria. The remaining 67 per cent. will be subject to a comprehensive set of performance criteria over the target vesting periods which have been established, and will be monitored, by the Company's Remuneration Committee. The performance criteria encompass, *inter alia*, certain financial, operational/drilling, corporate and health and safety targets.
- 4) The vesting dates for the LTIP awards granted in exchange for the surrendered Options and the additional awards for 2009 are 31 December 2009, 31 March 2011 and 31 March 2012, provided the relevant individual is still employed by the group at the relevant date.
- 5) There have been no changes to the number or terms of the existing share options held by the two remaining Non-Executive Directors, Lord Anthony St John of Bletso and Antonio Mozetic.
- 6) Vesting of all the LTIP awards granted is accelerated in certain limited circumstances, including in the event of a takeover of the Company, as is customary for incentive schemes of this nature.

Accordingly, there are now 1,600,000 options still outstanding under the existing Regal Petroleum Share Option Scheme and 6,289,125 LTIP awards, which have been granted to certain directors and senior employees, representing, in aggregate, share options and awards over 7,889,125 Ordinary Shares representing approximately 2.50 per cent. of the Company's entire issued share capital.

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