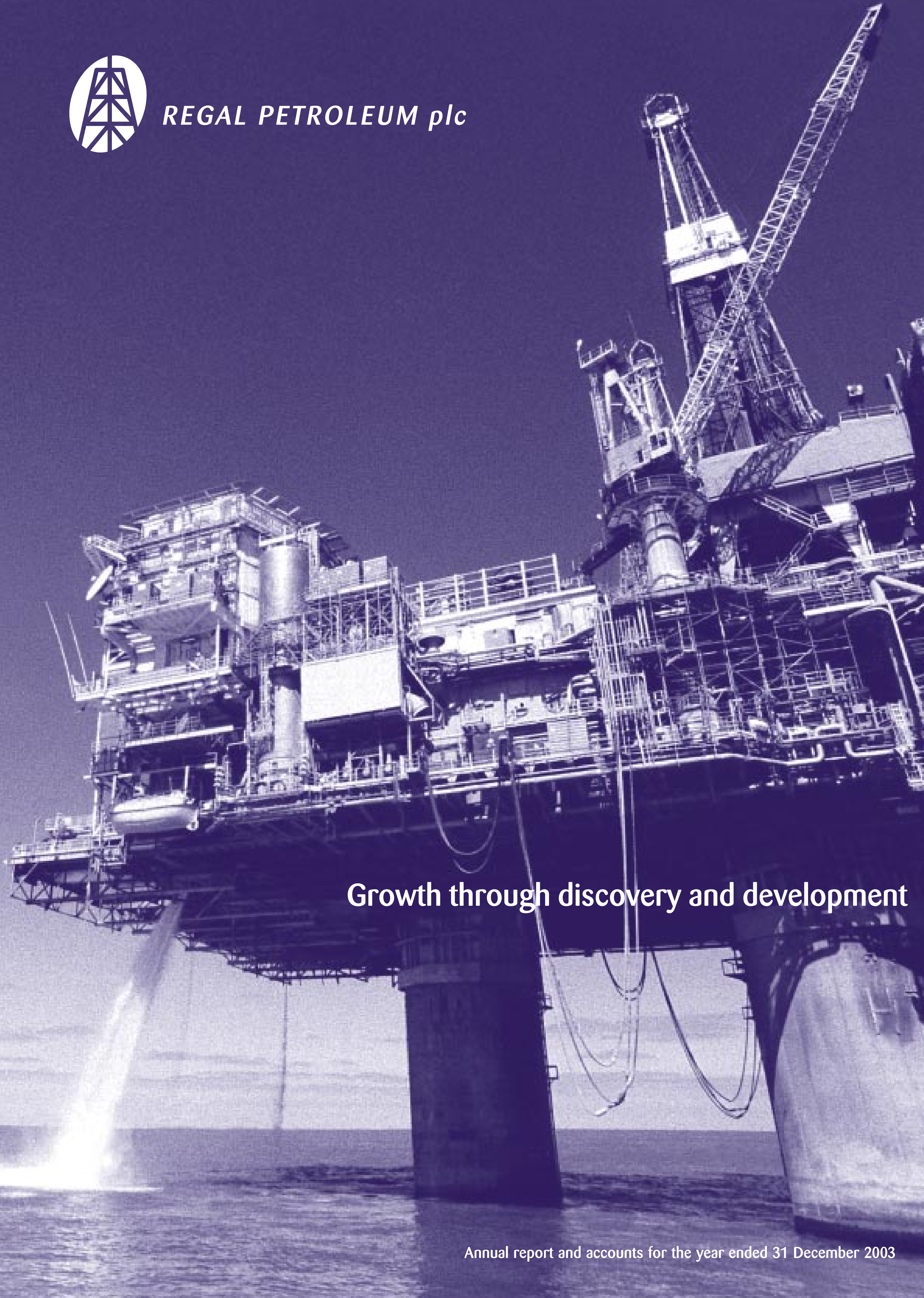
REGAL PETROLEUM plc



Growth through discovery and development

Annual report and accounts for the year ended 31 December 2003

Our proposition

Regal Petroleum plc is a London-based independent oil and gas producer listed on the Alternative Investment Market of the London Stock Exchange with ambitious growth plans. Regal is focused on the exploration, development and production of oil and gas assets in Ukraine, Greece and Romania.

Our mission

To grow into an international oil and gas company with a clear focus on geographic areas and assets where shareholder value can be increased.

Overview

With over 273 million barrels of oil equivalent in reserves, rapidly increasing production from assets in Ukraine and Greece, and the significant upside potential from our assets in Romania, Regal is today one of the fastest growing companies quoted on the London stock market.

Group strategy

Since the Group listed on the Alternative Investment Market of the London Stock Exchange in September 2002, Regal's key strategy has been to further develop our production assets in order to generate the necessary cashflow required to fund significant exploration projects.

Ukraine

Regal has a 75% interest in three licence areas in the Dneiper-Donets basin, which produces 90% of the country's gas and condensate. During 2003, the Group harnessed modern drilling techniques and equipment on its existing wells to increase production rates. In conjunction with increasing production, a gas plant with a capacity to process 1MMm^3 of gas per day was constructed to circumvent capacity restrictions of the state owned infrastructure. Additionally, in anticipation of commencing the exportation of gas from Ukraine in 2004, Regal completed a 13.2km high capacity export pipeline connecting the new gas plant to the international export trunk line to Western Europe.

By investing in Group owned infrastructure Regal has created a robust platform to generate strong cashflow through the achievement of significantly higher prices in markets outside of the Ukraine and also to control the production, processing and transportation of gas and condensate through Group owned assets.

Romania

During 2003 Regal successfully tendered for two large concessions, the 4,103km^2 Suceava Block and the 6,285 km^2 Barlad Block, making the Group the largest foreign holder of concessions by acreage in Romania. These licence areas are located in the north-east of Romania in the highly prospective Moldavia Platform and Moldova Depression, which contain several large commercial gas and condensate fields. Having identified five major lead structures, Regal's strategy is to quantify reserves through a seismic acquisition programme, commence the drilling of exploration wells during the second half of 2004 and to bring these assets into full production.

Greece

In 2003 Regal acquired a 57.7% stake in Kavala Oil S.A., an operator of oil, gas and sulphur production facilities in the North Aegean Sea in Greece. Kavala produces approximately 4,000 barrels of stabilised crude oil per day from Prinos and Prinos North, has exclusive development rights at Epsilon and exclusive exploration rights at Kallirachi. The Group's development strategy for Kavala includes increasing production from Prinos and Prinos North through an infill drilling programme and the installation of submersible pumps, and bringing Epsilon into full production. Independent studies of the Prinos, Prinos North and Epsilon fields have shown proven and probable recoverable oil reserves of 80MMbbls.

Following the successful drilling by Kavala of an exploration well and the discovery of oil in the Kallirachi prospect, independent reservoir experts have estimated that the prospect could contain up to 240 million barrels of recoverable oil. Regal intends to drill two development/production wells in the Kallirachi prospect in 2004 with a view to preparing a feasibility study in the first half of 2005.

Contents

2003 highlights

$10.2m

Total revenue 2003
($0.6m: 2002)

$2.9m

Loss after taxation and minority interests 2003
($4.5m: 2002)

4.5¢

Loss per share 2003
(10.1¢: 2002)

- Turnover increased to $10,194,000 (2002: $583,000)
- Losses reduced to $2,908,780 (2002: $4,492,000)
- Production commenced from MEX3, GOL2 and GOL1 in the Ukraine
- Completion of gas plant with 1MMm^3 of gas per day capacity and 13.2km high capacity pipeline
- Acquisition of 57.7% interest in Kavala Oil S.A. in October 2003
- Awarding of first and second exclusive exploration, development and production licences in Romania

Our geographic focus

Ukraine

The location

Regal has a 75% interest in three licences located in the Dneiper-Donets basin, 200km east of Kiev. This basin produces approximately 90% of Ukraine's gas and condensate.

Current operations

Regal is currently producing from three wells with all gas and condensate production sold locally. A gas plant and high capacity pipeline were constructed and commissioned during the year which ensures all production is flowed through Regal owned infrastructure.

Future operations

Regal is aiming to achieve 1MMm^3 of gas production and to commence the export of gas during 2004.

Romania

The location

Regal has a 100% interest in two licences totalling 10,388km^2 located in the highly prospective Moldavia Platform in north-east Romania.

Current operations

Five major leads (structures) have been identified following the digitising and modelling of seismic and well log data together with the analysis of all the technical information.

Future operations

Once the reinterpretation and assessment of existing data has been completed a seismic acquisition programme will be performed and at least two exploration/production wells will be drilled.

Greece

The location

Regal has a 57.7% interest in licence areas located in the North Aegean Sea near the coastal town of Kavala.

Current operations

Approximately 4,000bopd is currently being produced from two fields: Prinos and Prinos North. A development plan for the exploitation of an additional proven field, Epsilon, is being finalised and the technical interpretation of the Kallirachi oil discovery is underway.

Future operations

An aggressive infill drilling programme of the Prinos and Prinos North fields, the development of the Epsilon field and the appraisal of the Kallirachi oil discovery is due to be completed in 2004.

Chairman's statement

Strong potential

2003 has been a year of considerable growth for Regal, with the broadening of our asset base to include both assets producing strong cash flow as well as exploration licences which will further consolidate the Company's growth plans for many years to come.

Our achievements 2003

January 2003
- *Ukraine: New gas well GOL2 commenced production at an approximate rate of 200,000 cubic meters of gas per day.*

February 2003
- *Romania: Awarded an exclusive exploration, development and production licence for the 4,103km² Suceava Block in the North East of Romania by the National Agency for Mineral Resources of Romania.*
- *Ukraine: The workover of Regal's third well GOL1 was completed and the well commenced commercial production.*

March 2003
- *London: Mr G Nolte appointed Chief Executive Officer of Regal.*

June 2003
- *Ukraine: The workover of Regal's fourth well SV10 was completed.*
- *Ukraine: Construction of the 1st phase of Regal's new gas processing plant completed, providing a capacity of 1,000,000 m^3 per day.*

September 2003
- *Greece: Proposed acquisition of Eurotech/Kavala and placing of new ordinary shares.*
- *London: Lord A St John of Bletso appointed non-executive director of Regal.*

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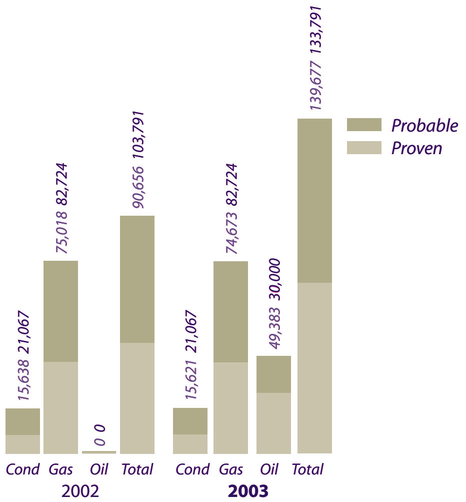
Dear Shareholder
The past year has been critical in building a substantial platform for the growth of Regal by focusing on production and exploration of quality oil and gas assets. Through the development of our existing asset base, as well as seeking other quality opportunities, Regal is poised for delivering considerable shareholder value during the course of the next few years.

Kavala acquisition
In October 2003 the Company completed the acquisition of an indirect 57.69 per cent. interest in Kavala Oil S.A. ('Kavala') through the issuance of 4,788,200 shares at 75p per share. Kavala is a Greek oil and gas production company with proven and probable recoverable reserves of 80MMbbls in the Prinos, Prinos North and Epsilon fields and expected recoverable reserves of up to 240MMbbls in the Kallirachi oil discovery. The potential of Kavala, with its proximity to excellent local and international markets, will be realised during the course of the next few years as production from existing producing assets is increased. In addition, the discovery of the exciting Kallirachi prospect since the year end, Regal's first pure exploration project, has provided considerable upside to the potential of Regal becoming a leading hydrocarbon producer in the region.

Romania licence areas
In January 2003 Regal was awarded an exclusive exploration, development and production licence for a 4,103km² area, the Suceava Block in the North East of Romania, by the National Agency for Mineral Resources of Romania ('NAMR'). In December 2003 Regal was awarded a further exclusive exploration, development and production licence by NAMR for a 6,285km² area, the Barlad Block, which is an eastward extension of the Suceava Block.

Regal now has the largest and most prospective oil and gas concession of any foreign company in Romania, with a total licence area in excess of 10,000km² of the geological oil and gas structures. Five large gas structures have been identified and it is Regal's intention to commence exploration drilling in the second half of 2004.

Ukraine operations
A total of six wells have been drilled or worked-over in the Golotovschinska, Mekhediviska and Svyrydivske licence areas in Ukraine. Three of these wells are currently producing at approximately 260,000m^3 of gas or equivalent per day. MEX102 has been downhole tested at 645,000m^3 equivalent per day. The well is connected up to the processing plant and, after cleaning up, it will go into production through the plant.



Total reserves (Mboe)

Total reserves have increased by 40% to 273,468 Mboe (2002: 194,447 Mboe). Regal is aiming to further increase reserves in 2004 through aggressive development of the Greek and Romanian assets.

During 2003 the construction of a gas plant was commenced and completed with the plant being fully operational by July 2003 with a capacity to process 1 million m^3 of gas per day. In December 2003 a 13.2km high capacity export pipeline connecting Regal's gas plant to the international export trunk line to Western Europe was completed and connected on time and within budget. Completion of the plant and pipeline is a major achievement for Regal as it ensures control of the infrastructure as well as providing significant cost savings for the anticipated increase in gas production.

The required documentation for the Production Licence application was submitted in December 2003 and it is expected that the Production Licence will be granted during 2004.

Placement of shares
On 20 October 2003 Regal raised £24.15 million (net of expenses) through an institutional placing of 35,086,667 new ordinary shares at a price of 75 pence per share.

This fund raising was completed in conjunction with the acquisition of our interest in Kavala and has provided the working capital required for the further development of our existing oil and gas assets and the drilling of a successful exploration well at the Kallirachi oil discovery in Kavala, which was completed in February 2004, with very positive results. Further delineation of the Kallirachi oil discovery has continued as well as the anticipated infill drilling in Prinos and Prinos North, and the drilling of the Epsilon field is due to commence later this year.

Board appointments
Guenter Nolte, previously Managing Director of Halliburton Europe, was appointed Chief Executive Officer of Regal in March 2003 and has been critical in implementing Regal's strategy. Lord Anthony St John of Bletso, a Crossbench Member of the House of Lords and a Member of the House of Lords European Union Sub-committee A on Trade Finance and Foreign Affairs, and Nikolaos Loutsigkas, the President and Managing Director of Kavala Oil S.A., have joined as non-executive directors in September 2003 and November 2003 respectively.

Strategy and outlook for 2004
Our strategy of exploiting existing assets to drive cash flow as well as identifying assets with considerable potential will allow Regal to deliver another year of profitable growth in 2004.

To further develop our assets in Greece and Romania during 2004 and 2005 a placement of 13,333,334 new ordinary shares in March 2004 raised an additional £37.5 million (net of expenses).

2003 has been a year of considerable growth for Regal, with the broadening of our asset base to include both assets producing strong cash flow as well as exploration licences which will further consolidate the Company's growth plans for many years to come. The success of the Company would not have been possible without the considerable hard work of its employees and I would like to take this opportunity to thank all the staff and my fellow members of the Board for their effort and commitment during the year.

I would also like to thank our shareholders for your continued support in what has become a significant oil and gas exploration and production company over the past year.

V. Frank Timis
Executive Chairman
6 April 2004

Operational review – Ukraine

Accelerated investment

Three gas wells are already in production and Regal is embarking on a drilling program to bring the field to full production.

Our geographic presence

Regal conducted a review of several oil and gas projects in Ukraine in the 1990s which led to the acquisition of a 75% interest in three adjacent licence areas (Golotovschinska, Mekhediviska and Svyrydivske) in the prolific Dneiper-Donets basin in 1999. This basin is located in north-east Ukraine and currently produces 90% of Ukraine's gas and condensate.

Independent reservoir experts have estimated that Regal's licence areas contain a combined total of 25 billion cubic metres of proven and probable gas reserves and 5.8 million cubic metres of proven and probable condensate reserves.

Prior to Regal's involvement, 18 exploratory wells had been drilled in the licence areas by a Ukrainian state company. Of these, 12 wells had been flow tested and demonstrated that commercial gas could be produced.

Regal's development plan is to work-over these exploratory wells, where it is assessed to be economically viable, and to drill new wells in prospective target areas.

It was originally envisaged that the work-over of exploratory wells would be completed in approximately a tenth of the time required for the drilling of a new production well and at a fraction of the cost. However, as announced in September 2003, due to the previously poor work practices used in the drilling of the exploratory wells the first three work-

The market

Demand for natural gas in Ukraine estimated to double 2001 - 2030 with European growth expected to almost treble.

Regal is currently the only western company registered to produce, transport & export gas from the Ukraine.

Natural gas represents between 40 - 45% of Ukraine's total energy consumption.

Additional growth in gas demand due to requirement to run fuel efficient new gas turbine power plants.

over wells met with unexpected technical problems and delays. Accordingly, it has been decided to postpone the work-over programme pending the results of an extensive technical review.

Regal is now focused on the drilling of new production wells in the licence areas. These production wells have shown to produce substantially more gas and condensate than work-over wells as modern Western drilling techniques and equipment are able to be employed.

As at 31 December 2003, three wells had been worked over (MEX3, GOL1 and SV10), one well which had been started as an exploration well had been completed as a production well (GOL2) and two new production wells had been drilled (MEX102 and SV52).

Three of these wells are currently producing at approximately 260,000m^3 of gas or equivalent per day. The status of all wells as at 31 December 2003 is summarised as follows:

Well	Type	Status
MEX3	Work over	In production: completed August 2002
GOL2	Hybrid	In production: completed January 2003
GOL1	Work over	In production: completed February 2003
SV10	Work over	Awaiting connection to plant: completed June 2003
SV52	New well	Drilled to target depth in November 2003
MEX102	New well	Drilled to target depth in December 2003

Several gas bearing structures were identified in SV52, however, the well tested at below the Company's expectations and further technical studies have commenced.

MEX102 has been downhole tested at 645,000m^3 equivalent per day. The well is now connected to the processing plant and, after cleaning up, it will go into production through the plant.

During commissioning of GOL2 it became evident that there were capacity restrictions in the state owned gas processing and treatment plant and pipelines. Accordingly, the Directors made an immediate decision to fast track the construction of the Regal owned first phase gas plant and associated infrastructure. Construction commenced in April 2003 and was completed in July 2003. The plant has a capacity to process 1 million cubic metres of gas per day.

In December 2003 a 325mm diameter 13.2km high capacity export pipeline connecting Regal's gas plant to the international export trunk line to Western Europe was completed and connected on time and within budget. The new pipeline has a capacity of 4 million cubic meters of gas per day.

Completion of the plant and pipeline is a major achievement for Regal as it ensures control of the infrastructure by removing the reliance on the state owned facilities as well as providing significant cost savings for the anticipated increase in gas production.

Regal is currently producing and selling gas and condensate under Exploration Licences granted by the Ministry of Ecology and Natural Resources of Ukraine. These licences permit the production of up to 10% of the total available reserves.

The Directors expect that Production Licences will become necessary in the medium term as the production rates are increased. The required documentation for the Production Licence applications was submitted in December 2003 and the licences are expected to be granted in 2004.

The main emphasis in Ukraine in 2004 is to achieve production of 1 million m^3 of gas or equivalent from five to six wells and to commence the export of gas thereby achieving substantially higher revenues.

Operational review – Romania

Increased demand

Regal's strategy is to quantify reserves through a seismic acquisition programme, commence the drilling of exploration wells during 2004 and bring these assets into full production.

Our geographic presence

In January 2003 Regal was awarded an exclusive exploration, development and production licence for a 4,103km^2 area, the Suceava Block in the north east of Romania, by the National Agency for Mineral Resources of Romania ('NAMR'). In December 2003 Regal was awarded a further exclusive exploration, development and production licence by NAMR for a 6,285km^2 area, the Barlad Block, which is an eastward extension of the Suceava Block.

These licence areas are located in north-east Romania in the highly prospective Moldavia Platform, which contains several large commercial gas and condensate fields.

Suceava Block

Several exploration wells were drilled in the Suceava Block in the early 1960's for the purpose of obtaining geological information. Even though these wells were only drilled to a shallow depth, gas was discovered in five of these wells. Seismic surveys were performed on the block in early to mid 1970's.

Regal appointed a Romanian geological and geophysical company, Prospectiuni S.A. ('Prospectiuni'), to perform an initial assessment on the technical data package for the Suceava Block. After reinterpretation and assessment of the data they were able to define five prospective areas with favourable conditions for hydrocarbon accumulations.

Overview

Romania is the fastest growing, most industrialised and most economically stable central European country.

Romanian oil and gas sector is mature.

Romania was the first country to commence drilling oil wells commercially.

Romania developed the first refinery in Europe.

Existing road, rail and pipeline infrastructure in Romania is very efficient and integrated.

Exploration and production service companies are well supported and technologically advanced.

The Suceava Block is situated in the Moldavia Platform. The geological setting includes a Precambrian basement covered by the Paleozoic, Mesozoic (Upper Jurassic – Cretaceous) and Tertiary (Eocene and Upper Miocene) sedimentary sequences. There are structural elements, especially extensional and strike-slip fault systems, representing the results of different tectonic events.

Analysis and interpretation of the available technical data (seismic, geological and drilling) by Prospectiuni indicate the geological structures to be similar to the structures in the hydrocarbon bearing reservoirs surrounding the Suceava Block. After the digitising and modelling of seismic and well log data together with the analysis of all of the technical information Prospectiuni have defined five major leads (structures). These leads are at depth intervals of between 500 to 2,000 metres. Prospectiuni have identified the existence of structural traps in these leads that could contain significant hydrocarbons.

Barlad Block

The Barlad Block is on an eastward extension of Regal's existing 4,103 square kilometre Suceava Block and is located adjacent to the Roman-Secuieni gas field, operated by Romgaz (the Romanian national gas company), the largest commercial gas field in Romania.

Between 1970 and 1980 approximately 85 exploration wells were drilled on the Barlad Block, with the majority of wells successfully flowing gas from shallow depths of between 400 to 600 metres. In addition, numerous 2D seismic survey lines were carried out on the Barlad Block between 1975 and 1985.

The geological setting includes two tectonic units: the Moldavia Platform and the Barlad Depression. The area has a number of large hydrocarbon geological features including extensional and strike-slip fault systems, representing the results of different pre-Alpine and Alpine tectonic events.

Several wells have shown gas to be present in the Sarmatian, Badenian and Cretaceos reservoirs. Large producing gas fields are also located near the western boundary of the Barlad Block including the Roman-Secuieni, Glavanesti, Gaiceana and Huruiesti fields. The Negulesti oil field (owned by Petrom) is situated near the southern boundary of the Barlad Block. Analysis and interpretation of the available technical data (seismic, geological and drilling) of the southern area of the Barlad Block indicate the geological structures to be similar to the structures in the hydrocarbon bearing reservoirs surrounding the Barlad licence area.

It is proposed to perform seismic surveys on the Suceava Block and the Barlad Block to reinterpret and assess additional data. Interpretation of this seismic data will clearly define the structural characteristics and stratigraphy of the current prospective hydrocarbon plays. Once the targets have been fully defined and deemed appropriate, exploration and development/production wells will be drilled to determine the presence, volume and characteristics of hydrocarbons in 2004.

Romania gas infrastructure

Operational review – Greece

Recognising value

The Kallirachi find has exceeded our expectations by a considerable margin. The discovery of a sweet oil reservoir of such proportions, with Regal's significant infrastructure already in place in an important EU country, underpins the considerable potential of Regal. Combined with the expected increase in production from Prinos and Prinos North and the planned development of Epsilon, Regal is on the way to becoming a significant oil producer within Europe.

Our geographic presence

In October 2003 Regal successfully acquired a 57.7% interest in Kavala Oil S.A. ('Kavala'). Kavala exclusively operates oil, gas and sulphur production facilities (including an onshore processing plant) in the North Aegean Sea.

Kavala has been granted an exclusive right by the Greek State to undertake petroleum exploration, exploitation and production operations in the Prinos, Prinos North, Epsilon and South Kavala fields and the Kallirachi oil discovery.

Onshore processing facility
Kavala has the exclusive use of an onshore processing plant which consists of facilities for the final processing of the oil and gas streams from the offshore facilities into stabilised crude oil, natural gas and elemental sulphur. The processing plant has a capacity of 27,000bopd, however, this capacity may be increased to 40,000bopd if modifications are carried out.

Production
Kavala currently produces approximately 4,000 barrels of stabilised crude oil each day from two sour crude oil reservoirs, Prinos and Prinos North. The crude oil is sold to Hellenic Petroleum S.A. and the sulphur by-product is sold locally.

Daily production from Prinos and Prinos North is expected to increase to a minimum of 12,000bopd by January 2005 through an aggressive infill drilling programme and the installation of three additional submersible pumps.

Overview

Regal has acquired approximately 58% to participate in a low risk exploration and production project in Greece with high upside potential.

Consideration of 4.8m Regal shares and a $30m loan facility to Kavala to fund field production enhancement, exploration and development projects.

Proven and probable recoverable reserves of 80MMbbls.

Additional upside potential up to 240 million barrels recoverable sweet oil from Kallirachi.

The infill drilling programme will incorporate four wells to be drilled in the unexploited newly delineated reservoir compartments in the Prinos and Prinos North fields.

In addition, the smaller South Kavala gas field, produces sweet gas which is used for generating power for certain parts of the Kavala operations. Current production is approximately 60,000m^3/day.

Development
Kavala has the exclusive right to exploit and develop the Epsilon field which lies approximately 4km to the west of the Prinos field production facilities. Development engineering studies are currently being carried out with a view to commencing development of the field in 2004.

In accordance with the preliminary development programme Kavala intends to commence the construction of a new platform at the Epsilon field in the third quarter of 2004 which will be connected to the existing Prinos field production facilities. The intention is to drill a total of six production wells with a view to realising a minimum daily production from Epsilon of 13,000 barrels by July 2005.

Following Regal's acquisition of Kavala, independent studies of the Prinos, Prinos North and Epsilon fields have shown proven and probable recoverable oil reserves of 80MMbbls.

Exploration
Kavala has an exclusive right to explore the Kallirachi prospect which is located north of the South Kavala field. Based on seismic data, independent reservoir experts have estimated that this prospect is expected to contain up to 240 million barrels of recoverable oil.

In December 2003 Kavala commenced the drilling of an exploration well at the Kallirachi prospect. This well was successfully drilled to a depth of 2,555 metres in January 2004 and the well confirmed the presence of sweet high quality oil in multi-layered sandstone pay zones.

Additional technical interpretation and analysis was prepared by independent consultants in 2004 in order to quantify and confirm the deliverability of the reservoir. The results of this analysis were very favourable and confirmed that a major fault identified on 3D seismic provides the lateral seal. A very competent vertical seal is provided by 900m of salt deposits. The field is a combination stratigraphic-structural trap.

The thickness of the reservoir in the Kallirachi well is over 300m with a net pay zone of 100m corresponding to the Prinos group equivalent reservoir.

Approximately 20 kilometres west of the Kallirachi well is the Athos discovery which indicated the presence of similar quality sweet oil. Based on technical and exploration data obtained to date, the Athos structure is a continuation of a single large structure.

Regal and Kavala are preparing a six month programme of further appraisal, including 3D seismic inversion of the Prinos basin and well planning activities, to confirm the size and shape of the structure and optimise the location and design of planned further appraisal/development/production wells. The programme will also focus on a qualified estimation of the porosity, volatility, oil saturation and the identification/delineation of large sandstone bodies with optimum reservoir characteristics in the study area.

Following the appraisal programme two development/production wells are planned to be drilled at the Kallirachi prospect in 2004 with a view to preparing a feasibility study in the first half of 2005.

Financial review

Delivering value

With an institutional placing completed subsequent to the year end in March 2004, Regal is in a strong financial position to fund the continued development and growth of its projects in Ukraine, Greece and Romania.

Our achievements 2003

... continued from page 2

October 2003
- *Greece: successful completion of the acquisition of 86.11% of the issued share capital of Eurotech. As a result of the acquisition, Regal indirectly owns 57.7% of Kavala.*
- *London: raised £24.15 (net of expenses) through the placing of 35,086,667 new ordinary shares at a price of 75p per share.*

November 2003
- *London: Mr N Loutsigkas appointed non-executive director of Regal.*
- *Greece: Kavala commenced the drilling of an exploration well at the Kallirachi exploration field.*

December 2003
- *Romania: Awarded an exclusive exploration, development and production licence for the 6,285km² Barlad Block in the North East of Romania by the National Agency for Mineral Resources of Romania.*
- *Ukraine: the construction of a 13.2 km high capacity export pipeline connecting Regal's gas processing plant in Ukraine to the international export trunk line to Western Europe was completed.*

Results summary
The financial results for the year ended 31 December 2003 reflect the Group's increased production in Ukraine, the acquisition of its interest in Kavala Oil S.A. in Greece and the successful fund raising through an institutional placing in October 2003.

Institutional placing and Greek acquisition
On 26 October 2003, Regal successfully raised £24.15 million net of expenses through an institutional placing of 35,086,667 shares at 75 pence. Part of these funds were applied against construction of infrastructure in the gas field in Ukraine and drilling of an exploration well in the Kallirachi oil prospect.

Following the institutional placement, the Company had a total of 100,541,534 shares in issue at 31 December 2003.

The Greek acquisition comprised the purchase of 86.11 per cent. of Eurotech Services S.A., a private company incorporated in Greece. Eurotech owns 67 per cent. of the entire issued capital of Kavala which is a private Greek company holding exclusive rights to develop, exploit and operate oil fields in the North Aegean Sea. Regal indirectly owns 57.69 per cent. of the entire issue capital of Kavala.

Turnover
Turnover for the year was $10,194,000 generated from the sale of gas and condensate production from wells MEX3, GOL2 and GOL1 in Ukraine and the sale of oil, electricity and sulphur production from Kavala in Greece.

The Ukraine production wells GOL2 and GOL1 commenced production in January 2003 and February 2003 respectively.

All gas and condensate production in Ukraine was sold locally at an average price of $54 per thousand cubic metres of gas and $186 per metric tonne of condensate. All sales are paid for in advance.

Kavala sells its oil at a price approximately equal to the prevailing IPE Brent price less a discount of $3 per barrel. Electricity and sulphur, being bi-products of the oil production, are sold locally at market prices.

Operating loss
The operating loss for the year was $4,341,000 which includes amounts attributable to minority interests of $1,309,000.

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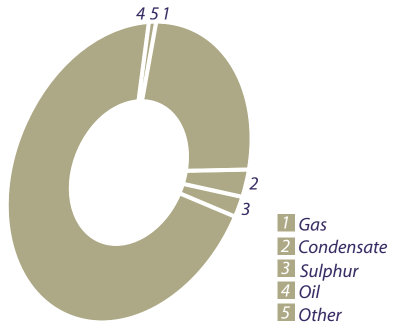

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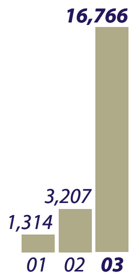

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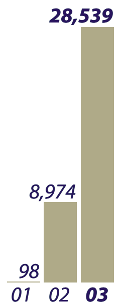


1 Analysis of turnover for 2003
2 Total capital expenditure ($'000)
3 Total cash reserves ($'000)

Loss before and after tax and after minority interest
The loss before and after tax and after minority interests of $2,908,000 included an interest charge of $129,000 and interest earned of $254,000 for the year. The interest charge represents interest paid on funds loaned to the Group prior to the fund raising in October 2003. As at 31 December 2003, the Group had no long term borrowings.

The interest earned reflects the Group's management of cash reserves.

The results include a foreign exchange gain of $1,807,000.

Cash flow
Net cash outflow from operating activities was $1,060,000.

The capital expenditure outflow of $16,766,000 represented the construction of infrastructure in Ukraine including a gas processing plant, purchase of plant and equipment and drilling of the Kallirachi exploration well in Greece.

As at 31 December 2003, the Group had total cash balances of $28,539,000.

Financial risk
The main 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.

Resource risk and counterparty risk are 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.

International Accounting Standards
International Accounting Standards (IAS) will replace UK GAAP for Group consolidated reporting for the year ended 31 December 2005. We are currently assessing the impact on our accounting and systems requirements.

Summary
The financial results for the year to 31 December 2003 are in line with the Company's expectations.

With an institutional placing completed subsequent to the year end in March 2004, Regal is in a strong financial position to fund the continued development and growth of its projects in Ukraine, Greece and Romania.

Glenn Featherby
Finance Director
6 April 2004

Post 2003 achievements

Continued growth

With a positive outcome in the Kallirachi-1 exploration well, the acquisition of an onshore oil interest in Egypt and an institutional placing since year end, Regal is well on the way to delivering another successful year of growth during 2004.

Kallirachi oil discovery
In January 2004 Kavala successfully completed the drilling of the Kallirachi-1 exploration well with very positive results.

The well confirmed that a major fault identified on 3D seismic provides the lateral seal. The thickness of the reservoir is over 300m with a net pay zone of 100m. Surface fluid samples as well as log and core measurements, proved the presence of sweet, high quality oil in multi-layered sandstone pay zones.

Approximately 20 kilometres west of the Kallirachi well is the Athos discovery which indicated the presence of similar quality sweet oil. Based on technical and exploration data obtained to date, the Athos structure is a continuation of a single large structure.

Regal and Kavala are preparing a six month programme of further appraisal, including 3D seismic inversion to confirm the size and shape of the structure and optimise the location and design of planned further wells.

The probable and possible oil-in-place volume is expected to be up to 650MMbbls (240MMbbls recoverable).

Institutional placing
In March 2004 Regal successfully raised £37.5 million (net of expenses) through an institutional placing of 13,333,334 ordinary shares. The proceeds of this placing enables Regal to further develop the Kallirachi and Epsilon assets in Kavala, Greece and the licence areas in Romania.

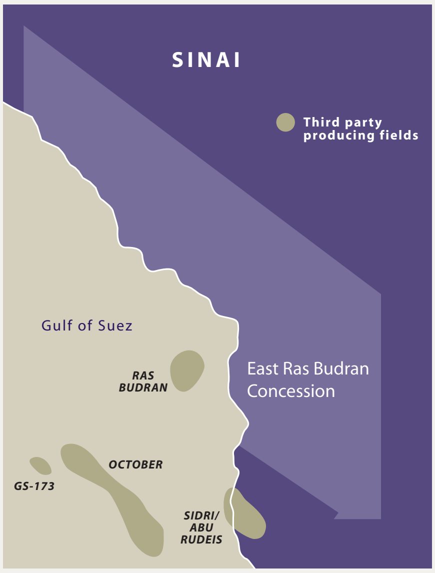
Egypt onshore oil interest
In April 2004 Regal signed a heads of agreement to acquire, subject to Egyptian government approval, an interest in certain petroleum exploration and production rights in the East Ras Budran Area, Gulf of Suez, Egypt.

The property contains four large prospects identified following the evaluation of existing data. The prospects have the potential for significant oil reserves. An independent study will be completed in due course.

The concession area is in one of the most prolific petroleum provinces in the world. Surrounding oil fields nearby include Ras Budran, October, Abu Rudeis, Belayim Onshore and Belayim Offshore, which range from 270 million barrels to over 1 billion barrels of recoverable reserves.

New geographic presence

Egypt concession area



Board of directors

1

2

3

4

5


VASILE FRANK TIMIS (1)
Executive Chairman
Frank Timis founded the Regal Group in November 1996 to seek opportunities in the oil and gas industry in Eastern and Central Europe. Mr Timis has significant business contacts in Romania and Eastern Europe. He is the former Chief Executive of European Goldfields Limited, a precious metal exploration company listed on the Alternative Investment Market of the London Stock Exchange and the Canadian Ventures Exchange. He is also the former Executive Chairman of Gabriel Resources Limited, a gold mining company listed on the Toronto Stock Exchange.

GUENTER NOLTE (2)
Chief Executive Officer
Guenter Nolte is a former Managing Director of Halliburton Company Germany. Mr Nolte has over 25 years of experience in the oil and gas industry together with strong business contacts in Central and Eastern Europe and extensive management experience.

GLENN ROBERT FEATHERBY (3)
Finance Director
Glenn Featherby is a Chartered Accountant and member of the Institute of Chartered Accountants in Australia. He has over 20 years' experience in corporate advisory work and has worked extensively in the resources sector. He worked with KPMG in Perth, Western Australia and London before establishing his own accounting practice in Perth in 1998. He has also been a non-executive director of Gabriel Resources Limited.

WILLIAM HENRY HUMPHRIES (4)
Non-executive Director
William Humphries has 30 years' experience in the mining and civil engineering industries of Western Australia. From 1996 to 1998 he was the General Manager of Sardinia Gold Mining SpA. From January 1999 to July 2002 he was the Managing Director of Brancote Holdings PLC, a mining company formerly listed on AIM. Mr Humphries is currently Managing Director of Patagonia Gold Plc, a company listed on AIM, and President of Landore Resources Inc, a mining company listed on the Canadian Ventures Exchange.

LORD ANTHONY ST JOHN OF BLETSO (5)
Non-executive Director
Lord St John of Bletso is a qualified solicitor with a Masters in Maritime Law and is a Crossbench Member of the House of Lords and a Member of the House of Lords European Union Sub-committee A on Trade Finance and Foreign Affairs. Lord St John is currently the Non-executive Chairman of Estate and General and Chairman of the Governing Board of Certification International. He is the former Managing Director of Globix UK and was formerly a Non-executive Director of WMRC plc and Pecaso Ltd. He is currently retained as a consultant to Merrill Lynch, specialising in parliamentary liaison and emerging markets, and a consultant to Globix UK, a global internet service provider.

NIKOLAOS LOUTSIGKAS (not pictured)
Non-executive Director
Nikolaos Loutsigkas is a qualified energy engineer and a qualified electrical and economic engineer. Mr Loutsigkas is the founder of Eurotech Services S.A. where he has been Managing Director since 1992. Prior to 1992 Mr Loutsigkas worked for 14 years with the North Aegean Petroleum Corporation as an electrical and instrumentation engineer. Mr Loutsigkas is the President and Managing Director of Kavala Oil S.A.

Report of the directors

for the year ended 31 December 2003

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

Results and dividends

The profit and loss account is set out on page 20 and shows a loss for the year.

The directors do not recommend the payment of a final ordinary dividend for the year.

Principal activities, trading review and future developments

The principal activities of the Group are oil and gas exploration, development and production. The Group has its head office in London and has oil and gas interests in Ukraine, Greece and Romania. The subsidiary undertakings principally affecting the profits or net assets of the Group are listed in Note 12 to the accounts.

Detailed reviews of trading activities and future developments are included within the Chairman's Statement and the Financial Review.

Directors

V F Timis
W H Humphries
G R Featherby
G Nolte (appointed 1 March 2003)
Lord A St John (appointed 29 September 2003)
N Loutsigkas (appointed 12 November 2003)
G J Lee (resigned 27 May 2003)
F D Wheatley (resigned 30 September 2003)

Directors' interests

The directors beneficial interests in the share capital of the Company at the beginning and end of the period was as follows:

	Ordinary shares of 5p each			
	31 December 2003 Shares	31 December 2003 Share options	31 December 2002 Shares	31 December 2002 Share options
V F Timis [1, 2]	8,530,887	1,200,000	8,680,887	250,000
W H Humphries	–	850,000	200,000	500,000
G R Featherby [3]	2,074,000	750,000	2,074,000	250,000
G Nolte	1,034,800	300,000	–	–
N Loutsigkas	3,336,284	300,000	–	–
Lord A St John	6,500	500,000	–	–

1 V F Timis and G J Lee (a former director of the Company) are beneficiaries of a trust that holds 600,000 ordinary shares. G J Lee initially has an interest in possession in the trust. The trustees of such trust are Rathbones Trustees Jersey Limited. If certain conditions are met or not (as the case may be) V F Timis will cease to be a beneficiary in respect of some or all of the trust assets. The 600,000 ordinary shares held by the trust are shown as ordinary shares in which both V F Timis and G J Lee are interested.

2 V F Timis has a beneficial interest in 7,930,887 ordinary shares registered in the name of Rathbones Trustees Jersey Limited ATFT Timis Trust.

3 G R Featherby has a beneficial interest in 2,074,000 ordinary shares registered in the name of Avenger Investment Holdings Limited.

Substantial shareholders

The following parties had interests of greater than 3% of their issued share capital of the Company at 31 December 2003:

- Ballure Trading Limited
- Cominvest Asset Management
- Henderson Global Investors
- Rathbones Trustees Jersey Limited
- Schroder Investment Management

Creditors payment policy
The Company's policy on payment of creditors for the year following that covered by this report is to settle all amounts with its creditors on a timely basis taking account of the credit period given by each supplier.

The Company's average number of days purchases are included within trade creditors at the year end was 30.

Directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors
On 31 December 2003, BDO Stoy Hayward, the Company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as its successor. A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

S P West
Company Secretary
6 April 2004

Corporate governance statement

for the year ended 31 December 2003

Regal is committed to high standards of corporate governance and the Company is supportive of the provisions set out in Section 1 of the Combined Code on Corporate Governance laid out in the Financial Services Authority Listing Rules.

Companies on the Alternative Investment Market of the London Stock Exchange are not required to comply with the Combined Code and due to the size of the company Regal is not in full compliance. The Company is, however, working towards full compliance and expects to be fully compliant in 2004.

The Board

The Board of Regal consists of three executive directors and three non-executive directors. The composition of the Board ensures that no one individual or group dominates the decision making process.

The Board is responsible to the shareholders for setting the direction of the Company through the establishment of strategic objectives and key policies. The Board meets on a regular basis and considers issues of strategic direction, approves major capital expenditure, appoints and monitors senior management and any other matters having a material effect on Regal. Presentations are made to the Board by senior management on the activities of operations and both executive and non-executive directors undertake regular visits to operations.

All directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively.

Furthermore, all directors are entitled to seek independent professional advice concerning the affairs of Regal at its expense. All directors are subject to election by shareholders at the first opportunity following their appointment. In addition, directors will retire by rotation and stand for re-election by shareholders at least once every three years in accordance with Regal's articles of association.

The three non-executive directors are interested in ordinary shares and/or hold options in respect to ordinary shares. The Company does not consider that these interests, which serve to align their interests with shareholders generally, adversely affect their independence as non-executive directors.

Remuneration Committee

The Remuneration Committee, comprising solely of independent non-executive directors, is responsible for establishing and developing Regal's general policy on executive and senior management remuneration and determining specific remuneration packages for executive directors.

The Remuneration Committee presently comprises: W H Humphries and Lord A St John of Bletso.

Audit Committee

The Audit Committee, comprising solely of independent non-executive directors meets not less than twice a year and considers the Company's financial reporting (including accounting policies) and internal financial controls.

Meetings are normally attended, by invitation, by the Finance Director and a representative of the auditors.

The Audit Committee presently comprises: W H Humphries and Lord A St John of Bletso.

Nomination Committee

The directors do not consider that, given the size of the Board, it is appropriate to have a Nomination Committee. The appropriateness of such a committee will, however, be kept under regular review by the Company.

Internal controls

The directors are responsible for the Group's system of internal control and reviewing its effectiveness. Any such system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Internal controls and business risks were monitored in the course of 2003 through regular board meetings.

Communication with shareholders

The Board recognises that it is accountable to shareholders for the performance and activities of the Group.

The second annual meeting of Regal Petroleum plc will provide an opportunity for the Chairman to present to the shareholders a report on current operations and developments and enable the shareholders to express their views about the Company's business.

The annual report together with other information about the Group is available on the Group's internet website at **www.regalpetroleum.com**.

Going concern

The Board is required to assess whether the Group has adequate resources to continue operations for the foreseeable future. The directors are satisfied that the Company and the Group will continue in operational existence for the foreseeable future (being a period of at least 12 months from the date of this report). For this reason the directors have adopted the going concern basis for preparing the financial statements.

Proved and probable reserves summary

for the year ended 31 December 2003

Group proved plus probable gas reserves	Proved MMm³	Probable MMm³	Total MMm³
At 1 January 2003	11,934	13,160	25,094
Production	(55)	–	(55)
At 31 December 2003	**11,879**	**13,160**	**25,039**

Group proved plus probable condensate reserves	Proved Mbbls	Probable Mbbls	Total Mbbls
At 1 January 2003	15,638	21,067	36,705
Production	(17)	–	(17)
At 31 December 2003	**15,621**	**21,067**	**36,688**

Group proved plus probable oil reserves	Proved Mbbls	Probable Mbbls	Total Mbbls
At 1 January 2003	–	–	–
Acquired with subsidiary undertaking	10,528	12,570	23,098
Revision of previous estimates	39,070	17,430	56,500
Production	(215)	–	(215)
At 31 December 2003	**49,383**	**30,000**	**79,383**

Group proved plus probable oil, gas and condensate reserves	Proved Mboe	Probable Mboe	Total Mboe
At 31 December 2003	**139,677**	**133,791**	**273,468**
At 31 December 2002	90,656	103,791	194,447

Reserves by region are as follows:	Proved Mboe	Probable Mboe	Total Mboe
Ukraine	90,294	103,791	194,085
Greece	49,383	30,000	79,383
At 31 December 2003	**139,677**	**133,791**	**273,468**

Production by region during the year was as follows:	Total Mboe
Ukraine	362
Greece	215
	577

Report of the independent auditors

to the shareholders of Regal Petroleum plc

We have audited the financial statements of Regal Petroleum plc for the year ended 31 December 2003 on pages 20 to 37 which have been prepared under the accounting policies set out on pages 25 to 27.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Proved and Probable Reserves Summary, the Financial Review, the Corporate Governance Statement and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London
6 April 2004

Consolidated profit and loss account

for the year ended 31 December 2003

	Note	Continuing operations 2003 $'000	Acquisitions 2003 $'000	Total 2003 $'000	Total 2002 $'000
Turnover	3	2,844	7,350	10,194	583
Cost of sales		(888)	(8,085)	(8,973)	(92)
Gross profit/(loss)		1,956	(735)	1,221	491
Other operating income		1,566	1,400	2,966	–
Administrative expenses		(4,788)	(3,740)	(8,528)	(4,663)
Operating loss	6	(1,266)	(3,075)	(4,341)	(4,172)
Interest receivable				254	110
Interest payable and similar charges	7			(129)	(430)
Loss on ordinary activities before and after taxation				(4,217)	(4,492)
Minority interest				1,309	–
Loss for the financial year	20			(2,908)	(4,492)
Loss per ordinary share (cents)					
Basic	9			4.5¢	10.1¢
Diluted	9			4.5¢	10.1¢

All amounts for 2002 relate to continuing activities.

The notes on pages 25 to 37 form part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2003

	Note	2003 $'000	2002 $'000
Loss for the year		(2,908)	(4,492)
Exchange differences	20	488	(54)
Total recognised gains and losses for the year		(2,420)	(4,546)

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2003

	Group 2003 $'000	Group 2002 $'000	Company 2003 $'000	Company 2002 $'000
Loss for the year	(2,908)	(4,492)	(1,411)	(2,459)
Other recognised gains and losses in the year	488	(54)	–	–
New share capital subscribed	3,599	1,394	3,599	4,613
Share premium	47,615	14,754	47,615	14,754
Capital contributions	–	2,741	–	–
Net additions to shareholders' funds	48,794	14,343	49,803	16,908
Opening shareholders' funds	15,409	1,066	16,908	–
Closing shareholders' funds	64,203	15,409	66,711	16,908

The notes on pages 25 to 37 form part of these financial statements.

Consolidated balance sheet

at 31 December 2003

	Note	2003 $'000	2002 $'000
Fixed assets			
Intangible assets	10	2,350	–
Tangible assets	11	36,188	5,873
Investments	12	203	54
		38,741	5,927
Current assets			
Stocks	15	3,626	–
Debtors	16	10,169	1,652
Investments		3,770	–
Cash at bank and in hand		28,539	8,974
		46,104	10,626
Creditors: amounts falling due within one year	17	(15,441)	(1,044)
Net current assets		30,663	9,582
Total assets less current liabilities		69,404	15,509
Provision for liabilities and charges	18	(1,253)	(100)
Minority interest		(3,948)	–
		64,203	15,409
Capital and reserves			
Called up share capital	19	8,212	4,613
Share premium	20	62,369	14,754
Merger reserve	20	(3,204)	(3,204)
Capital contributions	20	7,477	7,477
Profit and loss account deficit	20	(10,651)	(8,231)
Shareholders' funds – equity		64,203	15,409

The financial statements were approved by the Board on 5 April 2004.

G R Featherby
Director

The notes on pages 25 to 37 form part of these financial statements.

Company balance sheet

at 31 December 2003

	Note	2003 $'000	2002 $'000
Fixed assets			
Tangible assets	11	191	195
Investments	12	36,004	3,273
		36,195	3,468
Current assets			
Debtors	16	1,146	4,882
Investments		3,146	–
Cash at bank and in hand		26,575	8,814
		30,867	13,696
Creditors: amounts falling due within one year	17	(351)	(256)
Net current assets		30,516	13,440
Total assets less current liabilities		66,711	16,908
Capital and reserves			
Called up share capital	19	8,212	4,613
Share premium	20	62,369	14,754
Profit and loss account	20	(3,870)	(2,459)
Shareholders' funds – equity		66,711	16,908

The financial statements were approved by the Board on 5 April 2004.

G R Featherby
Director

The notes on pages 25 to 37 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2003

	Note	2003 $'000	2002 $'000
Net cash outflow from operating activities	23	(1,060)	(5,281)
Returns on investments and servicing of finance			
Interest received		280	110
Interest paid		(130)	(430)
Net cash inflow/(outflow) from returns on investments and servicing of finance		150	(320)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(16,766)	(3,207)
Acquisition and disposals	21	(1,547)	–
Cash outflow before use of liquid resources and financing		(19,223)	(8,808)
Management of liquid resources			
Purchase of current asset investments		(3,168)	–
Financing			
Proceeds from borrowings		–	186
Repayment of borrowings		(185)	(1,337)
Capital contributions received		–	2,741
Issues of ordinary share capital		44,626	16,094
Payment of expenses and commissions on issue of ordinary shares		(2,601)	–
		41,840	17,684
Increase in cash	25	19,449	8,876

The notes on pages 25 to 37 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2003

1 Corporate restructuring

During the prior period the Group carried out a corporate restructuring including the introduction of a new holding company. The profit and loss account for 2002 was prepared using merger accounting and was presented on a proforma basis as if the new holding company, Regal Petroleum plc, had been in existence throughout both 2002 and prior periods.

The corporate restructure was accounted for as a merger in accordance with Financial Reporting Standard 6 'Acquisitions and Mergers' (FRS 6) see accounting policies note 2.

2 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards and the Statement of Recommended Practice 'Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities'.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Regal Petroleum plc and all its subsidiary undertakings throughout the year ended 31 December 2003, using the merger or acquisition method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

Merger accounting

Where merger accounting is used, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life which is estimated to be 20 years. Impairment tests on the carrying value of goodwill are undertaken:
- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Turnover

Turnover represents amounts invoiced in respect of sales of oil and gas exclusive of indirect taxes and excise duties and is recognised on delivery of product.

Production sharing agreement

The Group has a production sharing agreement with ChernihivNaftoGazgeologija, a Ukrainian state-owned drilling company. In accordance with Financial Reporting Standard 9 'Associates and Joint Ventures' (FRS 9), this is considered to be a 'Joint Arrangement that is not an entity'. Accordingly, the Group accounts for its own assets, liabilities and cash flows in accordance with the terms of the production sharing agreement.

Tangible oil and gas assets

The Group follows the 'full cost' method of accounting for the costs associated with exploration, appraisal, development and production of oil and gas reserves. The Group's evaluated oil and gas assets are held in separately designated geographical cost pools. The costs of acquisition of property (including rights and concessions), geological and geophysical costs, cost of field production facilities, pipelines and plant and equipment are classified as tangible fixed assets if they relate to proved and probable oil and gas properties.

All costs associated with property acquisition, exploration and development are capitalised regardless of whether they result in commercial discoveries or not. Producing oil and gas assets are depleted by pool on a unit of production method in the proportion of actual production for the period to the total remaining commercial reserves. Reserves are those estimated at the end of the period plus production during the period. For depletion purposes only, the cost base includes costs of capital assets and anticipated future development expenditure.

Notes forming part of the financial statements continued

for the year ended 31 December 2003

2 Accounting policies *continued*

Other tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

Fixtures, fittings and equipment	–	25% per annum straight line
Motor vehicles	–	25% per annum straight line
Plant and machinery	–	25% per annum straight line
Exploration and development costs	–	Depreciated on a unit of production basis

Impairment policy

An impairment test is carried out by the directors if events or changes in circumstances indicate that the net book amount of expenditure within each cost pool, less any provisions for decommissioning costs and deferred production or revenue-related taxes, may not be recoverable from the anticipated future net revenue from the oil and gas reserves attributable to the Group's interest in that pool. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the fixed asset will be written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows. Such tests are carried out on a pool-by-pool basis.

Oil and gas reserves

Proven and probable oil and gas reserves are estimated quantities of commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs. The proven reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC). The probable reserves and possible reserves included herein conform to definitions of probable and possible reserves approved by the SPE/WPC using the deterministic methodology.

Decommissioning costs

Where there is a material liability for the removal of production facilities and site restoration at the end of the production life for a field, the Group recognises the provision under the basis set out in Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' (FRS 12).

Stocks

Stocks are stated at the lower of cost or net realisable value.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction. Monetary assets are liabilities in foreign currencies and are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The goodwill arising on the acquisition of foreign subsidiaries is translated at the rate of exchange at the date of acquisition. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets (including equity investments), they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

Where the Group operates in countries where the trade of the foreign subsidiary undertaking is more dependent on the economic environment of the investing group undertaking, the financial results are recorded in the investing undertaking's own currency by applying the temporal method as described in the Statement of Standard Accounting Practice (SSAP 20). The exchange differences arising as a result of retranslating of the financial statements at the closing rate are taken directly to reserves.

Financial instruments

In relation to the disclosures made in note 26:

- short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures; and
- the Group does not hold or issue derivative financial instruments for trading purposes.

2 Accounting policies *continued*

Pension costs
Contributions to the Company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Operating leases
Annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Employee benefit trust
The Company is deemed to have control of the assets, liabilities, income and costs of its Employee Benefit Trust (EBT). It has therefore been included in the financial statements of the Group and the Company in accordance with UITF 13.

The ordinary shares of the Company held by the EBT are included in fixed asset investments and written down to the option price over the minimum period of service to which the conditions attached to the shares relate.

The borrowings of the EBT, which have been guaranteed by the Company, are included in borrowings with the net financing costs of the EBT being shown as finance charges in the profit and loss account.

The shares are treated as cancelled for the purposes of calculating earnings per share.

3 Turnover and net assets

	2003 $'000	2002 $'000
Analysis of turnover by activity:		
Oil sales	7,121	–
Gas sales	2,545	550
Condensate sales	299	26
Sulphur sales	221	–
Other	8	7
	10,194	583

	2003 $'000	2002 $'000
Analysis of turnover by geographical origin:		
Greece	7,350	–
Ukraine	2,844	583
	10,194	583

Turnover was wholly attributable to the Group's primary activities.

	2003 $'000	2002 $'000
Analysis of operating profit/(loss) by geographical origin:		
Greece	(3,076)	–
United Kingdom	(1,411)	(2,459)
Ukraine	158	(1,713)
Romania	(12)	–
	(4,341)	(4,172)

	2003 $'000	2002 $'000
Analysis of net assets by geographical origin:		
Greece	13,091	–
United Kingdom	32,243	9,204
Ukraine	18,540	6,205
Romania	329	–
	64,203	15,409

In view of the early stage of the Group's involvement with these developments this is considered the most meaningful segmental information to provide.

Notes forming part of the financial statements continued

for the year ended 31 December 2003

4 Employees

	2003 $'000	2002 $'000
Staff costs consist of:		
Wages and salaries	2,178	284
Social security costs	96	9
Other pension costs	19	6
	2,293	299

The average number of employees during the period (including directors) was as follows:

	2003 Number	2002 Number
Part time	1	1
Full time	305	20
	306	21

5 Directors' emoluments

	2003 $'000	2002 $'000
Directors' remuneration consists of:		
Fees and emoluments for management services	741	107

There were no directors receiving contributions to their defined contribution pension schemes in the year (2002: Nil).

The emoluments of the individual directors were as follows:

	Basic salary and fees 2003 $'000	Benefits in kind 2003 $'000	Total 2003 $'000	Total 2002 $'000
F D Wheatley	20	–	20	6
W H Humphries	27	–	27	6
Lord A St John	7	–	7	–
V F Timis	66	–	66	6
G Nolte	266	108	374	–
G R Featherby	187	36	223	47
N Loutsigkas	4	–	4	–
G J Lee	–	20	20	42
	577	164	741	107

In addition to the above, Mr G Nolte, Chief Executive Officer, was paid an introduction fee of £750,000 during the year which he used to subscribe for 1 million ordinary shares in the Company (refer to Note 19).

6 Operating loss

		2003 $'000	2002 $'000
This has been arrived at after charging/(crediting):			
Listing costs		–	1,782
Depreciation		2,241	20
Amortisation of goodwill		18	–
Auditors' remuneration	– audit services	96	75
	– non audit services	7	603
Hire of other assets	– operating leases	101	–
Exchange differences		(1,807)	217

7 Interest payable and similar charges

	2003 $'000	2002 $'000
Loans	129	423
Other loan	–	7
	129	430

8 Taxation on loss from ordinary activities

The tax rate (Nil) for the period is different from the standard rate of corporation tax in the UK. The differences are explained below:

	2003 $'000	2002 $'000
Loss on ordinary activities before tax	4,217	4,492
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002: 30%)	1,265	1,348
Effects of:		
Expenses not deductible for tax purposes	(48)	(1,012)
Capital allowances for period in excess of depreciation	1,843	15
Losses carried forward	(3,060)	(351)
Current tax charge for period	–	–

9 Earnings per share

Basic and diluted loss per share has been calculated on the basis of losses after taxation of $2,908,780 (2002: $4,492,000) and 64,654,847 5p ordinary shares (2002: 44,383,562 5p ordinary shares on a proforma basis), being the average number of shares in issue during the year to 31 December 2003.

The effect of all potential ordinary shares is antidilutive.

10 Intangible assets

Group	Goodwill on consolidation $'000
Cost	
At 1 January 2003	–
Additions	2,368
At 31 December 2003	**2,368**
Amortisation	
At 1 January 2003	–
Provided for the year	18
At 31 December 2003	**18**
Net book value	
At 31 December 2003	**2,350**
At 31 December 2002	–

Notes forming part of the financial statements continued

for the year ended 31 December 2003

11 Tangible assets

Group	Fixtures, fittings and equipment $'000	Motor vehicles $'000	Exploration and development costs $'000	Plant and machinery $'000	Fixed assets under construction $'000	Total $'000
Cost						
At 1 January 2003	228	132	5,573	–	–	5,933
Acquired with subsidiary undertaking	764	168	35,338	1,495	683	38,448
Additions	164	46	16,541	15	–	16,766
Disposals and transfers	–	–	628	–	(628)	–
At 31 December 2003	**1,156**	**346**	**58,080**	**1,510**	**55**	**61,147**
Depreciation						
At 1 January 2003	20	39	1	–	–	60
Acquired with subsidiary undertaking	399	125	21,760	374	–	22,658
Provided for the period	72	4	2,094	71	–	2,241
At 31 December 2003	**491**	**168**	**23,855**	**445**	**–**	**24,959**
Net book value						
At 31 December 2003	**665**	**178**	**34,225**	**1,065**	**55**	**36,188**
At 31 December 2002	208	93	5,572	–	–	5,873

Company	Fixtures, fittings and equipment $'000	Motor vehicles $'000	Exploration and development costs $'000	Plant and machinery $'000	Fixed assets under construction $'000	Total $'000
Cost						
At 1 January 2003	200	–	–	–	–	200
Additions	30	–	–	–	–	30
At 31 December 2003	**230**	**–**	**–**	**–**	**–**	**230**
Depreciation						
At 1 January 2003	5	–	–	–	–	5
Provided for the period	34	–	–	–	–	34
At 31 December 2003	**39**	**–**	**–**	**–**	**–**	**39**
Net book value						
At 31 December 2003	**191**	**–**	**–**	**–**	**–**	**191**
At 31 December 2002	195	–	–	–	–	195

12 Fixed assets – investments

Group	Own shares (note 13) $'000	Total $'000
Cost and net book value		
At 1 January 2003	54	54
Additions	149	149
At 31 December 2003	**203**	**203**

Company	Group undertakings $'000	Own shares (note 13) $'000	Total $'000
Cost and net book value			
At 1 January 2003	3,219	54	3,273
Additions	32,582	149	32,731
At 31 December 2003	**35,801**	**203**	**36,004**

12 Fixed assets – investments *continued*

The following were subsidiary undertakings at the year end and have been included in the consolidated financial information:

Name	Country of incorporation or registration	Voting rights and proportion of ordinary share capital held	Nature of business
Regal Petroleum (Jersey) Limited	Jersey	100%	Holding company
Regal Petroleum Corporation Limited	Jersey	100%	Oil and natural gas extraction
Regal Petroleum Ukraine Limited	Ukraine	100%	Oil and natural gas extraction
Regal Petroleum International Inc.	Virgin Islands	100%	Dormant
Eurotech Services S.A.	Greece	86.1%	Holding company
Kavala Oil S.A.	Greece	57.7%	Oil and natural gas extraction
Regal Romania SRL	Romania	100%	Oil and natural gas extraction
Regal Hellas S.A.	Greece	100%	Dormant
Regal Energy Limited	United Kingdom	50%	Dormant

The parent company indirectly controls 57.7% of the share capital of Kavala Oil S.A. through its 86.1% ownership of Eurotech Services S.A. which in turn owns 67% of the issued capital of Kavala Oil S.A.

13 Investments – own shares

The Employee Benefit Trust (EBT) was established in September 2002 in order to provide for the future obligations of the Company for shares awarded under the Share Option Scheme and other share based plans which are conditionally awarded to employees rather than being held under option arrangements. Under the scheme the trustee, Rathbone Trustees Jersey Limited, purchases the Company's ordinary shares with amounts loaned by the Company which meets the net financing costs. At 31 December 2003, no shares had been conditionally gifted to employees.

Group and Company	Shares held in trust Number	Net nominal value $000
Cost		
At 1 January 2003	650,000	54
Additions	1,600,000	149
At 31 December 2003	**2,250,000**	**203**

At 31 December 2003, $203,222 (2002: $54,000) had been loaned by the Company to the EBT to finance the purchase of ordinary shares.

At 31 December 2003, the market value of the interest in own shares was $4,590,000.

14 Loss for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group loss for the period includes a loss after tax of $1,411,350, for the year ended 31 December 2003, which is dealt with in the financial statements of the parent company.

15 Stocks

	2003 $'000	2002 $'000
Finished goods	1,370	–
Spare parts	2,256	–
	3,626	–

In the opinion of the directors, there is no material difference between the cost of stock included in the accounts and its replacement cost.

Notes forming part of the financial statements continued

for the year ended 31 December 2003

16 Debtors

	Group 2003 $'000	Group 2002 $'000	Company 2003 $'000	Company 2002 $'000
Amounts recoverable within one year				
Trade debtors	4,609	6	84	6
Amounts due from group companies	–	–	551	4,482
Other debtors	2,481	983	202	288
Prepayments and accrued income	873	663	309	106
	7,963	1,652	1,146	4,882
Amounts recoverable after more than one year				
Other debtors	2,206	–	–	–
	10,169	1,652	1,146	4,882

17 Creditors: amounts falling due within one year

	Group 2003 $'000	Group 2002 $'000	Company 2003 $'000	Company 2002 $'000
Other loans	–	185	–	54
Trade creditors	12,039	277	197	122
Other creditors	583	328	3	–
Taxation and social security	1,545	12	112	12
Accruals and deferred income	1,274	242	39	68
	15,441	1,044	351	256

18 Provisions for liabilities and charges

Group	Provision for decommissioning $'000	Provision for retirement benefits $'000	Total $'000
Balance at 1 January 2003	100	–	100
Additions	86	–	86
Acquired with subsidiary undertaking	309	758	1,067
At 31 December 2003	**495**	**758**	**1,253**

In the year ended 31 December 2003, a provision of $395,000 has been recognised for decommissioning costs. These costs relate to the estimated liability for the removal of production facilities and site restoration at the end of the production life for a field. These costs are expected to be incurred between 2017 and 2022. The provision has been estimated based on current prices.

In the year ended 31 December 2003, a provision of $758,000 has been recognised for retirement benefits which represents the present value of future obligations in respect to retirement benefits payable.

No provision has been made for deferred taxation because of the availability of losses. At 31 December 2003 there were approximately $21,864,183 of tax losses available in the various jurisdictions in which the Group operates.

19 Share capital

	Authorised			
	2003 Number	2002 Number	2003 $'000	2002 $'000
Ordinary shares of 5p each (approximately 8¢ each)	200,000,000	80,000,000	17,905	6,440

	Allotted, called up and fully paid			
	2003 Number	2002 Number	2003 $'000	2002 $'000
Ordinary shares of 5p each (approximately 8¢ each)	100,541,534	57,316,667	8,212	4,613

On 8 January 2003, 150,000 ordinary shares of 5 pence each, were issued to Mr F Dewis (a former employee) as consideration for the settlement of legal proceedings at a price of 70 pence per share giving a total consideration amount of $167,948.

On 26 September 2003, 200,000 ordinary shares of 5 pence each were issued to Mr W Humphries, a non executive director, as consideration for consulting fees owing at a price of 84.5 pence per share giving a total consideration amount of $280,456.

On 23 October 2003, 4,788,200 ordinary shares of 5 pence were issued as consideration for the acquisition of 86.11% of the issued share capital of Eurotech Services S.A. at a price of 80.5 pence per share giving a total consideration amount of $6,512,179.

On 23 October 2003, 35,086,667 ordinary shares of 5 pence were issued through an institutional placement at a price of 75 pence per share giving a total consideration amount of $44,661,819.

On 1 March 2003, the Company agreed to pay Mr G Nolte, Chief Executive Officer of the Company, an introduction fee of £750,000 upon the successful acquisition of Eurotech Services S.A. Mr Nolte applied this fee to subscribe for 1 million ordinary Shares of 5 pence each. These shares were issued on 23 October 2003 at a price of 75 pence per share giving a total consideration amount of $1,272,900.

On 18 December 2003, the Company allotted 2,000,000 ordinary shares at 5 pence each: 400,000 ordinary shares to Mr P Morgan, a former President of Regal Petroleum Corporation Limited, in settlement of legal proceedings at a price of 120.5 pence per share giving a total consideration amount of $851,887 and 1,600,000 ordinary shares to the Regal Petroleum plc Employee Benefits Trust, in accordance with the Company's executive Option Scheme at a price of 5 pence per share giving a total consideration amount of $141,392.

Senior executive Share Option Scheme
At 31 December 2003 the following share options were outstanding in respect of the ordinary shares:

		Exercise period		
Year of grant	Number of shares	Start date	End date	Price per share
2002	250,000	19 March 2003	19 September 2012	60p
2002	125,000	19 September 2003	19 September 2012	60p
2002	875,000	19 March 2004	19 September 2012	60p
2002	45,000	21 November 2003	21 November 2012	66.5p
2003	20,000	1 January 2004	1 January 2013	71.5p
2003	100,000	26 June 2004	26 June 2013	101.5p
2003	150,000	3 September 2003	3 September 2004	104.5p
2003	650,000	20 November 2003	20 October 2013	75p
2003	10,000	20 April 2004	20 October 2013	75p
2003	950,000	12 December 2003	12 November 2013	85.5p
2003	300,000	12 May 2004	12 November 2013	85.5p
2003	25,000	21 May 2004	21 November 2013	88p
2003	200,000	28 May 2004	28 November 2013	87.5p

Notes forming part of the financial statements continued

for the year ended 31 December 2003

20 Capital and reserves

Group	Share capital $'000	Share premium $'000	Merger reserve $'000	Capital contributions $'000	Profit and loss account $'000	Total $'000
At 1 January 2003	4,613	14,754	(3,204)	7,477	(8,231)	15,409
Issued shares	3,599	50,216	–	–	–	53,815
Share issue costs	–	(2,601)	–	–	–	(2,601)
Loss for the year	–	–	–	–	(2,908)	(2,908)
Exchange differences recognised in the year	–	–	–	–	488	488
At 31 December 2003	**8,212**	**62,369**	**(3,204)**	**7,477**	**(10,651)**	**64,203**

Company	Share capital $'000	Share premium $'000	Merger reserve $'000	Capital contributions $'000	Profit and loss account $'000	Total $'000
At 1 January 2003	4,613	14,754	–	–	(2,459)	16,908
Issued shares	3,599	50,216	–	–	–	53,815
Share issue costs	–	(2,601)	–	–	–	(2,601)
Loss for year	–	–	–	–	(1,411)	(1,411)
At 31 December 2003	**8,212**	**62,369**	**–**	**–**	**(3,870)**	**66,711**

21 Acquisitions

Acquisition of Eurotech Services S.A. and Kavala Oil S.A.

On 23 October 2003 the Group acquired Eurotech Services S.A. and Kavala Oil S.A. for a total consideration of $6,512,000 satisfied by the issue of 4,788,200 shares at 80.5p ($1.36) per share.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Eurotech Services S.A. has been assessed and provisional adjustments from book value have been made where necessary. These provisional adjustments are summarised in the following table:

	Book value $'000	Accounting policy alignment $'000	Provisional fair value adjustment of fixed assets $'000	Fair value $'000
Fixed assets				
Tangible	4,620	17,302	(7,164)	14,758
Current assets				
Stocks	5,010	–	–	5,010
Debtors	1,786	–	–	1,786
Investments	750	–	(148)	602
Cash	1,176	–	–	1,176
Total assets	13,342	17,302	(7,312)	23,332
Creditors	(10,383)	–	–	(10,383)
Provisions	(2,506)	–	1,376	(1,129)
Net assets	453	17,302	(5,936)	11,820
Minority interest				(4,914)
				6,906
Shares issued				6,512
Costs of acquisition				2,762
				9,274
Net assets acquired				(6,906)
Goodwill arising on acquisition (note 10)				2,368

The adjustment of fixed assets relates to the provisionally assessed fair value of the exploration and development costs on acquisition.

The accounting policy alignment adjustment is in respect of accumulated deprecation of fixed assets to the acquisition date.

21 Acquisitions *continued*

The results of Eurotech Services S.A. prior to its acquisition were as follows:

	1 January 2003 to 23 October 2003 $'000
Profit and loss account	
Turnover	25,383
Cost of sales	(26,982)
Gross loss	(1,599)
Other operating income	132
Administrative expenses	(10,155)
Operating loss	(11,622)
Interest receivable	20
Interest payable and similar charges	(110)
Loss on ordinary activities before and after taxation	(11,712)
Minority interest	3,865
Loss for the period	(7,847)

The profit after tax and minority interests, as adjusted for UK GAAP, for the year ended 31 December 2002 was $1,315,392.

	1 January 2003 to 23 October 2003 $'000
Cash flows	
The net outflow of cash arising from acquisitions was as follows:	
Net overdraft acquired	(58)
Costs of acquisition	(1,489)
Net outflow of cash in respect of Eurotech Services S.A.	(1,547)

These notes disclose all material cash flow effects of the acquisition.

22 Commitments under operating leases

As at 31 December 2003, the Group had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings $'000	2002 Land and buildings $'000
Operating leases which expire:		
In two to five years	108	60

Notes forming part of the financial statements continued

for the year ended 31 December 2003

23 Reconciliation of operating loss to net cash outflow from operating activities

	2003 $'000	2002 $'000
Operating loss	(4,341)	(4,172)
Depreciation	2,241	20
Amortisation of goodwill	18	–
Exchange differences	(1,007)	(54)
Increase in debtors	(4,888)	(1,381)
Increase in creditors	3,841	306
Decrease in stock	1,735	–
Movement in provisions	86	–
Shares issued in lieu of cash	1,255	–
Net cash outflow from operating activities	(1,060)	(5,281)

24 Reconciliation of net cash outflow to movement in net funds/(debt)

	2003 $'000	2002 $'000
Increase in cash in the year	19,449	8,876
Cash movements relating to debt	187	1,098
Increase in current asset investments	3,168	–
Change in net funds resulting from cash flows	22,804	9,974
Current asset investments acquired with subsidiary	602	–
Other non cash changes	168	–
Movement in net funds in the year	23,574	9,974
Net funds/(debt) at beginning of year	8,735	(1,239)
Net funds at end of year (note 25)	32,309	8,735

25 Analysis of net funds

	At 1 January 2003 $'000	Cash flow $'000	Acquisition $'000	Exchange differences $'000	At 31 December 2003 $'000
Cash in hand and at bank	8,974	19,449	–	116	28,539
Other loans due within one year	(239)	187	–	52	–
Current asset investments	–	3,168	602	–	3,770
Net funds	8,735	22,804	602	168	32,309

26 Financial instruments

The Group's financial instruments during each period comprised a mixture of loans, short term investments, cash at bank and various items such as debtors and creditors that arise directly from its operations. The Group uses derivative financial instruments to hedge future oil prices. The Group has bank accounts denominated in British Pounds, US dollars, Euros and Ukrainian Hryvnia. As at 31 December 2003 the Group does not have long term borrowings. The main future risks arising from the Group's financial instruments are currency risk and liquidity risk.

Currency risk

The main functional currency of the Group is US dollars. The following analysis of net monetary assets and liabilities shows the Group's currency exposures. Exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of operations.

26 Financial instruments *continued*

Material functional currency of Group operations

	Net foreign currency monetary asset GBP	Euro	UkrH	Lei	Aus$
31 December 2003					
US$'000	**25,879**	**(4,379)**	**2,243**	**4**	**–**
31 December 2002					
US$'000	5,620	–	1,136	–	3

Liquidity risk

As regards liquidity, the Group's objective throughout each period has been to ensure continuity of funding. Operations to date have primarily been financed through capital contributions and the issue of share capital. Other sources of finance have been bank loans and other loans.

Fair values of financial instruments

There is no material difference between the book value and fair value of financial assets and liabilities, except for:

	Book value $'000	Fair value $'000
Oil hedging contracts	550	342

27 Related party transactions

During the year ended 31 December 2003, goods and services to the value of $58,054 (2002: $5,011) were paid for by the Group on behalf of European Goldfields Limited in the form of a loan. European Goldfields is a mining company based in the UK and Canada, in which Mr V F Timis (Executive Chairman) is the former Chairman. The amount of $58,054 (2002: $137) was owed to the Group at the end of the year.

During the year ended 31 December 2003, goods and services to the value of $26,040 were paid for by the Group on behalf of Gabriel Resources Limited in the form of a loan. Gabriel Resources is a mineral exploration company based in Canada, in which Mr V F Timis (Executive Chairman) is a former director. An amount of $26,040 (2002: $Nil) was outstanding at the end of the year.

The Group used the services of Rathbones, a solicitor firm based in Jersey, where Kiran Patel is serving as a partner. Mr Patel is a director of Regal Petroleum (Jersey) Limited and Regal Petroleum Corporation Limited. During the year ended 31 December 2003, Rathbones charged the Group $63,552 (2002: $33,846). An amount of $16,300 (2002: $Nil) was outstanding at the end of the year.

The Group also used the services of Insinger de Beaufort during the year ended 31 December 2003. Insinger de Beaufort is a solicitor firm based in Jersey, where Cornel Baptiste, John Perkins, and Claudette Francis serve as partners. Ms Baptiste, Mr Perkins and Ms Francis are directors of Regal Petroleum International Inc. Insinger de Beaufort charged the Group $5,477 (2002: $5,808) in fees, of which there was $Nil (2002: $Nil) outstanding at the end of the year.

During the year $1.8 million (2002: $Nil) was loaned to the Group by Pericles Investment Ltd, a company in which Mr W Humphries has a beneficial interest. There was $Nil (2002: $Nil) outstanding at the end of the year.

28 Post balance sheet events

On 23 March 2004 the Company issued 13,333,334 new ordinary shares at a price of £3.00 per share as part of an institutional placement. The net proceeds of the placing totalled £37.5 million. These funds were raised to develop the Group's assets in Greece and Romania.

Notice of Annual General Meeting

Notice of meeting
The second Annual General Meeting of Regal Petroleum plc will be held at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN, United Kingdom on 10 June 2004 at 10.00am. The business of the meeting will be as follows:

Ordinary business
Resolution 1 – Adoption of audited accounts
THAT the accounts and reports of the directors and of the auditors for the year ended 31 December 2003 be received and adopted.

Resolution 2 – Re-election of retiring director
THAT Lord A St John of Bletso, who has been appointed as a director since 29 September 2003, be re-elected as a director.

Resolution 3 – Re-election of retiring director
THAT Mr N Loutsigkas, who has been appointed as a director since 12 November 2003, be re-elected as a director.

Resolution 4 – Re-election of retiring director
THAT Mr V F Timis, who retires by rotation in accordance with the Company's articles of association, be re-elected as a director.

Resolution 5 – Re-election of retiring director
THAT Mr G R Featherby, who retires by rotation in accordance with the Company's articles of association, be re-elected as a director.

Resolution 6 – Re-appointment and remuneration of auditors
THAT BDO Stoy Hayward LLP be re-appointed as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders in accordance with the provisions of the Companies Act 1985 ('the Act') and their remuneration be fixed by the Board.

Special business
As special business, to consider and, if thought fit, to pass the following resolutions, of which resolution number 7 shall be proposed as an ordinary resolution and resolution number 8 as a special resolution.

Resolution 7 – Section 80 authority
THAT the directors be and they are hereby generally and unconditionally authorised pursuant to section 80 of the Act to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that:
(a) the authority shall be in substitution for any equivalent authority which may have been given to the directors prior to the date of the passing of this resolution;
(b) this authority shall be limited to relevant securities up to an aggregate nominal amount of £1,675,690;
(c) and unless previously renewed, revoked, varied or extended, this authority shall expire at the earlier of the date which is 15 months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

Resolution 8 – Disapplication of pre-emption rights

THAT the directors be and they are empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) of the Company for cash pursuant to the authority of the directors under section 80 of the Act conferred by resolution 7 as if section 89(1) of the Act did not apply to such allotment provided that:

(a) the power conferred by this resolution shall be limited to:
   (i) the allotment of equity securities in connection with an invitation or offer of equity securities to the holders of ordinary shares in the capital of the Company in proportion to their respective holdings of such shares or in accordance with the rights attached to such shares but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in any territory; and
   (ii) the allotment, otherwise than pursuant to paragraph (a)(i) above, of equity securities up to an aggregate nominal value equal to £577,180;

(b) unless previously renewed, revoked, varied or extended this power shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date falling 15 months after the date of the passing of this resolution except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

By order of the Board

S P West
Company Secretary

4th Floor
11 Berkeley Street
London W1J 8DS
United Kingdom

Notes

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in that member's place. A proxy need not also be a member. Completion and return of a Form of Proxy will not preclude a member from attending and voting at the meeting should the member so decide.
2. To be valid, the enclosed Form of Proxy and the Power of Attorney or other authority (if any) under which it is signed (or a copy certified notarially, or in some other manner approved by the Board) must be completed and returned so as to reach the Company's registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH, United Kingdom by 10.00am on 8 June 2004.
3. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes a member may cast), members must be entered on the Register of Members of the Company by 10.00am on 8 June, 2004.
4. In the case of joint holders, the signature of only one of the joint holders is required on the form of proxy, but the vote of the senior (by order in the register of members) who tenders a vote will be accepted to the exclusion of the others.

Explanatory notes to the Notice of Annual General Meeting

The 2004 Annual General Meeting of Regal Petroleum plc will be held at at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN, United Kingdom on 10 June 2004 at 10.00am to consider the following matters:

Ordinary business

Resolution 1

The Board is required to present to the meeting the accounts, and the reports of the directors and the auditors, for the year ended 31 December, 2003. Resolutions 2 to 5 deal with the re-election of directors under the requirements of the Articles of Association. Details of the directors are shown on page 13 of this document.

Resolutions 2 and 3

Article 82 of the Company's Articles of Association requires any director appointed by the Board to retire at the next Annual General Meeting. The following directors are proposed by the Board for election:

Lord A St John of Bletso
Mr N Loutsigkas

Resolutions 4 and 5

Article 87 of the Company's Articles of Association requires one third of the directors to retire by rotation at every Annual General Meeting. The following directors are proposed by the Board for election:

Mr V F Timis
Mr G R Featherby

Resolution 6

The resolution proposes the re-appointment of BDO Stoy Hayward LLP as the auditors of the Company and, in accordance with standard practice, gives authority to the Board to determine their remuneration.

Special business

Resolution 7

Resolution 7 grants the directors authority to allot shares in the capital of the Company up to an aggregate nominal value of £1,675,690, representing approximately one third of the nominal value of the issued ordinary share capital of the Company as shown in the latest audited accounts of the Company. The directors do not have any present intention of exercising this authority but they consider it desirable that the specified amount of authorised but unissued share capital is available for issue so that they can more readily take advantage of possible opportunities. Unless renewed, revoked, varied or extended, this authority will expire at the end of 15 months from the date of passing of the resolution or at the conclusion of the next AGM of the Company, whichever is the earlier.

Resolution 8

Resolution 8 empowers the directors to allot equity shares for cash other than in accordance with the statutory pre-emption rights which require a company to offer all allotments of equity shares for cash first to existing shareholders in proportion to their holdings, in connection with a rights issue and otherwise up to a maximum nominal amount of £577,180, representing approximately 10 per cent. of the nominal value of the issued share capital of the Company. Unless renewed, revoked, varied or extended, this authority will expire at the end of 15 months from the date of passing of the resolution or at the conclusion of the next AGM of the Company, whichever is the earlier.

Action to be taken

Each shareholder is entitled to appoint one or more proxies to attend and, on a poll, vote instead of that shareholder. A proxy need not be a shareholder.

Shareholders should kindly complete and return the enclosed Form of Proxy as soon as possible, whether or not they expect to be able to attend the Annual General Meeting. Return of a Form of Proxy will not prevent a shareholder from attending and voting in person at the meeting if that shareholder so wishes.

The Board is of the opinion that these proposals are in the best interests of both the Company and its shareholders. Accordingly they strongly recommend all shareholders to vote in favour of the resolutions, as each director intends to do in respect of his own beneficial shareholdings.

Corporate directory

Directors
V F Timis
W H Humphries
G R Featherby
G Nolte
Lord A St John of Bletso
N Loutsigkas

Company secretary and registered office
S P West
4th Floor
11 Berkeley Street
London W1J 8DS
United Kingdom

Company number
4462555

Auditors
BDO Stoy Hayward LLP
8 Baker Street
London W1U 3LL
United Kingdom

Bankers
HSBC Bank plc
79 Piccadilly
London W1J 8EU
United Kingdom

Nominated adviser and broker
Evolution Beeson Gregory Limited
100 Wood Street
London EC2V 7AN
United Kingdom

Share registry
Computershare Investor Services PLC
PO Box 82
The Pavillions
Bridgewater Road
Bristol BS99 7NH
United Kingdom

Solicitors
Osborne Clarke
Hillgate House
26 Old Bailey
London EC4M 7HW
United Kingdom

Stock exchange listing
Regal Petroleum plc is listed on the Alternative Investment Market of the London Stock Exchange
Symbol: RPT

Glossary

bopd
barrels of oil per day

km
kilometres

km^2
square kilometres

m
metres

m^3
cubic metres

Mbbls
thousand barrels

Mboe
thousand barrels of oil equivalent

mm
millimetres

MMbbls
million barrels

MMm^3
million cubic metres

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