

**First Time Adoption and Restatement of 2006 results under
International Financial Reporting Standards**

Introduction

Regal Petroleum plc (Regal or the Group) prepared its consolidated financial statements under UK Generally Accepted Accounting Practices (UK GAAP) for all reporting periods to 31 December 2006. With effect from 1 January 2007 all companies listed on the Alternative Investment Market (AIM) are required to report in accordance with International Financial Reporting Standards (IFRS). The Group's first published results to be prepared under IFRS will be those for the six months ended 30 June 2007, which will include comparative IFRS financial statements for the six months ended 30 June 2006. The Group will present its first annual report and accounts under IFRS for the year ended 31 December 2007, which will include comparative IFRS financial information for the year ended 31 December 2006. Therefore the Group's date of transition to IFRS is 1 January 2006, being the first day of the comparative period (transition date).

Set out in this document are extracts from Regal's consolidated financial statements for the year ended 31 December 2006 and the six months ended 30 June 2006, restated under IFRS, including reconciliations of the income statements, balance sheets and cash flow statements between UK GAAP and IFRS. The document additionally sets out the Group's balance sheet under IFRS at the transition date, including reconciliation to the UK GAAP balance sheet at that date. The Group's accounting policies have been revised to reflect IFRS and are also included herein.

The financial information relating to the year ended 31 December 2006 and the transition date balance sheet have been audited by UHY Hacker Young LLP. The financial information relating to the six months ended 30 June 2006 has been reviewed by UHY Hacker Young LLP. The audit and review reports, addressed to the Directors of Regal, are included on pages 21 and 23.

Summary Impact of IFRS on Group Results

The principal changes to the Group's reported consolidated 2006 financial information from the adoption of IFRS are as follows:

	UK GAAP	Change under IFRS	IFRS
	\$'000	\$'000	\$'000
Income Statement			
Revenue	10,845	(34)	10,811
Operating loss	(66,166)	(6,105)	(72,271)
Loss after tax	(109,176)	(6,104)	(115,280)
Basic loss per share (cents)	(85.0)	(4.8)	(89.8)

Balance Sheet

Net Assets	69,960	(6,336)	63,624
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These changes arise from the following principal factors:

(a) Changes in accounting policies

- IFRS 6 “Exploration for and Evaluation of Mineral Resources”: In accordance with IFRS 6, Regal has written off pre-licence acquisition costs which were previously capitalised under the Group’s full cost UK GAAP accounting policy. In addition, the Directors have chosen to adopt the successful efforts method of accounting for its oil and gas assets. This represents a change in accounting policy from the full cost method used in the preparation of the accounts prepared under UK GAAP and has been undertaken as it brings the Group more into line with the majority of its peer group who report under IFRS. Adoption of the successful efforts method has had no impact on the results presented.
- IAS 21 “Effect of Changes in Foreign Exchange Rates”: Under UK GAAP the profit and loss account of a foreign entity could be translated at the closing rate for consolidation purposes. IAS 21 requires revenues and expenses to be translated at actual rates or appropriate averages.
- IAS 38: “Intangible Assets”: Computer software costs have been reallocated from Tangible assets to Intangible assets

(b) Changes in Presentation of Financial Information

- IAS 1 “Presentation of Financial Statements”: The form and presentation of the UK GAAP financial statements has been changed to be in compliance with IAS 1.
- IAS 16 “Property, plant and equipment”: “Tangible fixed assets” has been renamed “Property, plant and equipment”.
- IAS 7 “Cash Flow Statements”: In the Cash Flow Statement under IFRS cash flows have been grouped under three main headings: cash flows from operating activities, from investing activities and from financing activities. This has led to some presentational changes compared with UK GAAP. There is no change to the net movement in cash and cash equivalents.

A detailed analysis of the effect of these changes can be found on pages 19 and 20 of this report.

First Time Adoption of IFRS

IFRS 1 “First-time Adoption of International Financial Reporting Standards” establishes the transitional requirements for the preparation of financial statements upon first time adoption of IFRS. IFRS 1 generally requires an entity to comply with IFRS effective at the reporting date and to apply these retrospectively to the opening balance sheet, the

comparative period and the reporting period. The standard allows certain optional exemptions from full retrospective application and other elections on transition.

Elections made pursuant to IFRS 1 “First Time Adoption” are as follows:

- IFRS 3 “Business Combinations” has not been applied retrospectively to business combinations before 1 January 2006. Thus both the classification of the business combination and the measurement of fair values determined at the time of the business combination have been maintained.
- Cumulative foreign exchange translation differences for all subsidiaries which do not use US dollars as a functional currency have been set to zero.
- IFRS 2 “Share-based Payment Transactions” has not been applied to awards granted before 7 November 2002.

The remaining available elections were reviewed by the Directors and considered to be either not applicable or not appropriate.

Accounting policies

The accounting policies which the Group has adopted in relation to the preliminary comparative financial information, and which it currently intends to adopt for the purposes of its 2007 IFRS interim and annual financial statements, are set out below.

Basis of preparation

The preliminary comparative financial information (the “financial information”) has been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial information is prepared under the historical cost basis except for valuation of certain share-based payments and other financial assets. The financial information is the first financial information to be prepared in accordance with IFRS and the date of the transition to IFRS is 1 January 2006.

This document and the financial statements contained within do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The comparatives for the year ended 31 December 2006 and the period ended 30 June 2006 are not the Group’s statutory accounts for that financial year/period. A copy of the statutory accounts for the year ended 31 December 2006 has been delivered to the Registrar of Companies. The auditors’ report on those accounts was qualified arising from a limitation in scope in respect of their comparatives.

Basis of consolidation

The consolidated financial information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries

The acquisition of subsidiaries is accounted for using the purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill, any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Subsidiaries that are not controlled by the Company are accounted for as available-for-sale financial assets (see financial instruments accounting policies).

Joint ventures

The Group's companies participate in joint ventures which involve joint control of assets used in the Group's oil and gas exploration, development and producing activities. The Group accounts for its share of the assets and liabilities of joint ventures, classified in the appropriate Balance Sheet heading within each company and at Group level upon consolidation.

Corporate restructuring

During 2002 the Group carried out a corporate restructuring including the introduction of a new holding company. As this represented a combination of entities under common control, and because this was before 1 January 2006, this business combination was outside the scope of IFRS 3 "Business Combinations" and was therefore accounted for using principles of merger accounting as specified under UK GAAP.

Commercial 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 and probable reserves included herein conform to the definition approved by the Society of Petroleum Engineers (SPE) and World Petroleum Congress (WPC).

Oil and gas exploration assets and development/producing assets

The Group applies the successful efforts method of accounting for oil and gas assets, having regard to the requirements of IFRS 6 “Exploration for and Evaluation of Mineral Resources”.

All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field or by exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities, as are finance costs to the extent they are directly attributable to financing development projects. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

If prospects are deemed to be impaired (‘unsuccessful’) on completion of the evaluation, the associated costs are charged to the income statement. If the field is determined to be commercially viable, the attributable costs are transferred to development/production assets within property, plant and equipment in single field cost centres.

Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Depletion and amortisation

All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs necessary to bring the reserves into production. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Impairment

At each balance sheet date, the Group reviews the carrying amount of exploration assets and development/producing assets to determine whether there is any indication that those assets have suffered an impairment loss. This includes exploration and appraisal costs

capitalised which are assessed for impairment in accordance with IFRS 6. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Decommissioning

Where a material liability for the removal of production facilities and site restoration at the end of the productive life of a field exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. The cost of the relevant tangible fixed asset is increased with an amount equivalent to the provision and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated fixed asset. There were no material decommissioning liabilities at 1 January and 31 December 2006.

Property, plant and equipment other than oil and gas assets and depreciation

Property, plant and equipment other than oil and gas assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is charged so as to write off the cost, less estimated residual value, of assets on a straight-line basis over their useful lives as follows:

Fixtures, fittings and equipment	: 20-25% per annum straight line
Motor vehicles	: 20-25% per annum straight line
Plant and machinery	: 8-25% per annum straight line

Inventories

Inventories are stated at the lower of weighted average cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Revenue recognition

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. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign currencies

The Group's consolidated accounts are presented in US Dollars. The functional and presentational currencies of some subsidiary companies may be in currencies other than US Dollars.

The functional currency of individual companies is normally determined by the primary economic environment in which the entity operates (the functional currency), normally the one in which it primarily generates and expends cash. Transactions in currencies other than US dollars ("foreign currencies") are recorded in US dollars at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into US dollars at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the group's subsidiaries which do not use US dollars as their functional currency are translated into US dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and are recognised in the group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

In accordance with the transitional provisions of IFRS 1 cumulative foreign exchange translation differences at 1 January 2006 for all subsidiaries which do not use US dollars as a functional currency have been set to zero.

Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included on the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation and overseas tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Dividends payable

Accounting for dividends payable is in accordance with IAS 10 “Events after the Balance Sheet Date”. Accordingly, dividends proposed or declared on equity instruments after the Balance Sheet date are not recognised as a liability at the Balance Sheet date.

Financial instruments

Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group does not currently utilise derivative financial instruments.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Impairment losses recognised in profit and loss for equity instruments classified as available-for-sale are not subsequently reversed through profit and loss.

Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

Bank borrowings and loan notes

Interest-bearing bank borrowings and loan notes are recorded at the proceeds received, net of direct transaction costs. Direct transaction costs are accounted for on an amortised cost basis in profit and loss using the effective interest method and are added/deducted

to/from the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments

Equity instruments issued by the Company and the Group are recorded at the proceeds received, net of direct issue costs.

Finance costs and debt

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Finance costs of debt are allocated to periods over the term of the related debt at the effective interest rate on the carrying amount. Directly attributable transaction costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to the Income Statement as finance costs over the term of the debt.

All other borrowing costs are expensed as incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Included in cash and cash equivalents are amounts relating to financial guarantees entered into by the Group to collateralise future commitments as per standard industry practice.

Share-based transactions

The Group has applied the requirements of IFRS 2 “Share-based payments”. In accordance with the transitional provisions of that standard, this standard has not been applied to those awards that were granted on or before 7 November 2002. In addition, the standard has not been applied to awards that were granted after 7 November 2002 that vested before 1 January 2005. However, in contrast to the transitional provision of IFRS 2, the standard has been applied for those awards that were granted after 7 November 2002, and that vested between 1 January 2005 and 1 January 2006 in order to be consistent with the transitional rules adopted under UK GAAP in the 2006 annual report in respect of FRS 20 Share-based Payments.

All share based awards of the group to date have been equity settled as defined by IFRS 2. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. The fair value,

adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values were calculated using a binomial option pricing model with suitable modifications to allow for employee turnover after vesting and early exercise. Where necessary this model was supplemented with a Monte Carlo model. The inputs to the model include: the share price at date of grant; exercise price; expected volatility; expected dividends; risk free rate of interest; and patterns of exercise of the plan participants.

Share options

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", the Company provides in full for the employer's national insurance liability estimated to arise on the future exercise of share options granted.

1. Reconciliation of UK GAAP to IFRS

Consolidated Income Statement for the year ended 31 December 2006

	UK GAAP \$'000	IFRS 6 \$'000	IAS 21 \$'000	IFRS \$'000
<i>Notes</i>	a	b	c	
Revenue	10,845	-	(34)	10,811
Cost of sales	(8,306)	-	21	(8,285)
Gross profit	2,539	-	(13)	2,526
Ukraine settlement costs	(54,801)	-	-	(54,801)
Share based charge	(387)	-	-	(387)
Other administrative expenses	(14,378)	(6,150)	61	(20,467)
Total administrative expenses	(69,566)	(6,150)	61	(75,655)
Other operating income	861	-	(3)	858
Operating loss	(66,166)	(6,150)	45	(72,271)
Impairment of financial asset	(43,700)	-	-	(43,700)
Finance revenue	1,183	-	(1)	1,182
Finance costs	(2)	-	-	(2)
Loss on ordinary activities before taxation	(108,685)	(6,150)	44	(114,791)
Tax on loss on ordinary activities	(491)	-	2	(489)
Loss for the financial period	(109,176)	(6,150)	46	(115,280)
Loss per ordinary share (cents)				
Basic and diluted	(85.0)	(4.8)	-	(89.8)

Consolidated Balance Sheet as at 31 December 2006

<i>Notes</i>	UK GAAP \$'000 a	IFRS 6 \$'000 b	IAS 21 \$'000 c	IAS 38 \$'000 d	IAS 16 \$'000 e	IFRS \$'000
Non-current assets						
Intangible assets	26,867	(6,336)	-	141	-	20,672
Property, plant and equipment	-	-	-	-	29,620	29,620
Tangible assets	29,761	-	-	(141)	(29,620)	-
	56,628	(6,336)	-	-	-	50,292
Current assets						
Inventories	37	-	-	-	-	37
Trade and other receivables	3,368	-	-	-	-	3,368
Cash and cash equivalents	13,048	-	-	-	-	13,048
	16,453	-	-	-	-	16,453
Current liabilities						
Trade and other payables	(2,171)	-	-	-	-	(2,171)
Net current assets	14,282	-	-	-	-	14,282
Non-current liabilities						
Provisions	(950)	-	-	-	-	(950)
Net assets	69,960	(6,336)	-	-	-	63,624
Equity						
Called up share capital	10,934	-	-	-	-	10,934
Share premium account	217,640	-	-	-	-	217,640
Other reserves	10,644	-	(46)	-	-	10,598
Equity reserves	49,049	-	-	-	-	49,049
Profit and loss account	(218,307)	(6,336)	46	-	-	(224,597)
Total equity	69,960	(6,336)	-	-	-	63,624

Consolidated Cash Flow Statement for the year to 31 December 2006

	UK GAAP \$'000 Notes a	IFRS 6 \$'000 b	IAS 38 \$'000 d	IAS 16 \$'000 e	IFRS \$'000
Operating activities					
Cash generated from operations	(11,840)	(6,184)	-	-	(18,024)
Interest received	1,183	-	-	-	1,183
Interest paid	(2)	-	-	-	(2)
Taxation paid	(491)	-	-	-	(491)
Net cash from operating activities	(11,150)	(6,184)	-	-	(17,334)
Investing activities					
Proceeds from sale of intangible fixed assets	4,245	-	-	-	4,245
Purchase of intangible assets	(14,100)	6,184	(50)	-	(7,966)
Purchase of property, plant and equipment	-	-	-	(1,926)	(1,926)
Purchase of tangible assets	(1,976)	-	50	1,926	-
Net cash from investing activities	(11,831)	6,184	-	-	(5,647)
Financing activities					
Funds received in connection with share options	80	-	-	-	80
Net cash from financing activities	80	-	-	-	80
Net decrease in cash and cash equivalents	(22,901)	-	-	-	(22,901)
Cash and cash equivalents at beginning of year	34,916	-	-	-	34,916
Effect of foreign exchange rate changes	1,149	-	-	-	1,149
Other non-cash movements	(116)	-	-	-	(116)
Cash and cash equivalents at end of year	13,048	-	-	-	13,048

Consolidated Income Statement for the six months ended 30 June 2006

	UK GAAP \$'000	IAS 21 \$'000	IFRS \$'000
<i>Notes</i>	a	c	
Revenue	4,967	(106)	4,861
Cost of sales	(4,175)	89	(4,086)
Gross profit	792	(17)	775
Share based credit	91	-	91
Administrative expenses	(5,193)	11	(5,182)
Total administrative expenses	(5,102)	11	(5,091)
Operating loss	(4,310)	(6)	(4,316)
Finance revenue	679	-	679
Finance costs	(1)	-	(1)
Loss on ordinary activities before taxation	(3,632)	(6)	(3,638)
Tax on loss on ordinary activities	(33)	1	(32)
Loss for the financial period	(3,665)	(5)	(3,670)
Loss per ordinary share (cents)			
Basic and diluted	(2.9)	-	(2.9)

Consolidated Balance Sheet as at 30 June 2006

	UK GAAP	IFRS 6	IAS 21	IAS 38	IAS 16	IFRS
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Notes</i>	a	b	c	d	e	
Non-current assets						
Intangible assets	20,735	(475)	-	227	-	20,487
Property, plant and equipment	-	-	-	-	33,321	33,321
Tangible assets	33,548	-	-	(227)	(33,321)	-
Financial asset	43,700	-	-	-	-	43,700
	97,983	(475)	-	-	-	97,508
Current assets						
Inventories	40	-	-	-	-	40
Trade and other receivables	3,515	-	-	-	-	3,515
Investments	117	-	-	-	-	117
Cash and cash equivalents	25,478	-	-	-	-	25,478
	29,150	-	-	-	-	29,150
Current liabilities						
Trade and other payables	(3,086)	-	-	-	-	(3,086)
Net current assets	26,064	-	-	-	-	26,064
Non-current liabilities						
Provisions	(207)	-	-	-	-	(207)
Net assets	123,840	(475)	-	-	-	123,365
Equity						
Called up share capital	10,934	-	-	-	-	10,934
Share premium account	217,640	-	-	-	-	217,640
Other reserves	8,289	-	5	-	-	8,294
Profit and loss account	(113,023)	(475)	(5)	-	-	(113,503)
Total equity	123,840	(475)	-	-	-	123,365

Consolidated Cash flow Statement for the six months to 30 June 2006

	UK GAAP \$'000 <i>Notes</i> a	IFRS 6 \$'000 b	IAS 38 \$'000 d	IAS 16 \$'000 e	IFRS \$'000
Operating activities					
Cash generated from operations	(2,872)	(2)	-	-	(2,874)
Interest received	678	-	-	-	678
Interest paid	(1)	-	-	-	(1)
Taxation paid	(34)	-	-	-	(34)
Net cash from operating activities	(2,229)	(2)	-	-	(2,231)
Investing activities					
Purchase of intangible assets	(4,078)	2	(48)	-	(4,124)
Purchase of property, plant and equipment	-	-	-	(3,168)	(3,168)
Purchase of tangible assets	(3,216)	-	48	3,168	-
Net cash from investing activities	(7,294)	2	-	-	(7,292)
Net decrease in cash and cash equivalents	(9,523)	-	-	-	(9,523)
Cash and cash equivalents at beginning of period	34,916	-	-	-	34,916
Effect of foreign exchange rate changes	202	-	-	-	202
Cash and cash equivalents at end of period	25,595	-	-	-	25,595

Consolidated Balance Sheet as at 1 January 2006

<i>Notes</i>	UK GAAP \$'000 a	IFRS 6 \$'000 b	IAS 38 \$'000 d	IAS 16 \$'000 e	IFRS \$'000
Non-current assets					
Intangible assets	14,731	(473)	221	-	14,479
Property, plant and equipment	-	-	-	29,135	29,135
Tangible assets	29,356	-	(221)	(29,135)	-
Financial asset	43,700	-	-	-	43,700
	87,787	(473)	-	-	87,314
Current assets					
Inventories	38	-	-	-	38
Trade and other receivables	4,995	-	-	-	4,995
Investments	136	-	-	-	136
Cash and cash equivalents	34,796	-	-	-	34,796
	39,965	-	-	-	39,965
Current liabilities					
Trade and other payables	(2,267)	-	-	-	(2,267)
Net current assets	37,698	-	-	-	37,698
Non-current liabilities					
Provisions	(196)	-	-	-	(196)
Net assets	125,289	(473)	-	-	124,816
Equity					
Called up share capital	10,934	-	-	-	10,934
Share premium account	217,640	-	-	-	217,640
Other reserves	6,073	-	-	-	6,073
Profit and loss account	(109,358)	(473)	-	-	(109,831)
Total equity	125,289	(473)	-	-	124,816

Notes to reconciliations

The following notes explain the reconciliations between the UK GAAP financial statements and the IFRS comparative financial information.

a Amounts described as “UK GAAP” have been reclassified to conform with IFRS format.

b IFRS 6: “Exploration for and Evaluation of Mineral Resources”

Under UK GAAP all costs incurred prior to having obtained the licence rights were included within intangible assets. Under IFRS such expenditure has to be written off in full in the year in which it occurs. This has resulted in an adjustment of \$473k to retained earnings for the opening balance sheet, an additional adjustment of \$2k to 30 June 2006 and an adjustment of \$6.15m to other administrative expenses for the year ended 31 December 2006. The total adjustment for the year ended 31 December 2006 is \$6.658m, however \$322k (included in the opening balance sheet adjustment and subsequent expenditure during 2006) was impaired during 2006 which now reverses resulting in a net adjustment of \$6.336m.

On the cash flow statement for the year ended 31 December 2006, the pre-licence costs were shown within “Capital expenditure and financial investment”. Since such costs are being expensed under IFRS, they have been classified within operating cash flows.

The adoption of the successful efforts method of accounting for oil and gas assets has resulted in no adjustment to Intangible Assets or to the Income Statement/Retained Earnings.

c IAS 21: “Effect of Changes in Foreign Exchange Rates”

Under UK GAAP the profit and loss account of a foreign entity could be translated at the closing rate for consolidation purposes. IAS 21 requires revenues and expenses to be translated at actual rates or appropriate averages. Cumulative exchange differences are then recognised as a separate component within equity.

At transition date, the Group has taken advantage of the exemptions offered under IFRS 1 and deemed cumulative translation differences to be zero.

For later periods, this change has resulted in a restatement of the income statement with the corresponding adjustment recognised within equity.

d IAS 38: “Intangible Assets”

In accordance with IAS 38, the Group has reclassified computer software from property, plant and equipment to intangible assets as the software component is not an integral part of the related hardware of a computer.

This adjustment is also reflected within the cashflow statement as a reclassification from fixed assets to intangible assets.

e IAS 16: “Property, Plant and Equipment”

Under UK GAAP, tangible fixed assets comprised oil and gas properties for which the existence or otherwise of commercial reserves had been established and other fixed assets including non oil and gas specific fixtures and fittings, office equipment and motor vehicles.

Under IFRS, all amounts previously classified as tangible assets have been recorded as Property, Plant and Equipment.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO REGAL PETROLEUM PLC ON THE PRELIMINARY COMPARATIVE IFRS FINANCIAL INFORMATION

We have audited the preliminary comparative IFRS financial information of Regal Petroleum plc for the year ended 31 December 2006 which comprises the group income statement, group balance sheet, group changes in net equity, group cash flow statement and the transition date (1 January 2006) group balance sheet, all of which are set out in section 5 and which have been prepared on the basis set out in sections 3 and 4.

This report is made solely to the company in accordance with our related engagement letter and solely for the purpose of assisting with the transition to IFRS. Our audit work has been undertaken so that we might state to the company, those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the company for our audit work, for our report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The company's Directors are responsible for ensuring that the Group maintains proper accounting records and for the preparation of the preliminary comparative IFRS financial information on the basis set out in sections 3 and 4, which describe how IFRS will be applied under IFRS 1 and the policies expected to be adopted, when they prepare its first complete set of IFRS financial statements as at 31 December 2007.

Our responsibility is to audit the preliminary comparative IFRS financial information in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and report to you our opinion as to whether the preliminary comparative IFRS financial information is prepared, in all material respects, on the basis set out in sections 3 and 4.

We read the other information contained in the preliminary comparative IFRS financial information for the above year as described on the contents page and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary comparative IFRS financial information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the preliminary comparative IFRS financial information. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the preliminary comparative

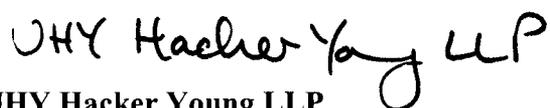
IFRS financial information and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the preliminary comparative IFRS financial information is 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 preliminary comparative IFRS financial information.

We draw attention to the fact that, under IFRS, only a complete set of financial statements comprising an income statement, balance sheet, cash flow statement, statement of recognised income and expense and statement of changes in shareholders' equity, together with comparative financial information and explanatory notes, provide a fair presentation of the Group's financial position, results of operations and cash flow in accordance with IFRS.

Opinion

In our opinion the preliminary comparative IFRS financial information is prepared, in all material respects, on the basis set out in sections 3 and 4 which describes how IFRS will be applied under IFRS 1, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements at 31 December 2007.



UHY Hacker Young LLP
Registered Auditors
Chartered Accountants
London

18 September 2007

Independent Review Report

INDEPENDENT REVIEW REPORT TO REGAL PETROLEUM PLC ON THE PRELIMINARY IFRS FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2006

Introduction

We have reviewed the preliminary IFRS consolidated financial information of Regal Petroleum Plc for the six months ended 30 June 2006 which comprises the group income statement, the group consolidated cash flow statement, the group balance sheet and the group statement of changes in equity as at 30 June 2006.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The preliminary IFRS financial information is the responsibility of the company's Directors and has been prepared as part of the company's conversion to IFRS. It has been prepared in accordance with the basis of preparation set out in sections 3 and 4 which describe how IFRS has been applied under IFRS 1, including the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2007.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing and therefore provides a lower level of assurance than an audit. Accordingly we do not express an opinion on the preliminary IFRS financial information.

We draw attention to the fact that, under IFRS only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the company's financial position, results of operations and cash flows in accordance with IFRS.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the preliminary IFRS financial information as presented for the six months ended 30 June 2006.

UHY Hacker Young LLP

UHY Hacker Young LLP
Chartered Accountants
London

18 September 2007