
Press Release

5 July 2016

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

**Related Party Acquisition
and Termination of Bank Security Arrangements**

Regal Petroleum plc (AIM: RPT), the AIM-quoted oil and gas exploration and production group, announces the acquisition of LLC Prom-Enerho Produkt ("PEP") and the proposed termination of its security arrangements relating to its banking facilities with PJSC Unex Bank ("Unex") in Ukraine.

As announced on 26 May 2015, the Company and its subsidiaries (the "Group") hold a number of bank accounts with Unex, which is a Ukrainian bank and is part of the PJSC Smart-Holding Group ("Smart"), which is ultimately controlled by Mr Vadim Novinskiy, who also controls an indirect 54% majority shareholding in the Company. As such, both Unex and a number of Smart group companies are considered to be related parties of Regal pursuant to the AIM Rules for Companies ("AIM Rules").

On that date, the Company entered into an agreement with Smart (the "May Agreement") for, *inter alia*, the provision of a guarantee and security over certain assets of Smart in respect of the Group's cash deposits in Unex. These comprise (i) a guarantee from Pelidona Services Limited ("Pelidona") to Regal under which the Group's cash deposits in Unex are guaranteed (the "Guarantee"); and (ii) a share pledge agreement between Energiees Management Limited ("Energiees") and Regal under which Energiees pledges its 100% shareholding interest in PEP as security for the Group's cash deposits in Unex (the "Pledge"). As announced on 29 February 2016, the May Agreement was extended until 31 May 2016 and the Guarantee and Pledge were extended until 31 August 2016.

When the May Agreement was entered into, it was envisaged that there would be a material reduction in the funds held with Unex by the end of 2015 and therefore the security, comprising the Guarantee and Pledge, was set to expire at the end of March 2016 (subsequently extended as described above). However, this reduction had not occurred by the end of 2015, and as set out in the Group's Interim Results announced on 28 September 2015, the Group's cash deposits held in Unex were reclassified as short-term investments, rather than cash or cash equivalents, as certain requests to reduce the cash deposits at Unex had not been acted upon.

As at 4 July 2016, the aggregate funds deposited by the Group with Unex were UAH 307.6 million (approximately US\$12.4 million).

As a result of ongoing discussions between the Group and Smart regarding the funds deposited with Unex, the Group has acquired a 100% shareholding interest in PEP for a cash consideration of UAH 305 million (approximately US\$12.3 million) (the "Acquisition"), to be paid as to (a) UAH 165 million (approximately US\$6.7 million) by way of initial consideration and as to (b) UAH 140 million (approximately US\$5.6 million) by way of deferred consideration to be paid on satisfaction of certain conditions subsequent relating to, *inter alia*, discharge of certain guarantees and sureties given by PEP and discharge of certain debts owing by and/or to PEP (the "**Conditions Subsequent**"), with all such consideration to be paid entirely from the Group's cash balances in Unex. As a result of the Acquisition, the Pledge has been discharged. The Guarantee will be discharged following satisfaction of the Conditions Subsequent referred to above. To the extent that any of the Conditions Subsequent have not been satisfied by 31 July 2016, then certain adjustments will be made to the amount of deferred consideration payable.



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Immediately prior to the acquisition of PEP by the Group, there was a restructuring of the ownership of PEP, whereby Energees sold its 100% shareholding interest in PEP to another Smart group company named LLC Interregional Pellet Company (“IPC”), and the Pledge was amended to substitute IPC for Energees.

On 4 July 2016, an acquisition agreement was entered into between, *inter alia*, IPC and LLC Regal Petroleum Corporation (Ukraine) Limited, a Ukrainian incorporated Group company, to acquire a 100% shareholding interest in PEP (the “Acquisition Agreement”). The Acquisition Agreement contains representations, indemnities and warranties which are customary for this type of transaction.

PEP is a Ukrainian incorporated company, which holds a production licence over the Vasyschevskoye gas and condensate field, which also includes the Vvdenska prospect, located in the Dnieper-Donets basin in the north-east of Ukraine. The production licence was granted in August 2012 with a duration of 20 years, and is in respect of a 100% interest in the licence.

PEP’s audited financial statements for the year ended 31 December 2014 show that PEP’s net assets as at 31 December 2014 were UAH 78.9 million and net profits after tax for the year ended 31 December 2014 were UAH 22.3 million. PEP’s draft financial statements for the year ended 31 December 2015 show that PEP’s net assets as at 31 December 2015 were UAH 113.2 million and net profits after tax for the year ended 31 December 2015 were UAH 34.6 million. As at 30 June 2016, PEP had cash of approximately UAH 15.9 million and debt of approximately UAH 27.8 million owed to a Smart group company, which the Group assumes and has agreed to pay down by the end of December 2016.

Regal commissioned an independent assessment of the Vasyschevskoye gas and condensate field and the Vvdenska prospect by Synergy (GB) Limited, which assessed the remaining Reserves and Contingent Resources at the Vasyschevskoye field and the Prospective Resources at the Vvdenska prospect as at 1 January 2016 (the “Report”) as set out below. The Report accords with the March 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System standard for classification and reporting.

The Report estimates the remaining Reserves as at 1 January 2016 in the Vasyschevskoye field as follows:-

	Proved (1P)	Proved + Probable (2P)	Proved + Probable + Possible (3P)
Gas	91.5 MMm ³	251.5 MMm ³	448.6 MMm ³
Condensate	6.90 Mtonne	19.0 Mtonne	33.82 Mtonne
Total	0.66 MMboe	1.80 MMboe	3.21 MMboe



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The Report estimates the Contingent Resources as at 1 January 2016 in the Vasyshevskoye field as follows:-

	Contingent Resources (1C)	Contingent Resources (2C)	Contingent Resources (3C)
Gas	153.0 MMm ³	280.3 MMm ³	515.4 MMm ³
Condensate	6.3 Mm ³	11.4 Mm ³	20.7 Mm ³
Total	158.6 MMm³	294.5 MMm³	538.0 MMm³

The Report estimates the Prospective Resources as at 1 January 2016 in the Vvdenska field as follows:-

	Low	Best	High	Mean
Gas and Condensate	441.8 MMm ³	1,078.9 MMm ³	2,582.6 MMm ³	1,234.7 MMm ³

The NPV of the 2P Reserves for the Vasyshevskoye field is estimated in the Report at UAH 343.9 million. The Report is consistent with the proposed field development plans for the Vasyshevskoye field, which comprise continued production from the existing three wells and the drilling of one additional well to recover the 2P and 3P Reserves. The additional well is estimated to cost US\$5.9 million. The estimates of Contingent Resources in the Report are based on the drilling of one further additional well.

Production from the three existing wells on the Vasyshevskoye field is currently approximately 87,000 m³/d of gas and 5 tonnes/d of condensate (615 boepd in aggregate), which is treated through PEP's gas processing facility.

Given that Unex, and Smart and its group companies, IPC, Pelidona and Energees, are related parties to the Company pursuant to the AIM Rules, the acquisition of PEP, the amendment to the Pledge and the termination of the Pledge and proposed termination of the Guarantee are deemed related party transactions pursuant to the AIM Rules. Accordingly, the independent directors of the Company, being Keith Henry, Alastair Graham and Adrian Coates, having consulted with the Company's Nominated Adviser, Strand Hanson Limited, consider that the terms of (i) the Acquisition, (ii) the amendment to the Pledge and (iii) the termination of the Pledge and proposed termination of the Guarantee are fair and reasonable insofar as shareholders are concerned.

This announcement contains inside information.



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Philip Frank, PhD Geology, Chartered Geologist, FGS, PESGB, consultant to the Company, has reviewed and approved the technical information contained within this press release in his capacity as a qualified person, as required under the AIM Rules.

Definitions

AAPG	American Association of Petroleum Geologists
boepd	barrels of oil equivalent
m ³ /d	cubic metres per day
Mm ³	thousands of cubic metres
MMboe	millions of barrels of oil equivalent
MMm ³	millions of cubic metres
Mtonne	thousands of tonnes
NPV	net present value of cash flows discounted at 15.38%
%	per cent
tonnes/d	tonnes per day
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
US\$	United States Dollar
UAH	Ukrainian Hryvnia
WPC	World Petroleum Council

The SPE/WPC/AAPG/SPEE Petroleum Resources Management System document, which includes definitions of Reserves and Contingent Resources categorisations, can be viewed at:-

www.spe.org/spe-app/spe/industry/reserves/prms.htm